

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

Acting Chairman
Marshall Islands Nuclear Claims Tribunal:

We have audited the accompanying financial statements of the Marshall Islands Nuclear Claims Tribunal (the Tribunal), a special revenue fund of the Republic of the Marshall Islands, as of and for the years ended September 30, 2007 and 2006. These financial statements are the responsibility of the Tribunal's management. Our responsibility is to express an opinion on these financial statements based on our audits.

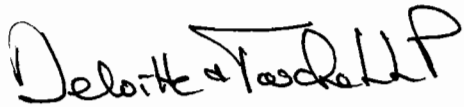
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Tribunal's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Nuclear Claims Tribunal and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Marshall Islands Nuclear Claims Tribunal, a special revenue fund of the Republic of the Marshall Islands, as of September 30, 2007 and 2006, and the results of that fund's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended September 30, 2007 (page 10) and the Schedule of Expenditures by Account for the Operating Fund for the year ended September 30, 2007 (page 11) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of the Tribunal's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2008, on our consideration of the Tribunal's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, stylized font.

April 10, 2008

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Balance Sheets
September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 179,464	\$ 215,406
Time certificate of deposit	12,661	12,313
Receivables:		
Affiliates	30,666	30,666
Employees	<u>16,862</u>	<u>1,702</u>
	47,528	32,368
Less allowance for doubtful accounts	<u>(31,868)</u>	<u>(30,666)</u>
	<u>15,660</u>	<u>1,702</u>
 Total assets	 <u>\$ 207,785</u>	 <u>\$ 229,421</u>
 <u>LIABILITIES</u>		
Accounts payable	\$ 3,731	\$ 26,316
Payable to affiliates	50,146	25,877
Other liabilities and accruals	<u>87,172</u>	<u>17,832</u>
 Total liabilities	 <u>141,049</u>	 <u>70,025</u>
Contingency and commitment		
 <u>FUND BALANCES</u>		
Fund balances:		
Reserved for future compensation	21,557	86,946
Unreserved	<u>45,179</u>	<u>72,450</u>
 Total fund balances	 <u>66,736</u>	 <u>159,396</u>
 Total liabilities and fund balances	 <u>\$ 207,785</u>	 <u>\$ 229,421</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Statements of Revenues, Expenditures, and Changes in Fund Balance
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Compact funds	\$ 530,250	\$2,015,800
Other	<u>19,356</u>	<u>874</u>
Total revenues	<u>549,606</u>	<u>2,016,674</u>
Expenditures:		
Awards:		
Personal injury	172,187	1,429,271
Cost of proceedings:		
Public Advocate	77,047	187,997
Defender of the Fund	60,007	99,763
Other	16,792	35,413
Administration	<u>316,233</u>	<u>409,390</u>
Total expenditures	<u>642,266</u>	<u>2,161,834</u>
Net change in fund balances	(92,660)	(145,160)
Fund balance at the beginning of the year	<u>159,396</u>	<u>304,556</u>
Fund balance at the end of the year	<u>\$ 66,736</u>	<u>\$ 159,396</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization

The Marshall Islands Nuclear Claims Tribunal (the Tribunal), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Nuclear Claims Tribunal Act of 1987, as amended. The Tribunal was established to satisfy requirements of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact of Free Association (the Agreement). Article IV, Section 1(a) of the Agreement requires RepMar to establish a claims tribunal to render final determination upon: (1) claims past, present, and future of RepMar and the citizens and nationals of the Marshall Islands for loss or damage to person or property which are based on, arise out of, or are in any way related to the Nuclear Testing Program; and (2) disputes arising from distributions under Articles II and III of the Agreement. The Tribunal consists of three members, each of which are appointed by the Cabinet of RepMar upon recommendation of the Judicial Service Commission and subject to the approval of the Nitijela of RepMar.

The accompanying financial statements relate solely to those accounting records maintained by the Tribunal, and do not incorporate any accounts related to any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. The Tribunal is considered to be a blended component unit (a governmental fund type - special revenue fund) of RepMar.

(2) Summary of Significant Accounting Policies

The financial statements of the Tribunal have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Tribunal's accounting policies are described below.

Measurement Focus and Basis of Accounting

The Tribunal reports its financial position and the results of its operations in one special revenue fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Special Revenue Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurement" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

Budgetary Information

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash and Time Certificate of Deposit

Custodial credit risk is the risk that in the event of a bank failure, the Tribunal's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Tribunal does not have a deposit policy for custodial credit risk.

For the purpose of the balance sheets, cash is defined as cash in checking and savings accounts. Deposits maintained in time certificates of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2007 and 2006, the carrying amounts of the Tribunal's total cash and time certificate of deposit were \$192,125 and \$227,719, respectively, and the corresponding bank balances were \$203,393 and \$358,040, respectively. Of the bank balance amounts, \$197,878 and \$356,399, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$100,000 were FDIC insured. The Tribunal does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

All receivables are due from employees and affiliates of the Tribunal and are interest free and uncollateralized.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expenditures.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability, which is recorded within other liabilities and accruals in the balance sheets. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2007 and 2006 is presently indeterminable.

Annual leave accumulates at the rate of one working day per bi-weekly pay period.

Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. The Tribunal is specifically exempt from this tax.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use or not expected to be realized in cash during the ensuing year.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
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Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

(3) Risk Management

The Tribunal is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Tribunal has elected to purchase commercial automobile insurance and fire and lighting insurance covering office contents from independent third parties for the risks of loss to which it is exposed. For other risks of loss to which it is exposed, the Tribunal has elected not to purchase commercial insurance. Instead, the Tribunal believes it is more economical to manage its risks internally. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from the Tribunal's risk management activities for the past three years.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
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Notes to Financial Statements
September 30, 2007 and 2006

(4) Related Party Transactions

The Tribunal is a special revenue fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. Receivables from and payables to affiliates as of September 30, 2007 and 2006 are as follows:

	2007		2006	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 30,666	\$ 9,105	\$ 30,666	\$ 13,514
Other	-	41,041	-	12,363
	<u>\$ 30,666</u>	<u>\$ 50,146</u>	<u>\$ 30,666</u>	<u>\$ 25,877</u>

On July 31, 2001, the Cabinet of RepMar approved a Memorandum of Understanding and Intent (MOU) regarding the continued existence and operation of the Tribunal beyond the initial fifteen-year period of the Compact of Free Association (the Compact). The term of the MOU is for one year and is renewable upon annual consultation with the Cabinet. On September 6, 2007, the Cabinet of RepMar approved the extension of the MOU through October 31, 2008.

(5) Contingency

Section 177(c) of the Compact provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement. Pursuant to the Agreement, RepMar established the Nuclear Claims Trust Fund (the Trust Fund) from which these distributions are made. Over a period of fifteen years, the Tribunal is to receive \$45,750,000 from the Trust Fund to be made available for whole or partial payment of monetary awards. During the years ended September 30, 2007 and 2006, the Tribunal received \$530,250 and \$2,015,800, respectively, from the Trust Fund, which included funds to fund partial payment of monetary awards. As of September 30, 2007 and 2006, the Tribunal has committed to the distribution of monetary awards for personal injury claims of \$20,356,725 and \$17,660,162, respectively, and of property damage claims of \$1,083,472,335, which will be paid out against the reserved fund balance and future sums that the Tribunal expects to receive from the Trust Fund. As of September 30, 2007 and 2006, the reserved fund balance of the Trust Fund is \$856,893 and \$1,244,135, respectively. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the Trust Fund or from a renegotiated financial settlement of damages with the Government of the United States.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2007

	Compensation <u>Fund</u>	Operating <u>Fund</u>	<u>Total</u>
Revenues:			
Compact funds	\$ 530,250	\$ -	\$ 530,250
Other	<u>446</u>	<u>18,910</u>	<u>19,356</u>
Total revenues	<u>530,696</u>	<u>18,910</u>	<u>549,606</u>
Expenditures:			
Salaries and wages	-	223,909	223,909
Awards	172,187	-	172,187
Personnel benefits	-	110,212	110,212
Office rental and utilities	-	58,088	58,088
Communications	-	20,945	20,945
Contractual services	-	20,484	20,484
Travel	-	6,884	6,884
Medical and laboratory	-	6,340	6,340
Supplies and materials	-	3,393	3,393
Other	<u>-</u>	<u>19,824</u>	<u>19,824</u>
Total expenditures	<u>172,187</u>	<u>470,079</u>	<u>642,266</u>
Excess (deficiency) of revenues over (under) expenditures	<u>358,509</u>	<u>(451,169)</u>	<u>(92,660)</u>
Other financing sources (uses):			
Operating transfers in	-	423,898	423,898
Operating transfers out	<u>(423,898)</u>	<u>-</u>	<u>(423,898)</u>
Total other financing sources (uses), net	<u>(423,898)</u>	<u>423,898</u>	<u>-</u>
Net change in fund balances	(65,389)	(27,271)	(92,660)
Fund balances at the beginning of the year	<u>86,946</u>	<u>72,450</u>	<u>159,396</u>
Fund balances at the end of the year	<u>\$ 21,557</u>	<u>\$ 45,179</u>	<u>\$ 66,736</u>

See accompanying independent auditors' report.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A SPECIAL REVENUE FUND)**

Schedule of Expenditures by Account
Operating Fund
Year Ended September 30, 2007

	<u>Cost of Proceedings</u>				
	<u>Public Advocate</u>	<u>Defender of the Fund</u>	<u>Other</u>	<u>Administration</u>	<u>Total</u>
Salaries, wages and benefits	\$ 71,046	\$ 53,974	-	\$ 209,101	\$ 334,121
Office rental and utilities	900	-	-	57,188	58,088
Communications	2,792	497	-	17,656	20,945
Contractual services	468	5,464	10,000	4,552	20,484
Travel	1,614	-	-	5,270	6,884
Bad debts	-	-	-	1,202	1,202
Other	227	72	6,792	21,264	28,355
	<u>\$ 77,047</u>	<u>\$ 60,007</u>	<u>\$ 16,792</u>	<u>\$ 316,233</u>	<u>\$ 470,079</u>

See accompanying independent auditors' report.