

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND OF THE REPUBLIC OF
THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION AND INDEPENDENT AUDITORS'
REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL

Years Ended September 30, 2010 and 2009
Table of Contents

	<u>Page No.</u>
I. BASIC FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Balance Sheet	3
Statements of Revenues, Expenditures and Changes in Fund Balances	4
Notes to Financial Statements	5
II. OTHER SUPPLEMENTARY INFORMATION	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) for the year ended September 30, 2010	10
Schedule of Expenditures by Account for the year ended September 30, 2010	11
III. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
Unresolved Prior Year Findings	14

INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Nuclear Claims Tribunal:

We have audited the accompanying balance sheets of the Marshall Islands Nuclear Claims Tribunal (the Tribunal), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2010 and 2009, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. 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.

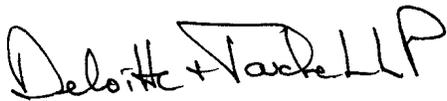
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 governmental fund of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, 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, 2010 (page 10) and the Schedule of Expenditures by Account for the Operating Fund for the year ended September 30, 2010 (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 for the year ended September 30, 2010 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 July 26, 2011, 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 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, flowing style.

July 26, 2011

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Balance Sheets
September 30, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
Cash	\$ 28,194	\$ 43,867
Receivables:		
Affiliates	18,666	18,666
Employees	1,363	1,453
	20,029	20,119
Less allowance for doubtful accounts	(19,868)	(19,868)
	161	251
Total assets	\$ 28,355	\$ 44,118
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Payable to affiliates	\$ 10,071	\$ 8,254
Other liabilities and accruals	34,280	33,438
Total liabilities	44,351	41,692
Contingency		
Fund balances (deficit):		
Reserved for future compensation	-	9,799
Unreserved	(15,996)	(7,373)
Total fund balances (deficit)	(15,996)	2,426
Total liabilities and fund balances	\$ 28,355	\$ 44,118

See accompanying notes to financial statements.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)

Statements of Revenues, Expenditures, and Changes in Fund Balance (Deficit)
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Compact funds	\$ 79,477	\$ 128,000
Nitijela appropriation	-	50,000
Other	<u>3,995</u>	<u>18,498</u>
Total revenues	<u>83,472</u>	<u>196,498</u>
Expenditures:		
Cost of proceedings:		
Public Advocate	-	50,061
Defender of the Fund	1,698	35,978
Other	418	7,851
Administration	<u>99,778</u>	<u>195,446</u>
Total expenditures	<u>101,894</u>	<u>289,336</u>
Net change in fund balances	(18,422)	(92,838)
Fund balance at the beginning of the year	<u>2,426</u>	<u>95,264</u>
Fund balance (deficit) at the end of the year	<u>\$ (15,996)</u>	<u>\$ 2,426</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Notes to Financial Statements
September 30, 2010 and 2009

(1) Organization

The Marshall Islands Nuclear Claims Tribunal (the Tribunal), a governmental fund 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 governmental 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 fund balance.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Notes to Financial Statements
September 30, 2010 and 2009

(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, 2010 and 2009, the carrying amounts of the Tribunal's cash was \$28,194 and \$43,867, respectively, and the corresponding bank balances were \$29,820 and \$56,336, respectively. Of the bank balance amounts, \$28,035 and \$54,315, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$28,035 and \$54,315, respectively, 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 GOVERNMENTAL FUND)**

Notes to Financial Statements
September 30, 2010 and 2009

(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, 2010 and 2009 is presently indeterminable.

Annual leave accumulates at the rate of one working hour per ten paid hours.

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

During fiscal year 2010, the Tribunal implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Tribunal.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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 fire 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
(A GOVERNMENTAL FUND)**

Notes to Financial Statements
September 30, 2010 and 2009

(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, 2010 and 2009 are as follows:

	2010		2009	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 18,666	\$ 7,093	\$ 18,666	\$ 7,655
Other	-	2,978	-	599
	<u>\$ 18,666</u>	<u>\$ 10,071</u>	<u>\$ 18,666</u>	<u>\$ 8,254</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 was for one year and was 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. No subsequent extension of the MOU has been approved by the Cabinet of RepMar; however, appropriations were provided by the Nitijela to fund the operations of the Tribunal for the years ended September 30, 2010 and 2009, totaling \$80,000 and \$100,000, respectively, of which \$0 and \$50,000, respectively, was drawn down during the years ended September 30, 2010 and 2009, with the remaining amounts available to fund future operations of the Tribunal. As the Tribunal is dependent upon RepMar for substantially all of its support, a significant reduction in the level of this support, if this were to occur, may have a material effect on the future existence of the Tribunal.

(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 from which these distributions are made. Over a period of fifteen years, the Tribunal is to receive \$45,750,000 from the Nuclear Claims Trust Fund to be made available for whole or partial payment of monetary awards. During the years ended September 30, 2010 and 2009, the Tribunal received \$79,477 and \$128,000, respectively, from the Nuclear Claims Trust Fund, which included funds to fund partial payment of monetary awards. As of September 30, 2010 and 2009, the Tribunal has committed to the distribution of monetary awards for personal injury claims of \$23,159,963 and \$23,159,963, respectively, and property damage claims of \$2,284,108,436 plus interest due from the dates of the respective awards, which will be paid out against the reserved fund balance and future sums that the Tribunal expects to receive from the Nuclear Claims Trust Fund. As of September 30, 2010 and 2009, the reserved fund balance of the Nuclear Claims Trust Fund is \$49,436 and \$126,529, respectively. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the Nuclear Claims Trust Fund or from a renegotiated financial settlement of damages with the Government of the United States.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2010

	Compensation Fund	Operating Fund	Total
Revenues:			
Compact funds	\$ 79,477	\$ -	\$ 79,477
Other	53	3,942	3,995
Total revenues	79,530	3,942	83,472
Expenditures:			
Salaries and wages	-	57,858	57,858
Personnel benefits	-	10,865	10,865
Office rental and utilities	-	24,647	24,647
Communications	-	4,903	4,903
Supplies and materials	-	318	318
Contractual services	-	22	22
Other	-	3,281	3,281
Total expenditures	-	101,894	101,894
Excess (deficiency) of revenues over (under) expenditures	79,530	(97,952)	(18,422)
Other financing sources (uses):			
Operating transfers in	-	89,329	89,329
Operating transfers out	(89,329)	-	(89,329)
Total other financing sources (uses), net	(89,329)	89,329	-
Net change in fund balances (deficit)	(9,799)	(8,623)	(18,422)
Fund balances (deficit) at the beginning of the year	9,799	(7,373)	2,426
Deficit at the end of the year	\$ -	\$ (15,996)	\$ (15,996)

See accompanying independent auditors' report.

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Schedule of Expenditures by Account
Operating Fund
Year Ended September 30, 2010

	Cost of Proceedings				Total
	Public Advocate	Defender of the Fund	Other	Administration	
Salaries, wages and benefits	\$ -	\$ 1,633	\$ -	\$ 67,070	\$ 68,703
Office rental and utilities	-	-	-	22	22
Contractual services	-	-	-	24,647	24,647
Communications	-	-	-	4,903	4,903
Other	-	65	418	3,136	3,619
	-	1,698	418	99,778	101,894

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman
Marshall Islands Nuclear Claims Tribunal:

We have audited the financial statements of the Marshall Islands Nuclear Claims Tribunal (the Tribunal), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2010, and have issued our report thereon dated July 26, 2011. Our report includes an explanatory paragraph that the financial statements of the Tribunal are not intended to present the financial position and results of operations of RepMar. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tribunal's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tribunal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tribunal's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

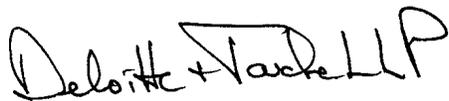
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tribunal's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Tribunal in a separate letter dated July 26, 2011.

This report is intended solely for the information and use of the management of the Tribunal, federal awarding agencies, pass-through entities, the cognizant and other federal agencies, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

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

July 26, 2011

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(A GOVERNMENTAL FUND)**

Unresolved Prior Year Findings
Year Ended September 30, 2010

There are no unresolved findings or matters of noncompliance from prior year audit reports of the Tribunal.