

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Nuclear Claims Tribunal:

We have audited the accompanying combined balance sheet of the Marshall Islands Nuclear Claims Tribunal (the Tribunal) (an Expendable Trust Fund), a component unit of the Republic of the Marshall Islands, as of September 30, 2001, and the related statement of revenues, expenditures and changes in fund balance for the year 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 audit.

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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Tribunal as of September 30, 2001, and the results of its operations for the year 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 (Deficit) for the year ended September 30, 2001 (page 11) is presented for purposes of additional analysis and is 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 February 25, 2002, on our consideration of the Tribunal's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

February 25, 2002

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Combined Balance Sheet - All Fund Types and Account Groups
September 30, 2001
(With comparative totals as of September 30, 2000)

	Fiduciary Fund Type Expendable Trust	Account Group General Fixed Assets	Totals (Memorandum Only)	
			2001	2000
 <u>ASSETS</u>				
Cash and cash equivalents	\$ 511,880	\$ -	\$ 511,880	\$ 429,789
Time certificate of deposit	10,161	-	10,161	10,161
Receivables:				
Employees	87,289	-	87,289	28,487
Affiliates (note 6)	49,317	-	49,317	18,700
Fixed assets (note 4)	-	108,039	108,039	117,631
	\$ 658,647	\$ 108,039	\$ 766,686	\$ 604,768
 <u>LIABILITIES AND FUND EQUITY</u>				
Accounts payable	\$ 403,726	\$ -	\$ 403,726	\$ 46,783
Payable to affiliates (note 6)	31,270	-	31,270	26,316
Other liabilities and accruals	26,196	-	26,196	14,873
Total liabilities	461,192	-	461,192	87,972
Fund equity:				
Investment in general fixed assets	-	108,039	108,039	117,631
Fund balances (deficit):				
Reserved for future compensation	328,982	-	328,982	395,912
Reserved for operations	(131,527)	-	(131,527)	3,253
Total fund equity	197,455	108,039	305,494	516,796
Contingency and commitments (notes 7 and 8)	\$ 658,647	\$ 108,039	\$ 766,686	\$ 604,768

See accompanying notes to financial statements.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Statement of Revenues, Expenditures and Changes
in Fund Balance - Expendable Trust Fund
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Revenues:		
Compact funds (note 7)	\$ 5,763,650	\$ 5,452,944
Interest	23,829	17,883
	<u>5,787,479</u>	<u>5,470,827</u>
Expenditures:		
Personal injury claims	3,924,152	3,551,498
Contractual services	1,075,858	1,204,851
Salaries and wages	523,257	538,997
Personnel benefits	183,400	162,335
Travel	81,766	124,671
Office rental	81,091	75,087
Communications	50,028	41,242
Vehicle	32,053	23,276
Supplies and materials	16,586	17,664
Medical and laboratory	-	104
Other	20,998	20,710
	<u>5,989,189</u>	<u>5,760,435</u>
Revenues under expenditures	<u>(201,710)</u>	<u>(289,608)</u>
Other financing sources (uses) (note 5):		
Operating transfers in	1,428,589	1,892,333
Operating transfers out	<u>(1,428,589)</u>	<u>(1,892,333)</u>
Total other financing sources (uses), net	<u>-</u>	<u>-</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(201,710)	(289,608)
Fund balance at beginning of year	<u>399,165</u>	<u>688,773</u>
Fund balance at end of year	<u>\$ 197,455</u>	<u>\$ 399,165</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(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 to the citizens and nationals of the Marshall Islands for loss or damage to person or property which are based or 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.

(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, as applicable to governmental entities, specifically fiduciary fund types. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Tribunal's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit. The more significant of the Tribunal's accounting policies are described below:

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Measurement Focus and Basis of Accounting

The Tribunal uses a fund and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Tribunal functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, the Tribunal's fund is classified as a fiduciary fund type.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not there is an obligation to maintain the trust principal. The Tribunal's expendable trust fund consists of the following:

- A. Compensation Fund - This fund was established to account for revenues and expenditures in accordance with Article II, Section 6(c) of the Agreement.
- B. Operating Fund - This fund was established to account for revenues and expenditures in accordance with Article II, Section 6(b) of the Agreement.

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on 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.

The modified accrual basis of accounting is used by expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" 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 fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Cash and Cash Equivalents and Time Certificates of Deposit

For the purpose of the combined balance sheet, cash and cash equivalents is defined as cash in checking and savings accounts as well as short-term investments with original maturities of three months or less from the date acquired. Deposits maintained in a time certificate of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2001, cash and cash equivalents and time certificates of deposit were \$522,041 and the corresponding bank balances were \$583,846. Of the bank balance amounts, \$578,999 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits in the amount of \$285,090 were FDIC insured. The Tribunal does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Receivables

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

Taxes

The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. The Tribunal is specifically exempt from this tax.

Compensated Absences

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. The liability as of September 30, 2001 is \$12,154 and is included in the combined balance sheet within other liabilities and accruals. 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, 2001 is presently indeterminable.

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

Fixed Assets

The accounting and reporting treatment applied to fixed assets associated with a fund are determined by its measurement focus. Fixed assets used in expendable trust fund operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in the expendable trust fund. Fixed assets consist of furniture and fixtures, office equipment and motor vehicles, and are stated at cost or estimated fair market value. No depreciation has been provided on general fixed assets. The estimated useful lives of these assets are as follows:

Motor vehicles	3 years
Office equipment	4 - 5 years
Furniture and fixtures	3 - 10 years

Memorandum Only - Total Columns

Total columns in the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations in accordance with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(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 from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. 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.

(4) Fixed Assets

Activity in the general fixed assets account group for the year ended September 30, 2001, is as follows:

	Balance October <u>1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2001</u>
Motor vehicles	\$ 34,240	\$ 17,000	\$ (7,500)	\$ 43,740
Office equipment	56,778	8,476	(26,818)	38,436
Furniture and fixtures	<u>26,613</u>	<u>-</u>	<u>(750)</u>	<u>25,863</u>
	\$ <u>117,631</u>	\$ <u>25,476</u>	\$ <u>(35,068)</u>	\$ <u>108,039</u>

(5) Transfers In/Out

Article IV, Section 2 of the Agreement states that costs of proceedings before the Tribunal shall be a charge on the annual proceeds from the Nuclear Claims Trust Fund. During the year ended September 30, 2001, the Tribunal recorded a transfer out of \$1,428,589 from the Compensation Fund to the Operating Fund as reimbursement of expenditures relating to costs of proceedings.

(6) Related Party Transactions

The Tribunal was created by the Nitijela of RepMar under Public Law 1987-24, as amended, and is thus considered a component unit of RepMar. Accordingly, the Tribunal is affiliated with all RepMar-owned and affiliated entities.

Total transactions for the year ended September 30, 2001, and the related receivables from and payables to affiliates, are as follows:

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(6) Related Party Transactions, Continued

	<u>Expenditures</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ -	\$ 48,700	\$ 19,885
Marshall Islands Social Security Administration	95,032	-	11,385
Marshall Islands National Telecommunications Authority	50,028	-	-
Other	<u>-</u>	<u>617</u>	<u>-</u>
	<u>\$ 145,060</u>	<u>\$ 49,317</u>	<u>\$ 31,270</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 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.

(7) 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 (NCTF) from which these distributions are made. Over a period of fifteen years, the Tribunal is to receive \$45,750,000 from the NCTF to be made available for whole or partial payment of monetary awards, and \$500,000 annually to fund operations. During the year ended September 30, 2001, the Tribunal received \$5,263,650 and \$500,000, respectively, from the NCTF to fund partial payment of monetary awards and operations. As of September 30, 2001, the Tribunal has committed to the distribution of monetary awards for personal injury claims of \$30,991,608 and of property damage claims of \$949,209,000, which will be paid out against the reserved fund balance and future sums which the Tribunal expects to receive from the NCTF (see note 9). As of September 30, 2001, the reserved fund balance of the NCTF is \$939,608. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the NCTF after the end of the Compact or from a renegotiated financial settlement of damages with the United States.

(8) Commitments

The Tribunal has entered into office lease agreements with third parties, which expire on September 30, 2002. Rental payments under these lease agreements for the year ended September 30, 2001, amounted to \$81,091. Future minimum lease payments under these noncancellable operating leases as of September 30, 2001 amount to \$55,824.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2001

(9) Subsequent Events

On October 26, 2001, the Tribunal received \$16,924,020 from the NCTF to fund the distribution of monetary awards for personal injury claims and the Tribunal's cost of operations. On October 29, 2001, the Tribunal made payments, totaling \$15,170,000, against unpaid monetary awards for personal injury claims. Furthermore, on February 25, 2002, the Tribunal made additional payments, totaling \$2,570,559, against unpaid monetary awards for property damage claims.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Compensation Fund	Operating Fund	Totals	
			2001	2000
Revenues:				
Compact funds	\$ 5,263,650	\$ 500,000	\$ 5,763,650	\$ 5,452,944
Interest	<u>22,622</u>	<u>1,207</u>	<u>23,829</u>	<u>17,883</u>
Total revenues	<u>5,286,272</u>	<u>501,207</u>	<u>5,787,479</u>	<u>5,470,827</u>
Expenditures:				
Personal injury claims	3,924,152	-	3,924,152	3,551,498
Contractual services	-	1,075,858	1,075,858	1,204,851
Salaries and wages	-	523,257	523,257	538,997
Personnel benefits	-	183,400	183,400	162,335
Travel	-	81,766	81,766	124,671
Office rental	-	81,091	81,091	75,087
Communications	-	50,028	50,028	41,242
Vehicle	-	32,053	32,053	23,276
Supplies and materials	359	16,227	16,586	17,664
Medical and laboratory	-	-	-	104
Other	<u>102</u>	<u>20,896</u>	<u>20,998</u>	<u>20,710</u>
Total expenditures	<u>3,924,613</u>	<u>2,064,576</u>	<u>5,989,189</u>	<u>5,760,435</u>
Revenues over (under) expenditures	<u>1,361,659</u>	<u>(1,563,369)</u>	<u>(201,710)</u>	<u>(289,608)</u>
Other financing sources (uses):				
Operating transfers in	-	1,428,589	1,428,589	1,892,333
Operating transfers out	<u>(1,428,589)</u>	<u>-</u>	<u>(1,428,589)</u>	<u>(1,892,333)</u>
Total other financing sources (uses), net	<u>(1,428,589)</u>	<u>1,428,589</u>	<u>-</u>	<u>-</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(66,930)	(134,780)	(201,710)	(289,608)
Fund balances at beginning of year	<u>395,912</u>	<u>3,253</u>	<u>399,165</u>	<u>688,773</u>
Fund balances (deficit) at end of year	<u>\$ 328,982</u>	<u>\$ (131,527)</u>	<u>\$ 197,455</u>	<u>\$ 399,165</u>

See accompanying independent auditors' report.