

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

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, 2004 and 2003. 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.

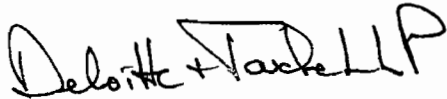
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 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 above present fairly, in all material respects, the financial position of the Tribunal, a special revenue fund of the Republic of the Marshall Islands, as of September 30, 2004 and 2003, 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 audits were 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) (page 9) and the Schedule of Expenditures by Account for the Operating Fund (page 10) for the year ended September 30, 2004 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 October 6, 2005, 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 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 read in conjunction with this report in considering the results of our audit.

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

October 6, 2005

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

Balance Sheets
September 30, 2004 and 2003

	2004	2003
<u>ASSETS</u>		
Cash and cash equivalents	\$ 500,340	\$ 683,810
Time certificates of deposit	12,037	11,765
Receivables:		
Employees	2,181	3,436
Affiliates	16,408	35,548
Total assets	\$ 530,966	\$ 734,559
<u>LIABILITIES</u>		
Accounts payable	\$ 28,354	\$ 36,505
Payable to affiliates	14,593	28,619
Other liabilities and accruals	16,741	19,289
Total liabilities	59,688	84,413
Contingency		
<u>FUND BALANCES</u>		
Fund balances:		
Reserved for future compensation	424,848	630,029
Unreserved	46,430	20,117
Total fund balances	471,278	650,146
Total liabilities and fund balances	\$ 530,966	\$ 734,559

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Compact funds	\$3,671,907	\$8,569,401
Interest	<u>2,972</u>	<u>5,564</u>
Total revenues	<u>3,674,879</u>	<u>8,574,965</u>
Expenditures:		
Awards:		
Personal injury	3,138,556	5,573,863
Property damage	-	1,356,103
Cost of proceedings:		
Public Advocate	174,094	237,557
Defender of the Fund	87,014	228,180
Other	56,272	99,952
Administration	<u>397,811</u>	<u>429,425</u>
Total expenditures	<u>3,853,747</u>	<u>7,925,080</u>
(Deficiency) excess of revenues (under) over expenditures	(178,868)	649,885
Fund balance at the beginning of the year	<u>650,146</u>	<u>261</u>
Fund balance at the end of the year	<u>\$ 471,278</u>	<u>\$ 650,146</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2004 and 2003

(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. 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 government 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.

A. Measurement Focus and Basis of Accounting

The Tribunal reports its financial position and the results of its operations in one Special Revenue Fund. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

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.

In the accompanying financial statements, the Tribunal is classified as a Governmental Fund - Special Revenue Fund.

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).

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

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

B. 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.

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.

C. Budget

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.

D. Cash

For the purpose of the balance sheets, cash and cash equivalents are 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, 2004 and 2003, cash and cash equivalents and time certificates of deposit were \$512,337 and \$695,575, respectively, and the corresponding bank balances were \$604,757 and \$798,709, respectively. Of the bank balance amounts, \$495,178 and \$487,630, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amount of \$495,178 and \$211,531, respectively, were FDIC insured. The Tribunal does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

E. Receivables

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

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

Notes to Financial Statements
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

F. 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, 2004 and 2003 are presently indeterminable.

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

G. 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.

H. New Accounting Standards

For fiscal year 2005, the Tribunal will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

I. 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.

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

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

Notes to Financial Statements
September 30, 2004 and 2003

(4) Related Party Transactions

The Tribunal was created by the Nitijela of RepMar under Public Law No. 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.

Receivables from affiliates as of September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
RepMar	\$ 14,000	\$ 33,140
Other	<u>2,408</u>	<u>2,408</u>
	\$ <u>16,408</u>	\$ <u>35,548</u>

Payable to affiliates as of September 30, 2004 and 2003, are as follows:

	<u>2004</u>	<u>2003</u>
RepMar	\$ 11,185	\$ 18,600
Other	<u>3,408</u>	<u>10,019</u>
	\$ <u>14,593</u>	\$ <u>28,619</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. The current MOU was signed in September 15, 2003, which provides for consultation with the government beginning in July 2004 on the need for continuation 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 (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 year ended September 30, 2004 and 2003, the Tribunal received \$3,671,907 and \$8,567,401, respectively, from the Trust Fund, which included funds to fund partial payment of monetary awards. As of September 30, 2004 and 2003, the Tribunal has committed to the distribution of monetary awards for personal injury claims of \$14,880,535 and \$15,005,928, 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, 2004 and 2003, the reserved fund balance of the Trust Fund is \$5,072,407 and \$8,564,732, 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 United States.

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

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2004
(With comparative totals for the year ended September 30, 2003)

	Compensation <u>Fund</u>	Operating <u>Fund</u>	<u>Totals</u>	
			2004	2003
Revenues:				
Compact funds	\$ 3,195,933	\$ 475,974	\$ 3,671,907	\$ 8,569,401
Interest	<u>2,700</u>	<u>272</u>	<u>2,972</u>	<u>5,564</u>
Total revenues	<u>3,198,633</u>	<u>476,246</u>	<u>3,674,879</u>	<u>8,574,965</u>
Expenditures:				
Awards	3,138,153	-	3,138,153	6,929,966
Salaries and wages	-	314,700	314,700	405,831
Contractual services	-	69,510	69,510	216,189
Personnel benefits	-	113,434	113,434	126,728
Travel	-	52,275	52,275	88,857
Office rental and utilities	-	75,864	75,864	75,170
Communications	-	26,238	26,238	35,555
Medical and laboratory	-	10,810	10,810	12,410
Supplies and materials	403	6,250	6,653	10,059
Vehicle	-	2,639	2,639	8,554
Other	-	43,471	43,471	15,761
Total expenditures	<u>3,138,556</u>	<u>715,191</u>	<u>3,853,747</u>	<u>7,925,080</u>
Revenues over (under) expenditures	<u>60,077</u>	<u>(238,945)</u>	<u>(178,868)</u>	<u>649,885</u>
Other financing sources (uses):				
Operating transfers in	-	265,258	265,258	705,489
Operating transfers out	<u>(265,258)</u>	<u>-</u>	<u>(265,258)</u>	<u>(705,489)</u>
Total other financing sources (uses), net	<u>(265,258)</u>	<u>265,258</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(205,181)	26,313	(178,868)	649,885
Fund balances (deficit) at beginning of year	<u>630,029</u>	<u>20,117</u>	<u>650,146</u>	<u>261</u>
Fund balances at end of year	<u>\$ 424,848</u>	<u>\$ 46,430</u>	<u>\$ 471,278</u>	<u>\$ 650,146</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, 2004

	Cost of Proceedings				Total
	Public Advocate	Defender of the Fund	Other	Administration	
Salaries and wages	\$ 133,945	\$ 61,335	\$ -	\$ 231,804	\$ 427,084
Contractual services	9,029	12,668	-	6,856	28,553
Travel	13,865	9,811	-	27,437	51,113
Office rental and utilities	9,400	-	-	66,464	75,864
Communications	5,901	4,563	-	15,774	26,238
Bad debts	-	-	-	22,455	22,455
Other	1,954	(1,363)	56,272	27,021	83,884
	\$ 174,094	\$ 87,014	\$ 56,272	\$ 397,811	\$ 715,191

See accompanying independent auditors' report.