

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006 and 2005. 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.

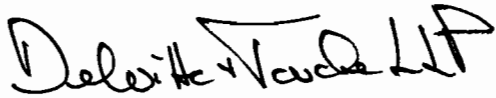
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 above 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, 2006 and 2005, 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, 2006 (page 11) and the Schedule of Expenditures by Account for the Operating Fund (page 12) for the year ended September 30, 2006 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 26, 2007, 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Deloitte Touche LLP". The signature is stylized and somewhat cursive, with the letters "D", "T", and "L" being particularly prominent.

April 26, 2007

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

Balance Sheets
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 215,406	\$ 331,779
Time certificates of deposit	12,313	12,174
Receivables:		
Employees	1,702	2,288
Affiliates	<u>-</u>	<u>12,000</u>
Total assets	<u>\$ 229,421</u>	<u>\$ 358,241</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 26,316	\$ 17,415
Payable to affiliates	25,877	15,022
Other liabilities and accruals	<u>17,832</u>	<u>21,248</u>
Total liabilities	<u>70,025</u>	<u>53,685</u>
Contingency and commitment		
<u>FUND BALANCES</u>		
Fund balances:		
Reserved for future compensation	86,946	99,692
Unreserved	<u>72,450</u>	<u>204,864</u>
Total fund balances	<u>159,396</u>	<u>304,556</u>
Total liabilities and fund balances	<u>\$ 229,421</u>	<u>\$ 358,241</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Compact funds	\$2,015,800	\$2,187,864
Interest	<u>874</u>	<u>190,460</u>
Total revenues	<u>2,016,674</u>	<u>2,378,324</u>
Expenditures:		
Awards:		
Personal injury	1,429,271	1,773,027
Cost of proceedings:		
Public Advocate	187,997	181,241
Defender of the Fund	99,763	118,509
Other	35,413	56,994
Administration	<u>409,390</u>	<u>415,275</u>
Total expenditures	<u>2,161,834</u>	<u>2,545,046</u>
Net change in fund balances	(145,160)	(166,722)
Fund balance at the beginning of the year	<u>304,556</u>	<u>471,278</u>
Fund balance at the end of the year	<u>\$ 159,396</u>	<u>\$ 304,556</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2006 and 2005

(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.

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, 2006 and 2005

(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.

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.

Cash and Cash Equivalents

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 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 time certificates of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2006 and 2005, cash and cash equivalents and time certificates of deposit were \$227,719 and \$343,953, respectively, and the corresponding bank balances were \$345,728 and \$468,372, respectively. Of the bank balance amounts, \$344,086 and \$457,548, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006 and 2005, 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 coverage are uncollateralized. Accordingly, there 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.

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, 2006 and 2005 is presently indeterminable.

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

**MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
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Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

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 2006, the Tribunal implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

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, 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, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment 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, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Tribunal.

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.

(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, 2006 and 2005

(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, 2006 and 2005 are as follows:

	2006		2005	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ -	\$ 13,514	\$ 12,000	\$ 11,793
Other	-	<u>12,363</u>	-	<u>3,229</u>
	<u>\$ -</u>	<u>\$ 25,877</u>	<u>\$ 12,000</u>	<u>\$ 15,022</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 years ended September 30, 2006 and 2005, the Tribunal received \$2,015,800 and \$2,187,864, respectively, from the Trust Fund, which included funds to fund partial payment of monetary awards. As of September 30, 2006 and 2005, the Tribunal has committed to the distribution of monetary awards for personal injury claims of \$17,660,162 and \$15,993,683, 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, 2006 and 2005, the reserved fund balance of the Trust Fund is \$1,082,519 and \$3,177,829, 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
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Notes to Financial Statements
September 30, 2006 and 2005

(6) Commitments

On March 5, 2005, the Tribunal renewed a contract with one of its employees for a period of two years, ending March 4, 2007 with annual payments of \$40,000.

Future minimum payments under this contract are as follows:

Year ending September 30,

2007

\$ 16,667

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

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended September 30, 2006

	<u>Compensation Fund</u>	<u>Operating Fund</u>	<u>Total</u>
Revenues:			
Compact funds	\$ 2,015,800	\$ -	\$ 2,015,800
Interest	<u>725</u>	<u>149</u>	<u>874</u>
Total revenues	<u>2,016,525</u>	<u>149</u>	<u>2,016,674</u>
Expenditures:			
Awards	1,429,271	-	1,429,271
Salaries and wages	-	319,124	319,124
Contractual services	-	91,911	91,911
Personnel benefits	-	116,821	116,821
Travel	-	40,127	40,127
Office rental and utilities	-	80,835	80,835
Communications	-	25,718	25,718
Medical and laboratory	-	10,990	10,990
Supplies and materials	-	5,900	5,900
Other	<u>-</u>	<u>41,137</u>	<u>41,137</u>
Total expenditures	<u>1,429,271</u>	<u>732,563</u>	<u>2,161,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>587,254</u>	<u>(732,414)</u>	<u>(145,160)</u>
Other financing sources (uses):			
Operating transfers in	-	600,000	600,000
Operating transfers out	<u>(600,000)</u>	<u>-</u>	<u>(600,000)</u>
Total other financing sources (uses), net	<u>(600,000)</u>	<u>600,000</u>	<u>-</u>
Net change in fund balances	(12,746)	(132,414)	(145,160)
Fund balances at the beginning of the year	<u>99,692</u>	<u>204,864</u>	<u>304,556</u>
Fund balances at the end of the year	<u>\$ 86,946</u>	<u>\$ 72,450</u>	<u>\$ 159,396</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, 2006

	<u>Cost of Proceedings</u>				<u>Total</u>
	<u>Public Advocate</u>	<u>Defender of the Fund</u>	<u>Other</u>	<u>Administration</u>	
Salaries, wages and benefits	\$ 134,751	\$ 57,954	\$ 1,050	\$ 242,190	\$ 435,945
Contractual services	23,361	36,461	13,037	19,052	91,911
Travel	11,269	-	-	28,858	40,127
Office rental and utilities	9,000	-	-	71,835	80,835
Communications	7,508	3,391	-	14,819	25,718
Other	2,108	1,957	21,326	32,636	58,027
	<u>\$ 187,997</u>	<u>\$ 99,763</u>	<u>\$ 35,413</u>	<u>\$ 409,390</u>	<u>\$ 732,563</u>

See accompanying independent auditors' report.