

MARSHALL ISLANDS JUDICIARY FUND
(A GOVERNMENTAL FUND OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

MARSHALL ISLANDS JUDICIARY FUND

Years Ended September 30, 2015 and 2014
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in Fund Balance	4
Notes to Financial Statements	5
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>	11
Unresolved Prior Year Findings	13

INDEPENDENT AUDITORS' REPORT

Honorable Carl B. Ingram
Chief Justice of the High Court
Republic of the Marshall Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Judiciary Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

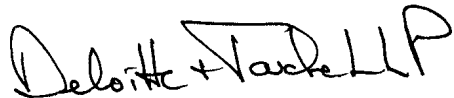
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Judiciary Fund as of September 30, 2015 and 2014, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Judiciary Fund 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016, on our consideration of the Marshall Islands Judiciary Fund'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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Judiciary Fund's internal control over financial reporting and compliance.

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May 24, 2016

MARSHALL ISLANDS JUDICIARY FUND

Balance Sheets
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash	\$ <u>326,752</u>	\$ <u>260,577</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 5,188	\$ 6,124
Other liabilities and accruals	<u>5,985</u>	<u>11,342</u>
Total liabilities	<u>11,173</u>	<u>17,466</u>
Contingency		
Fund balance:		
Committed	<u>315,579</u>	<u>243,111</u>
Total liabilities and fund balance	<u>\$ 326,752</u>	<u>\$ 260,577</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS JUDICIARY FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2015 and 2014

	2015	2014
Revenues:		
Nitijela appropriation	\$ 943,390	\$ 977,448
Fines and fees	48,302	62,387
Interest	1,022	681
Other	41,803	31,597
Total revenues	1,034,517	1,072,113
Expenditures:		
Salaries, wages and benefits	574,324	594,555
Capital outlay	80,050	56,068
Leased housing	67,500	68,040
Utilities	54,344	80,291
Supplies and materials	48,377	27,327
Communications	44,290	50,740
Travel	32,658	65,378
Repairs and maintenance	17,508	6,927
Professional services	12,582	7,915
POL	9,909	11,492
Miscellaneous	20,507	23,868
Total expenditures	962,049	992,601
Net change in fund balance	72,468	79,512
Fund balance at the beginning of the year	243,111	163,599
Fund balance at the end of the year	\$ 315,579	\$ 243,111

See accompanying notes to financial statements.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization

The Marshall Islands Constitution vests the country's judicial power in an independent judiciary. The Marshall Islands judiciary (the Judiciary) includes a supreme court, high court, traditional rights court, district court, and community courts as well as a judicial service commission and court staff. The Judiciary officially commenced operation on March 3, 1982, assuming judicial functions in the Marshall Islands that had been discharged by the Trust Territory of the Pacific Islands courts.

The Marshall Islands Judiciary Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Judiciary Fund Act 1989, as amended. The objective of the Fund is to establish a more efficient means for administration of funds received by the Judiciary and for related purposes. The Fund is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

The Chief Justice of the High Court and the Clerk of the Courts acting together are responsible for opening and maintaining bank accounts as is necessary for the efficient operation of the Judiciary and for setting policy, strategy and financial guidelines for the day-to-day operations of the Judiciary.

The accompanying financial statements relate solely to those accounting records maintained by the Judiciary, 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 Fund is considered to be a blended component unit (a governmental fund) of RepMar.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance 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 recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below:

Measurement Focus and Basis of Accounting

The Fund reports its financial position and the results of operations in one governmental 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 JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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). "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. For this purpose, the Fund considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recorded when the related fund 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

The deposit and investment policies of the Fund are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. Custodial credit risk is the risk that in the event of a bank failure, the Fund'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 Fund does not have a deposit policy for custodial credit risk.

For purposes of the balance sheets, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2015 and 2014, the carrying amounts of cash were \$326,752 and \$260,577, respectively, and the corresponding bank balances were \$331,614 and \$262,500, respectively. Of the bank balances, \$99,115 and \$124,539, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$232,499 and \$137,961, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2015 and 2014, bank deposits in the amount of \$99,115 and \$124,539, respectively, were FDIC insured. The Fund 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.

Compensated Absences

The Fund recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the balance sheet unless such leave is expected to be liquidated with expendable available financial resources, at which time expenditures and related fund liabilities would be recognized.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Fund Balance

Fund balance classifications are based on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Taxes

The Fund and related transactions are not subject to any tax, rate, charge, or impost under any other law.

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 expenses during the reporting period. Actual results could differ from those estimates.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2015, the Fund implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of; errors and omissions; injuries to employees; and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. For other risks of loss to which it is exposed, the Fund has elected not to purchase commercial insurance. Instead, the Fund 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 Fund's risk management activities for the past years.

(4) Related Party Transactions

The Fund is a governmental fund of RepMar and is thus affiliated with all RepMar-owned and affiliated entities. During the years ended September 30, 2015 and 2014, the Fund recognized certain on-behalf payments as contributions from RepMar, totaling \$585,665 and \$583,213, respectively, representing certain payroll and related expenditures that RepMar paid directly on behalf of the Fund.

During the years ended September 30, 2015 and 2014, the operations of the Fund were funded by appropriations from RepMar of \$943,390 and \$977,448, respectively, of which \$357,725 and \$394,235, respectively, represented cash payments received by the Fund.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Contingency

The Fund receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on the Fund's programs and activities. For the year ended September 30, 2016, RepMar appropriated funding to the Fund in the amount of \$1,063,344 for the purpose of funding programs and activities of the Fund.

**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**

Honorable Carl B. Ingram
Chief Justice of the High Court
Republic of the Marshall Islands:

We have audited, in accordance with the 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, the financial statements of the Marshall Islands Judiciary Fund, which comprise the balance sheet as of September 30, 2015, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marshall Islands Judiciary Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Marshall Islands Judiciary Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall Islands Judiciary Fund's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

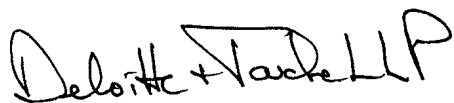
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall Islands Judiciary Fund's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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May 24, 2016

MARSHALL ISLANDS JUDICIARY FUND

Unresolved Prior Year Findings
Year Ended September 30, 2015

There are no unresolved prior year findings from prior year audits of the Marshall Islands Judiciary Fund.