

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

MARSHALL ISLANDS JUDICIARY FUND

Years Ended September 30, 2014 and 2013
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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, 2014 and 2013, 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

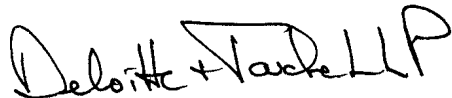
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Judiciary Fund as of September 30, 2014 and 2013, and the results of its operations for the years then ended in accordance with accounting principles generally 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 July 10, 2015, 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.

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

July 10, 2015

MARSHALL ISLANDS JUDICIARY FUND

Balance Sheets
September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash	\$ <u>260,577</u>	\$ <u>201,248</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 6,124	\$ 2,949
Retention payable	<u>11,342</u>	<u>34,700</u>
Total liabilities	<u>17,466</u>	<u>37,649</u>
Contingency		
Fund balance:		
Committed	<u>243,111</u>	<u>163,599</u>
Total liabilities and fund balance	<u>\$ 260,577</u>	<u>\$ 201,248</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS JUDICIARY FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Nitijela appropriation	\$ 977,448	\$ 958,483
Fines and fees	62,387	47,427
Interest	681	1,024
Other	31,597	27,666
Total revenues	<u>1,072,113</u>	<u>1,034,600</u>
Expenditures:		
Salaries and wages	594,555	544,188
Utilities	80,291	94,549
Leased housing	68,040	69,600
Travel	65,378	42,781
Capital outlay	56,068	293,196
Communications	50,740	48,393
Supplies and materials	27,327	33,901
POL	11,492	12,852
Professional services	7,915	3,100
Repairs and maintenance	6,927	8,483
Miscellaneous	23,868	17,528
Total expenditures	<u>992,601</u>	<u>1,168,571</u>
Net change in fund balance	79,512	(133,971)
Fund balance at the beginning of the year	<u>163,599</u>	<u>297,570</u>
Fund balance at the end of the year	<u>\$ 243,111</u>	<u>\$ 163,599</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013

(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, 2014 and 2013, the carrying amounts of cash were \$260,577 and \$201,248, respectively, and the corresponding bank balances were \$262,500 and \$241,221, respectively. Of the bank balances, \$124,539 and \$105,888, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$137,961 and \$95,360, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2014 and 2013, bank deposits in the amount of \$124,539 and \$105,888, 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, 2014 and 2013

(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, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, the Fund implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In January 2013, GASB issued 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 provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

MARSHALL ISLANDS JUDICIARY FUND

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, the Fund recognized certain on-behalf payments as contributions from RepMar, totaling \$594,555 and \$544,188, respectively, representing certain payroll and related expenditures that RepMar paid directly on behalf of the Fund.

During the years ended September 30, 2014 and 2013, the operations of the Fund were funded by appropriations from RepMar of \$977,448 and \$958,483, respectively, of which \$382,893 and \$414,295, respectively, represented cash payments received by the Fund.

(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, 2015, RepMar appropriated funding to the Fund in the amount of \$1,022,607 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, 2014, 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 July 10, 2015.

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.

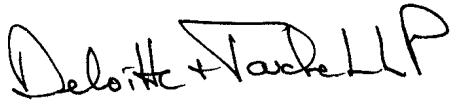
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Handwritten signature of Deloitte + Touche LLP in black ink.

July 10, 2015

MARSHALL ISLANDS JUDICIARY FUND

Unresolved Prior Year Findings
Year Ended September 30, 2014

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