

BIKINI CLAIMS TRUST FUND
SEPTEMBER 30, 2015
AND
SEPTEMBER 30, 2014

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MILLER, ENGEL & TIERNEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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December 8, 2015

INDEPENDENT AUDITORS' REPORT

Wilmington Trust, Trustee
Bikini Claims Trust Fund

We have audited the accompanying financial statements of BIKINI CLAIMS TRUST FUND, which comprise the statements of Financial Condition, as of September 30, 2015 and 2014, and the related Statements of Income, Trust Equity and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 BIKINI CLAIMS TRUST FUND as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Miller, Engel & Tierney LLP

MILLER, ENGEL & TIERNEY LLP

BIKINI CLAIMS TRUST FUND
STATEMENT OF FINANCIAL CONDITION

ASSETS

	<u>AS OF</u>	
	<u>SEPTEMBER</u>	<u>SEPTEMBER</u>
	<u>30, 2015</u>	<u>30, 2014</u>
Money Funds	\$ 82,261	\$ 52,256
Dividends and Interest Receivable	32,556	29,406
Investment in Marketable Equity Securities — Note 2	52,045,922	49,971,719
Investment in Partnerships — Note 3	<u>—</u>	<u>—</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 52,160,739</u>	 <u>\$ 50,053,381</u>

LIABILITIES AND TRUST EQUITY

LIABILITIES

Accrued Expenditures	\$ 22,091	\$ 5,590
TRUST EQUITY - EXHIBIT "B"	<u>52,138,648</u>	<u>50,047,791</u>
 <u>Total Liabilities and Trust Equity</u>	 <u>\$ 52,160,739</u>	 <u>\$ 50,053,381</u>

The accompanying notes are an integral part of this financial statement.

BIKINI CLAIMS TRUST FUND
STATEMENT OF TRUST EQUITY

	<u>TRUST EQUITY</u>	<u>ACCUMULATED OTHER COMPREHENSIVE INCOME</u>	<u>TOTAL</u>
Balance — September 30, 2013	<u>\$ 49,181,446</u>	<u>\$ 12,953,955</u>	<u>\$ 62,135,401</u>
<u>COMPREHENSIVE INCOME:</u>			
Net Income — Exhibit "C"	\$ 4,869,340	\$ — —	\$ 4,869,340
Net Decrease in Unrealized gains on securities	<u>— —</u>	<u>(813,773)</u>	<u>(813,773)</u>
<u>Total Comprehensive Income (Loss)</u>	\$ 4,869,340	\$ (813,773)	\$ 4,055,567
Distributions — People of Bikini Nuclear Claims Distribution	<u>(4,002,995)</u>	<u>— —</u>	<u>(4,002,995)</u>
Balance — September 30, 2014	<u>\$ 50,047,791</u>	<u>\$ 12,140,182</u>	<u>\$ 62,187,973</u>
<u>COMPREHENSIVE INCOME:</u>			
Net Income — Exhibit "C"	\$ 5,184,387	\$ — —	\$ 5,184,387
Net Decrease in Unrealized gains on securities	<u>— —</u>	<u>(7,758,511)</u>	<u>(7,758,511)</u>
<u>Total Comprehensive Income (Loss)</u>	\$ 5,184,387	\$ (7,758,511)	\$ (2,574,124)
Distributions — People of Bikini Nuclear Claims Fund Distribution	<u>(3,093,530)</u>	<u>— —</u>	<u>(3,093,530)</u>
Balance — September 30, 2015	<u>\$ 52,138,648</u>	<u>\$ 4,381,671</u>	<u>\$ 56,520,319</u>

The accompanying notes are an integral part of this financial statement.

BIKINI CLAIMS TRUST FUND
STATEMENT OF INCOME

<u>REVENUE</u>	<u>FOR THE YEARS ENDED</u>	
	<u>SEPTEMBER</u>	<u>SEPTEMBER</u>
	<u>30, 2015</u>	<u>30, 2014</u>
Interest Income	\$ 16	\$ 32
Dividend Income — Equities	2,319,128	1,612,001
— Fixed Income Mutual Funds	704,715	601,147
Net Gain on Sales — Marketable Equity Securities	2,186,500	2,573,209
— Partnerships	37,885	65,921
Miscellaneous Income — Rebates	<u>68,340</u>	<u>148,594</u>
<u>Total Revenue</u>	<u>\$ 5,316,584</u>	<u>\$ 5,000,904</u>
<u>EXPENDITURES</u>		
Accounting and Auditing Fees	\$ 39,690	\$ 33,355
Bank Charges & Misc. Fees, Foreign Taxes	727	830
Investment Management Fees	65,974	69,986
Trustee Fees	<u>25,806</u>	<u>27,393</u>
<u>Total Expenditures</u>	<u>\$ 132,197</u>	<u>\$ 131,564</u>
<u>NET INCOME</u>	<u>\$ 5,184,387</u>	<u>\$ 4,869,340</u>

The accompanying notes are an integral part of this financial statement.

BIKINI CLAIMS TRUST FUND
STATEMENT OF CASH FLOWS

	<u>FOR THE YEAR ENDED</u>	
	<u>SEPTEMBER</u> <u>30, 2015</u>	<u>SEPTEMBER</u> <u>30, 2014</u>
<u>CASH FLOWS FROM TRUST ACTIVITIES</u>		
Net Income — Exhibit "C"	\$ 5,184,387	\$ 4,869,340
Adjustment to Reconcile Net Income to Net Cash Provided by Trust Activities:		
(Increase) Decrease in:		
Interest and Dividends Receivable	(3,150)	5,305
Investment in Marketable Securities	(2,074,203)	(1,002,282)
Investment in Partnerships	—	144,456
Increase (Decrease) in:		
Accrued Expenditures	<u>16,501</u>	<u>(5,012)</u>
<u>Net Cash From (Used by) Trust Activities</u>	<u>\$ 3,123,535</u>	<u>\$ 4,011,807</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Distributions	<u>(3,093,530)</u>	<u>(4,002,995)</u>
<u>Net Cash From (Used by) Financing Activities</u>	<u>\$ (3,093,530)</u>	<u>\$ (4,002,995)</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	\$ 30,005	\$ 8,812
<u>CASH - BEGINNING</u>	<u>52,256</u>	<u>43,444</u>
<u>CASH - ENDING</u>	<u>\$ 82,261</u>	<u>\$ 52,256</u>

The accompanying notes are an integral part of this financial statement.

BIKINI CLAIMS TRUST FUND
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE TRUST AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bikini Claims Trust Fund (the Trust) was created pursuant to the Agreement Between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association ("Compact Section 177 Agreement"), which came into effect on October 21, 1986, as part of the Compact of Free Association Act of 1985, Public Law 99-239.

Article I, Section 1 of the Compact Section 177 Agreement created a \$150,000,000 Trust Fund (the "Fund") "to provide, in perpetuity, a means to address past, present and future consequences of the Nuclear Testing Program. . . ." The Fund provided annual proceeds of at least \$18,000,000, which were disbursed pursuant to a schedule set forth in Article II of the Agreement.

Under Article II, Section 2, of the Compact Section 177 Agreement, \$5,000,000 of the \$18,000,000 in annual proceeds were disbursed in quarterly amounts of \$1,250,000 beginning in January of 1986 and ending in October of 2001 to the Bikini Distribution Authority. Article II, Section 2 provides that these 60 quarterly payments of \$1,250,000 are "in payment of claims arising out of the Nuclear Testing Program for loss or damage to property and person of the people of Bikini only. . . ." The section states that these funds are to be "distributed, placed in trust or otherwise invested as the Bikini Distribution Authority may determine consistent with this Agreement." The Agreed Minute attached to the Section 177 Agreement provides the basis for provisions of Article VII of the Bikini Claims Trust Fund Agreement concerning distribution of Fund payments and net income.

The Trust was amended on July 25, 2002 retroactive to the quarter ended March 31, 2002 to allow for quarterly distributions of 1.25% of the Corpus of the Trust based on the average market value of the Trust for the previous three fiscal years. The Trust also distributes rebates received from investment charges.

The Trust Agreement was amended in August of 2005 to allow for a 3% distribution in lieu of the 1.25% quarterly distribution in the event of an unforeseen natural disaster or other similar circumstance to occur no more frequently than every three years, provided the value of the trust fund has increased as of the preceding fiscal year ends.

Assets and liabilities and revenue and expenditures are recognized on the accrual basis of accounting.

The Trust is exempt from all Federal and local income taxes. Therefore, the Trust pays no taxes and has no tax liability.

The Statement of Financial Condition has not been segregated between current and noncurrent classifications. The classifications between current and noncurrent investments cannot be determined as the Trust buys and sells investments depending on market conditions.

BIKINI CLAIMS TRUST FUND
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE TRUST AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Cash Flows treats distributions to the people of Bikini as financing activities as they are not considered revenue and expenditure activities. Cash equivalents are considered to be investments in cash reserves, certificates of deposit and money market funds.

The trust maintains its cash balances with Wilmington Trust Investment Advisors, Inc. The funds are not insured by the Federal Deposit Insurance corporation. At September 30, 2015 and 2014 the Trust's uninsured cash balances were \$82,261 and \$52,256, respectively.

Cash flows from Trust activities reported on the Statement of Cash Flows include all investment activities of the Trust.

Recognized gain or loss on the sale of marketable securities is recorded utilizing the first-in first-out method of accounting. Pursuant to the trust document, capital gains and losses are considered income by the trust.

The Trust paid no interest during the year ended September 30, 2015 or September 30, 2014.

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

Investments are stated at cost; if a decline in market value is considered other than temporary the cost is adjusted for the impairment.

NOTE 2 - INVESTMENT IN MARKETABLE EQUITY SECURITIES

The market value of the marketable equity securities was \$56,324,061 at September 30, 2015 and \$62,000,428 at September 30, 2014. The Trust had net unrealized gains in marketable equity securities of \$4,278,140 and \$12,028,709 at September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, respectively, the net unrealized gains consisted of \$7,012,146 and \$12,432,042 of gains in accumulated other comprehensive income, and \$2,734,006 and \$403,333 of net unrealized losses, which were considered to be temporary and therefore the cost was not adjusted for the impairment. The fair market value of securities with unrealized losses was \$31,307,118 and at September 30, 2015 and \$20,273,617 at September 30, 2014. The fair market value of equity securities was derived from readily available market quotations. Proceeds of sales of marketable equity securities were \$12,954,715 and \$14,755,444 during the years ended September 30, 2015 and 2014, respectively.

BIKINI CLAIMS TRUST FUND
NOTES TO FINANCIAL STATEMENTS

NOTE 3 — INVESTMENT IN PARTNERSHIPS

The trust had previously invested in partnerships, which were substantially liquidated during the year ended September 30, 2010. Liquidation proceeds brought the cost to zero during the year ended September 30, 2014. The remaining market value of these partnerships was \$103,531 and \$111,473 at September 30, 2015 and September 30, 2014, respectively and accordingly the trust had unrealized gains of \$103,531 and \$111,473 at September 30, 2015 and September 30, 2014 included in accumulated other comprehensive income, respectively. Liquidation proceeds were \$37,885 and \$210,377 during the years ended September 30, 2015 and 2014, respectively.

NOTE 4 — SUBSEQUENT EVENTS

Subsequent events were evaluated to the Financial Statement issuance date of December 8, 2015.