

BIKINI CLAIMS TRUST FUND
SEPTEMBER 30, 2009
AND
SEPTEMBER 30, 2008

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MILLER, ENGEL & TIERNEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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November 25, 2009

INDEPENDENT AUDITORS' REPORT

M & T Investment Group
Bikini Claims Trust Fund

We have audited the accompanying Statements of Financial Condition of the BIKINI CLAIMS TRUST FUND, as at September 30, 2009 and 2008, and the related Statements of Activity, Trust Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

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 at September 30, 2009 and 2008, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Miller, Engel & Tierney LLP
MILLER, ENGEL & TIERNEY LLP

BIKINI CLAIMS TRUST FUND
STATEMENT OF FINANCIAL CONDITION

ASSETS

	<u>AS AT</u>	
	<u>SEPTEMBER</u> <u>30, 2009</u>	<u>SEPTEMBER</u> <u>30, 2008</u>
Money Funds	\$ 1,105,760	\$ 534,771
Dividends and Interest Receivable	66,731	86,656
Investment in Marketable Equity Securities — Note 2	43,626,761	46,346,029
Investment in Partnerships — Note 3	<u>2,877,985</u>	<u>3,605,421</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 47,677,237</u>	 <u>\$ 50,572,877</u>

LIABILITIES AND TRUST EQUITY

LIABILITIES

Accrued Expenditures	\$ 4,960	\$ 11,711
TRUST EQUITY - EXHIBIT "B"	<u>47,672,277</u>	<u>50,561,166</u>
 <u>TOTAL LIABILITIES AND TRUST EQUITY</u>	 <u>\$ 47,677,237</u>	 <u>\$ 50,572,877</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, 2007	\$ <u>58,211,565</u>	\$ <u>12,466,443</u>	\$ <u>70,678,008</u>
<u>COMPREHENSIVE INCOME:</u>			
Excess of Revenue Over Expenditures (Expenditures over Revenue) — Exhibit "C"	\$ (2,890,095)	\$ — —	\$ (2,890,095)
Net Decrease in Unrealized gains on securities	<u>— —</u>	<u>(7,873,039)</u>	<u>(7,873,039)</u>
<u>Total Comprehensive Income</u>	<u>\$ (2,890,095)</u>	<u>\$ (7,873,039)</u>	<u>\$ (10,763,134)</u>
Distributions — People of Bikini Nuclear Claims Distribution	<u>\$ (4,760,304)</u>	<u>\$ — —</u>	<u>\$ (4,760,304)</u>
Balance — September 30, 2008	\$ <u>50,561,166</u>	\$ <u>4,593,404</u>	\$ <u>55,154,570</u>
<u>COMPREHENSIVE INCOME:</u>			
Excess of Revenue Over Expenditures — Exhibit "C"	\$ 421,166	\$ — —	\$ 421,166
Net Increase in Unrealized gains on securities	<u>— —</u>	<u>2,207,616</u>	<u>2,207,616</u>
<u>Total Comprehensive Income</u>	<u>\$ 421,166</u>	<u>\$ 2,207,616</u>	<u>\$ 2,628,782</u>
Distributions — People of Bikini Nuclear Claims Fund Distribution	<u>\$ (3,310,055)</u>	<u>\$ — —</u>	<u>\$ (3,310,055)</u>
Balance — September 30, 2009	<u>\$ 47,672,277</u>	<u>\$ 6,801,020</u>	<u>\$ 54,473,297</u>

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

BIKINI CLAIMS TRUST FUND
STATEMENT OF ACTIVITY

	<u>FOR THE YEARS ENDED</u>	
	<u>SEPTEMBER</u>	<u>SEPTEMBER</u>
	<u>30, 2009</u>	<u>30, 2008</u>
<u>REVENUE</u>		
Interest Income	\$ 7,551	\$ 30,421
Dividend Income — Equities	711,356	2,716,573
— Debt Mutual Funds	758,488	916,995
Net Gain on Sales — Marketable Equity Securities	— —	1,269,859
— Partnerships	349,869	— —
Miscellaneous Income — Rebates	<u>41,759</u>	<u>63,162</u>
<u>Total Revenue</u>	<u>\$ 1,869,023</u>	<u>\$ 4,997,010</u>
 <u>EXPENDITURES</u>		
Net Loss on Sales — Marketable Equity Securities	\$ 659,877	\$ — —
Net Loss from Market Value Decline — Marketable Equity Securities	359,808	7,565,900
— Partnership	327,305	194,579
Accounting and Auditing Fees	27,555	31,980
Bank Charges & Misc. Fees	— —	120
Investment Management Fees	52,453	82,043
Trustee Fees	<u>20,859</u>	<u>12,483</u>
<u>Total Expenditures</u>	<u>\$ 1,447,857</u>	<u>\$ 7,887,105</u>
 <u>EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES</u>		
<u>OVER REVENUE) - EXHIBIT "B"</u>	<u>\$ 421,166</u>	<u>\$ (2,890,095)</u>

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

BIKINI CLAIMS TRUST FUND
STATEMENT OF CASH FLOWS

	FOR THE YEAR ENDED	
	SEPTEMBER	SEPTEMBER
	<u>30, 2009</u>	<u>30, 2008</u>
<u>CASH FLOWS FROM TRUST ACTIVITIES</u>		
Excess of Revenue Over Expenditures (Expenditures Over Revenue) — Exhibit "C"	\$ 421,166	\$ (2,890,095)
Adjustment to Reconcile Excess of Revenue Over Expenditures to Net Cash Provided by Trust Activities:		
Net Loss From Market Value Decline	687,113	7,760,479
(Increase) Decrease in:		
Interest and Dividends Receivable	19,925	1,477
Investment in Marketable Securities	2,359,460	(887,088)
Investment in Partnerships	400,131	500,000
Increase (Decrease) in:		
Accrued Expenditures	<u>(6,751)</u>	<u>(9,601)</u>
<u>Net Cash From (Used by) Trust Activities</u>	<u>\$ 3,881,044</u>	<u>\$ 4,475,172</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Distributions	<u>(3,310,055)</u>	<u>(4,760,304)</u>
<u>Net Cash From (Used by) Financing Activities</u>	<u>\$ (3,310,055)</u>	<u>\$ (4,760,304)</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	<u>\$ 570,989</u>	<u>\$ (285,132)</u>
<u>CASH - BEGINNING</u>	<u>534,771</u>	<u>819,903</u>
<u>CASH - ENDING</u>	<u>\$ 1,105,760</u>	<u>\$ 534,771</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.

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.

BIKINI CLAIMS TRUST FUND
NOTES TO FINANCIAL STATEMENTS

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

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.

The Trust paid no interest during the year ended September 30, 2009 or September 30, 2008.

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 \$48,167,061 at September 30, 2009 and \$48,482,612 at September 30, 2008. The Trust had unrealized gains in marketable equity securities of \$4,540,300 at September 30, 2009 and \$2,136,583 at September 30, 2008 which consisted of all gains in accumulated other comprehensive income. The fair market value of equity securities was derived from readily available market quotations. Proceeds of sales of marketable equity securities were \$9,070,808 and \$6,277,466 during the years ended September 30 2009 and 2008, respectfully.

NOTE 3 — INVESTMENT IN PARTNERSHIPS

This amount represents the adjusted cost in two partnerships as of September 30, 2009 and September 30, 2008. The market value of these partnerships was \$5,138,705 and \$6,062,242 at September 30, 2009 and September 30, 2008, respectively, and accordingly the trust had unrealized gains of \$2,260,720 and \$2,456,821 at September 30, 2009 and 2008 included in accumulated other comprehensive income, respectively. Proceeds of partial liquidations was \$750,000 during the year ended September 30, 2009.