

BIKINI DISTRIBUTION AUTHORITY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2000

INDEPENDENT AUDITORS' REPORT

Mayor Elton Note
Kili/Bikini/Ejit Local Government
Republic of the Marshall Islands:

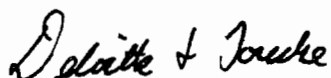
We have audited the accompanying statement of cash receipts and disbursements of the Bikini Distribution Authority (the Distribution Authority) for the year ended September 30, 2000. This financial statement is the responsibility of the Distribution Authority's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

As discussed in note 2, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Distribution Authority for the year ended September 30, 2000, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2001, on our consideration of the Distribution Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.



October 12, 2001

BIKINI DISTRIBUTION AUTHORITY

Statement of Cash Receipts and Disbursements
Year Ended September 30, 2000

Cash receipts:	
Section 177 of the Compact of Free Association (note 5)	\$ 5,000,000
Transfer from the Bikini Claims Trust Fund (note 5)	1,227,180
Other	<u>950</u>
Total cash receipts	<u>6,228,130</u>
Cash disbursements:	
Distributions to the people of Bikini (note 4)	2,740,800
Transfer to the Bikini Claims Trust Fund (note 5)	2,600,000
Debt service (note 3)	586,843
Legal fees	<u>300,000</u>
Total cash disbursements	<u>6,227,643</u>
Net increase in cash	487
Cash at beginning of year	<u>4,681</u>
Cash at end of year	<u>\$ 5,168</u>

See accompanying notes to statement of cash receipts and disbursements.

BIKINI DISTRIBUTION AUTHORITY

Notes to Statement of Cash Receipts and Disbursements September 30, 2000

(1) Organization

The Bikini Distribution Authority (the Distribution Authority) was established pursuant to Section 177 of the Compact of Free Association (the Compact) between the Government of the United States and the Government of the Republic of the Marshall Islands (RepMar). The Distribution Authority 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 (the Agreement). Article III of the Agreement establishes the Kili/Bikini/Ejit Local Government as the Distribution Authority. Accordingly, the Distribution Authority is considered a component unit of the Kili/Bikini/Ejit Local Government.

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 (NCTF) from which these distributions are made. The Distribution Authority is to receive \$75,000,000 from the NCTF, in payment of claims arising out of the Nuclear Testing Program for loss or damage to property and person of the people of Bikini, to be disbursed in quarterly amounts of \$1,250,000, commencing one calendar quarter after the effective date (October 21, 1986) of the Compact. These funds shall be distributed, placed in trust or otherwise invested as the Distribution Authority may determine consistent with the Agreement. Accordingly, the Distribution Authority established the Bikini Claims Trust Fund. Pursuant to the Bikini Claims Trust Fund agreement, the trustee, upon receipt of each quarterly payment, distributes 48% to the Distribution Authority, for distribution to the people of Bikini. These distributions are based on an approved distribution scheme. The remaining 52% is retained and added to the corpus of the Bikini Claims Trust Fund.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Distribution Authority's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements. Noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

Cash

For the purpose of the statement of cash receipts and disbursements, cash is defined as cash in demand accounts. As of September 30, 2000, the carrying amount of the Distribution Authority's total cash was \$5,168 and the corresponding bank balance was \$35,539, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2000, bank deposits were fully FDIC insured.

BIKINI DISTRIBUTION AUTHORITY

Notes to Statement of Cash Receipts and Disbursements September 30, 2000

(3) Loan Payable

On September 2, 1994, the Distribution Authority entered into a loan agreement with a bank in the amount of \$6,000,000, for the purpose of refinancing existing debt and to fund additional distributions to the people of Bikini. On April 25, 1997, the Distribution Authority refinanced the above loan facility. Annual debt service requirements amounted to \$1,800,000, comprised of quarterly installments of \$450,000, including interest at 0.5% above the bank's prime rate per annum, paid on the 25th day of January, April, July and October. The loan was payable solely from an assignment of the 48% annual distribution received by the Distribution Authority from the NCTF (see note 5). The loan was paid in full on January 25, 2000. As of September 30, 2000, this loan was paid in full.

(4) Distributions to the People of Bikini

Distributions to the people of Bikini, on a per capita basis, are based on a distribution scheme approved by the Kili/Bikini/Ejit Local Government. During the year ended September 30, 2000, the following distributions were made to the people of Bikini:

Quarterly distributions:	
October 21, 1999	\$ 74,997
January 21, 2000	75,062
February 9, 2000	309,247
April 21, 2000	529,232
July 21, 2000	525,016
35% of distribution income:	
November 11, 1999	<u>1,227,246</u>
	<u>\$ 2,740,800</u>

(5) Bikini Claims Trust Fund

In accordance with the Agreement, the Distribution Authority received \$5,000,000 from the NCTF during the year ended September 30, 2000. Pursuant to the Bikini Claims Trust Fund agreement, 52% of the amount received, totaling \$2,600,000, was transferred and added to the corpus of the Bikini Claims Trust Fund, with the remaining 48%, totaling \$2,400,000, being available for distribution to the people of Bikini (see note 3). The Bikini Claims Trust Fund, pursuant to the trust agreement, is also required to distribute annually to the people of Bikini between 15% and 35% of its net income. During the year ended September 30, 2000, \$1,227,180 was made available for distribution to the people of Bikini, being 35% of the Bikini Claims Trust Fund net income for the year ended September 30, 1999.

BIKINI DISTRIBUTION AUTHORITY

Notes to Statement of Cash Receipts and Disbursements September 30, 2000

(6) Contingency

The Distribution Authority receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Disbursements of \$300,000 were questioned in the fiscal year 2000 Single Audit of the Distribution Authority and disbursements of \$900,000 were questioned in previous years. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statement.