

TOBOLAR COPRA PROCESSING PLANT, INC.

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Tobolar Copra Processing Plant, Inc.:

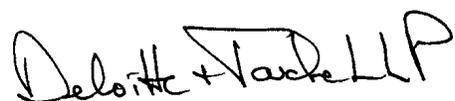
We have audited the accompanying statements of net assets of Tobolar Copra Processing Plant, Inc. (TCPPI), a component unit of the Republic of the Marshall Islands, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of TCPPI. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCPPI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 in the first paragraph, present fairly, in all material respects, the financial position of TCPPI as of September 30, 2007 and 2006, 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.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of the management of TCPPI. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of such supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2009, on our consideration of TCPPI'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



January 14, 2009

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis Year Ended September 30, 2007

This section of the Tobolar Copra Processing Plant, Inc. (TCPPI) annual financial report presents our discussion and analysis of TCPPI's financial performance during the fiscal year that ended on September 30, 2007. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TCPPI's net assets increased by \$417,948 or 39.8% from \$1,050,583 in 2006 to \$1,468,531 in 2007. The increase in net assets is due to an increase in inventory of approximately \$551,500 or 42.2% from \$1,305,901 in 2006 to \$1,857,400 in 2007. The increase in inventory was offset by a decrease in net accounts receivable of \$144,067 or 81.8% from \$176,105 in 2006 to \$32,038 in 2007. In addition, there was an increase in non-inventory and non-receivable assets of \$39,492, a decrease in capital assets of \$87,624 and a decrease in liabilities of \$58,648

Operating revenues of TCPPI increased by \$1,917,994 or 403.0% from \$475,917 in 2006 to \$2,393,911 in 2007. Within operating revenues, sales of coconut oil increased by \$1,922,004 or 656.0% from \$292,967 in 2006 to \$2,214,971 in 2007. There was a decrease in non-coconut oil revenues of \$4,010 in 2007. The increase in coconut oil sales was due to increasing market prices for coconut oil, increased production and the availability of shipping.

Expenses increased by \$1,672,270 or 111.2% from \$1,503,693 in 2006 to \$3,175,963 in 2007. Within operating expenses, the cost of copra products manufactured and sold increased by \$1,632,518 or 143.8% from \$1,135,302 in 2006 to \$2,767,820 in 2007. The increase in operating expense is due primarily to the cumulative impact of inventory adjustments in 2007 and 2006 to reflect the valuing of inventory at the lower of cost or market (net realizable value), and the resulting adjustments to cost of goods sold.

Operating subsidies from the Republic of the Marshall Islands (RepMar) increased by \$300,000 or 33.3% from \$900,000 in 2006 to \$1,200,000 in 2007.

FINANCIAL ANALYSIS OF TCPPI

The Statement of Net Assets (page 6) and the Statement of Revenues, Expenses and Changes in Net Assets (page 7) provide an indication of TCPPI's financial condition. TCPPI's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of TCPPI's Statement of Net Assets is presented below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 2,036,419	\$ 1,589,495	\$ 1,553,004
Capital assets	<u>818,663</u>	<u>906,287</u>	<u>964,343</u>
Total assets	<u>\$ 2,855,082</u>	<u>\$ 2,495,782</u>	<u>\$ 2,517,347</u>
Current liabilities	<u>\$ 1,386,551</u>	<u>\$ 1,445,199</u>	<u>\$ 1,338,988</u>
Net assets:			
Invested in capital assets	818,663	906,287	964,343
Unrestricted	<u>649,868</u>	<u>144,296</u>	<u>214,016</u>
Total net assets	<u>1,468,531</u>	<u>1,050,583</u>	<u>1,178,359</u>
	<u>\$ 2,855,082</u>	<u>\$ 2,495,782</u>	<u>\$ 2,517,347</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued Year Ended September 30, 2007

As indicated above, total assets increased by \$359,300 or 14.4% from \$2,495,782 in 2006 to \$2,855,082 in 2007. This is comprised of an increase of \$446,924 in current and other assets and a decrease of \$87,624 in capital assets. The increase in current and other assets of \$446,924 reflects an increase in inventory of \$551,499. The increase in inventory was offset by a decrease in net accounts receivable of \$144,067. Other non-inventory and non-receivable current assets increase by \$39,492 and plant property and equipment had a decrease of \$87,624. The increase in coconut inventory was primarily due to an increase in the market price of coconut oil. Coconut oil is priced at the lower of cost or market and the market price of coconut oil significantly increased from September 30, 2006 to September 30, 2007.

Total liabilities reflect a decrease of \$58,648 or 4.1% from \$1,445,199 in 2006 to \$1,386,551 in 2007. The decrease in total liabilities resulted from a decrease in payables to affiliates of \$57,214 and a net decrease in other payables of \$1,434.

A summary of TCPPI's Statement of Revenues, Expenses and Changes in Net Assets is presented below:

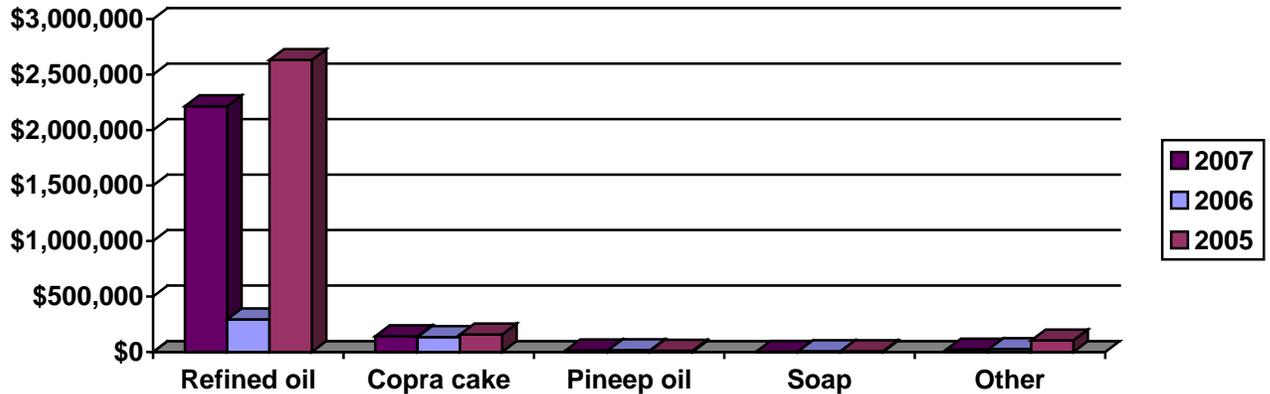
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Operating revenues	\$ 2,393,911	\$ 475,917	\$ 2,909,976
Non-operating revenues	<u>1,200,000</u>	<u>900,000</u>	<u>844,600</u>
Total revenues	3,593,911	1,375,917	3,754,576
Expenses:			
Operating expenses	3,057,605	1,456,825	4,094,570
Non-operating expenses	<u>118,358</u>	<u>46,868</u>	<u>37,809</u>
Total expenses	<u>3,175,963</u>	<u>1,503,693</u>	<u>4,132,379</u>
Change in net assets	<u>\$ 417,948</u>	<u>\$ (127,776)</u>	<u>\$ (377,803)</u>

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items that impact the change in net assets. As indicated above, TCPPI's total revenues increased by \$2,217,994 or 161.2% from \$1,375,917 in 2006 to \$3,593,911 in 2007. This increase is primarily due to an increase in the sale of coconut oil of \$1,992,004. There was a decrease in non-coconut oil sales of \$4,010 and an increase in non-operating revenues of \$300,000.

TOBOLAR COPRA PROCESSING PLANT, INC.

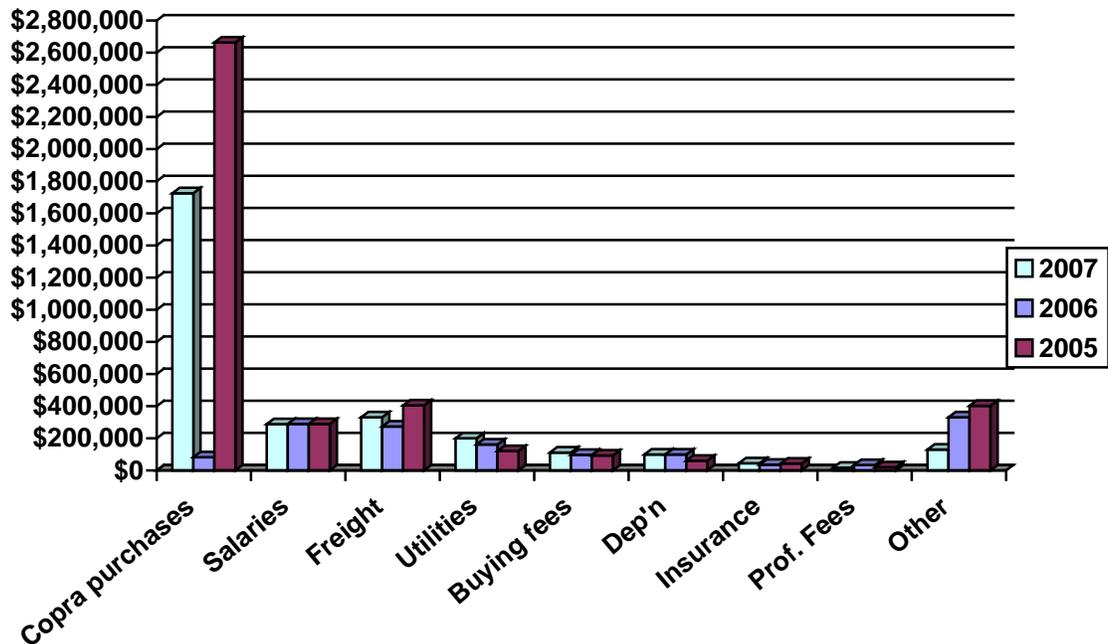
Management's Discussion and Analysis, Continued
Year Ended September 30, 2007

The graph below shows the major components of operating revenues for 2007 compared with 2006 and 2005.



Total expenses increased by \$1,672,270 or 111.2% from \$1,503,693 in 2006 to \$3,175,963 in 2007. This increase was due to an increase in copra purchases of \$1,643,280 from \$81,993 in 2006 to \$1,725,273 in 2007. The increase in copra purchases is due to increase copra purchases and the cumulative effects of inventory adjustments in 2006 and 2007 to reflect inventory at lower of cost or market (net realizable value). The adjustments to value inventory, at the net realizable, has a corresponding entry to cost of goods sold. Further, in 2007, non-copra operating expenses decreased by \$42,500 and non-operating expenses increased by \$71,490.

The graph below shows the major components of operating expenses for 2007 compared with 2006 and 2005:



TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued
Year Ended September 30, 2007

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$87,624 or 9.7% from \$906,287 in 2006 to \$818,663 in 2007 as a result of depreciation expense of \$99,204 less capital acquisitions of \$11,580. A summary of TCPPI's capital assets is presented below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Buildings and leasehold improvements	\$ 1,907,164	\$ 1,907,164	\$ 1,888,115
Equipment	1,754,111	1,743,931	1,724,934
Furniture and fixtures	<u>74,022</u>	<u>72,622</u>	<u>70,032</u>
	3,735,297	3,723,717	3,683,081
Less accumulated depreciation	<u>(2,916,634)</u>	<u>(2,817,430)</u>	<u>(2,718,738)</u>
	<u>\$ 818,663</u>	<u>\$ 906,287</u>	<u>\$ 964,343</u>

For additional information concerning capital assets, please refer to note 4 to the financial statements.

TCPPI has no long-term debt. For additional information concerning short-term debt, please refer to note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The following factors were considered in preparing the TCPPI's budget for fiscal year 2008:

- 1) The FY 2008 Republic of the Marshall Islands Government price support of \$1,200,000.
- 2) The price paid to copra producers would reflect the price support of \$1,200,000.
- 3) The net cake price will maintain a pricing premium due to TCPPI's superior quality.
- 4) The world market price will not maintain the historical levels experience in the last 3 years and copra oil would be sold as bio fuel when the price of bio fuel exceeds the net realization of selling copra oil in the world market.
- 5) There would be 4,000 tons of copra production, which is based on the last 6 years of copra production.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the TCPPI's report on the audit of financial statements, which is dated May 14, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be obtained from the TCPPI's General Manager via the contact information below.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide TCPPI's customers and other interested parties with an overview of TCPPI's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Tobolar Copra Processing Plant, Inc. General Manager at P.O. Box G, Majuro MH 96960.

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Net Assets
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 110,539	\$ 75,642
Receivables:		
Trade	88,665	91,229
Affiliates	97,622	127,172
Employees	21,072	21,141
Advances to copra buyers	13,334	13,334
	<u>220,693</u>	<u>252,876</u>
Allowance for doubtful accounts	(188,655)	(76,771)
	<u>32,038</u>	<u>176,105</u>
Inventories	1,857,400	1,305,901
Prepaid items	36,442	31,847
Total current assets	<u>2,036,419</u>	<u>1,589,495</u>
Property, plant and equipment, net	<u>818,663</u>	<u>906,287</u>
	<u>\$ 2,855,082</u>	<u>\$ 2,495,782</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Notes payable	\$ 700,000	\$ 747,220
Accounts payable	208,014	168,723
Payable to affiliates	369,350	426,564
Accrued interest	108,184	89,129
Other accrued liabilities	1,003	13,563
Total current liabilities	<u>1,386,551</u>	<u>1,445,199</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	818,663	906,287
Unrestricted	649,868	144,296
Total net assets	<u>1,468,531</u>	<u>1,050,583</u>
	<u>\$ 2,855,082</u>	<u>\$ 2,495,782</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Sales	\$ 2,393,911	\$ 475,917
Less cost of copra products manufactured and sold	<u>2,767,820</u>	<u>1,135,302</u>
Gross loss	<u>(373,909)</u>	<u>(659,385)</u>
General and administrative expenses:		
Salaries and wages	91,071	91,016
Management fee	50,000	50,000
Insurance	44,709	35,669
Professional fees	16,500	34,044
Travel and entertainment	15,742	21,794
Communications	15,495	18,934
Office supplies	11,927	13,911
Miscellaneous	<u>44,341</u>	<u>56,155</u>
Total general and administrative expenses	<u>289,785</u>	<u>321,523</u>
Operating loss	<u>(663,694)</u>	<u>(980,908)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,200,000	900,000
Interest expense	<u>(118,358)</u>	<u>(46,868)</u>
Total nonoperating revenues (expenses), net	<u>1,081,642</u>	<u>853,132</u>
Change in net assets	417,948	(127,776)
Net assets at beginning of year	<u>1,050,583</u>	<u>1,178,359</u>
Net assets at end of year	<u>\$ 1,468,531</u>	<u>\$ 1,050,583</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,426,094	\$ 1,537,614
Cash payments to suppliers for goods and services	(3,139,618)	(1,893,249)
Cash payments to employees for services	(293,476)	(286,645)
Net cash used for operating activities	<u>(1,007,000)</u>	<u>(642,280)</u>
Cash flows from noncapital financing activities:		
Copra subsidies from RepMar	1,200,000	894,600
Net repayment of notes payable	(47,220)	(152,780)
Interest paid on line of credit	(99,303)	(38,358)
Net cash provided by noncapital financing activities	<u>1,053,477</u>	<u>703,462</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,580)	(40,636)
Net cash used for capital and related financing activities	<u>(11,580)</u>	<u>(40,636)</u>
Net change in cash	34,897	20,546
Cash at beginning of year	75,642	55,096
Cash at end of year	<u>\$ 110,539</u>	<u>\$ 75,642</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (663,694)	\$ (980,908)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	99,204	98,692
Bad debts	111,884	54,058
(Increase) decrease in assets:		
Receivables:		
Trade	2,564	894,334
Affiliates	29,550	165,519
Employees	69	1,844
Inventories	(551,499)	(1,094,453)
Prepaid items	(4,595)	(31,847)
Increase (decrease) in liabilities:		
Accounts payable	39,291	56,862
Payable to affiliates	(57,214)	193,808
Other accrued liabilities	(12,560)	(189)
Net cash used for operating activities	<u>\$ (1,007,000)</u>	<u>\$ (642,280)</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(1) Organization

Tobolar Copra Processing Plant, Inc. (TCPPI) was granted a corporate charter on August 13, 1977, under the laws of the Trust Territory of the Pacific Islands, as subsequently adopted by the Republic of the Marshall Islands (RepMar). TCPPI was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. TCPPI is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). TCPPI's principal lines of business are copra oil, copra cake and soap products. The principal market for the copra oil and copra cake are companies and farmers located in Australia and the United States. Sales are based on the world market price at the time of sale for the respective products. Soap products are sold primarily to customers in the Marshall Islands. Raw copra is purchased at a price set by the Board of Directors of TCPPI (the Board).

TCPPI is governed by a five-member Board of Directors appointed by the Cabinet of RepMar.

TCPPI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of TCPPI conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. TCPPI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, TCPPI's equity is presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

Proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Estimates

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

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, TCPPI is specifically exempt from this tax as TCPPI is a government owned copra processing corporation.

Cash

Custodial credit risk is the risk that in the event of a bank failure, TCPPI'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. TCPPI does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2007 and 2006, the carrying amount of TCPPI's cash was \$110,539 and \$75,642, respectively, and the corresponding bank balance was \$106,684 and \$77,544, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits in the amount of \$100,000 and \$77,544, respectively, were FDIC insured. TCPPI 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.

Receivables

All receivables are due from companies and farmers in Australia and copra buyers and others, including employees and affiliates, within the Republic of the Marshall Islands. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

Inventories

Inventories consist of carts, raw copra, copra oil, copra cake, and soap and materials. Carts and raw copra are valued at the lower of cost (first-in, first-out method) or market value. Copra oil, copra cake, and soap and materials are valued at the lower of production cost, which includes raw copra, direct labor and factory overhead, or market (net realizable value).

Property, Plant and Equipment

TCCPI does not have a capitalization policy for property, plant and equipment; however, items with a cost that equals or exceeds \$1,000 are generally capitalized. Such assets are stated at cost. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Building and improvements	10 - 20 years
Equipment	3 - 20 years
Furniture and fixtures	3 - 5 years

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2007 and 2006, an accumulated vacation leave liability of \$4,260 and \$3,924, respectively, is included within the statement of net assets in other accrued liabilities.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses result directly from the production and sale of copra and copra related products. Non-operating revenues and expenses are generally limited to financing and capital activities, and non-capital contributions from the Republic of the Marshall Islands.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCCPI.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCCPI.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCCPI.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCCPI.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of TCCPI.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCCPI.

(3) Inventories

Inventories at September 30, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Copra oil	\$ 1,567,736	\$ 1,111,570
Raw copra	100,678	36,137
Carts	94,989	102,807
Soap and materials	53,927	45,345
Copra cake	<u>40,070</u>	<u>10,042</u>
	\$ <u>1,857,400</u>	\$ <u>1,305,901</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2007 and 2006 is as follows:

	2007			
	October 1, 2006	Additions	Retirements	September 30, 2007
Building and improvements	\$ 1,907,164	\$ -	\$ -	\$ 1,907,164
Equipment	1,743,931	10,180	-	1,754,111
Furniture and fixtures	<u>72,622</u>	<u>1,400</u>	<u>-</u>	<u>74,022</u>
	3,723,717	11,580	-	3,735,297
Less accumulated depreciation	<u>(2,817,430)</u>	<u>(99,204)</u>	<u>-</u>	<u>(2,916,634)</u>
	<u>\$ 906,287</u>	<u>\$ (87,624)</u>	<u>\$ -</u>	<u>\$ 818,663</u>
	2006			
	October 1, 2005	Additions	Retirements	September 30, 2006
Building and improvements	\$ 1,888,115	\$ 19,049	\$ -	\$ 1,907,164
Equipment	1,724,934	18,997	-	1,743,931
Furniture and fixtures	<u>70,032</u>	<u>2,590</u>	<u>-</u>	<u>72,622</u>
	3,683,081	40,636	-	3,723,717
Less accumulated depreciation	<u>(2,718,738)</u>	<u>(98,692)</u>	<u>-</u>	<u>(2,817,430)</u>
	<u>\$ 964,343</u>	<u>\$ (58,056)</u>	<u>\$ -</u>	<u>\$ 906,287</u>

(5) Notes Payable

A schedule of TCPPI's short-term borrowings as of September 30, 2007 and 2006 is as follows:

	2007	2006
Bank credit line of \$1,000,000, with various terms, due on various dates, interest at bank's reference rate plus 2.5% (10.25% and 10.75% as of September 30, 2007 and 2006, respectively), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar.	\$ 650,000	\$ 647,220
Note payable to RMI Ports Authority, advanced on January 23, 1998 and February 27, 1998, due September 30, 1998, interest at 10%, unsecured.	<u>50,000</u>	<u>100,000</u>
	<u>\$ 700,000</u>	<u>\$ 747,220</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(5) Notes Payable, Continued

Note activity during the years ended September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
2007	\$ <u>747,220</u>	\$ <u>1,589,780</u>	\$ <u>(1,637,000)</u>	\$ <u>700,000</u>
2006	\$ <u>900,000</u>	\$ <u>647,220</u>	\$ <u>(800,000)</u>	\$ <u>747,220</u>

Short-term debt issued during the years ended September 30, 2007 and 2006 was primarily for the purpose of funding the purchase of raw copra from producers.

(6) Related Party Transactions

TCPPI is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the RMI Ports Authority.

TCPPI is affiliated with Pacific International, Inc. (PII), a company with whom TCPPI has contracted to manage its operations.

PII purchases coconut fuel oil from TCPPI. During the years ended September 30, 2007 and 2006, PII was granted discounts on these sales of \$0 and \$62,802, respectively, representing a 20 percent discount from sales to unrelated parties. Total receivables from PII and its affiliates for sale of coconut fuel and other services amounted to \$30,398 and \$71,748, respectively, as of September 30, 2007 and 2006.

During the years ended September 30, 2007 and 2006, the operations of TCPPI were funded by appropriations totaling \$1,200,000 and \$900,000, respectively, from the Nitijela of RepMar. In addition, TCPPI has recorded receivables from RepMar at September 30, 2007 and 2006 of \$67,224 and \$55,424, respectively, relating to miscellaneous services provided by TCPPI.

TCPPI utilizes services from its affiliates at the same rates charged to third parties and at substantially more favorable terms than those afforded to third parties. A summary of related party transactions is as follows:

	<u>2007</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 235,179	\$ 280,765
Pacific International, Inc. and affiliates	148,665	20,229
RepMar	5,074	1,240
Marshalls Energy Company, Inc.	198,409	50,344
Marshall Islands Social Security Administration	28,128	13,045
RMI Ports Authority	28,992	-
Others	<u>17,222</u>	<u>3,727</u>
	\$ <u>661,669</u>	\$ <u>369,350</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(6) Related Party Transactions, Continued

	<u>2006</u>	
	<u>Expenses</u>	<u>Payables</u>
Pacific International, Inc. and affiliates	\$ 119,089	\$ 24,624
RepMar	206,273	365,199
Marshalls Energy Company, Inc.	155,357	24,770
Marshall Islands Social Security Administration	26,411	11,971
RMI Ports Authority	<u>4,364</u>	<u>-</u>
	\$ <u>511,494</u>	\$ <u>426,564</u>

(7) Risk Management

TCPPI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. TCPPI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(8) Significant Customers

Approximately 97% and 81% of total sales were earned from three customers during each of the years ended September 30, 2007 and 2006.

(9) Commitment and Contingencies

Commitment

A three-year management agreement was renewed effective April 1, 2003 with PII, wherein PII is to manage the operations of TCPPI for an annual fee of \$50,000, payable monthly in advance. This agreement was automatically renewed on April 1, 2006 for another three years.

Contingencies

TCPPI has suffered recurring operating losses during the years ended September 30, 2007 and 2006. For the years ended September 30, 2007 and 2006, TCPPI received copra subsidies in cash of \$1,200,000 and \$900,000, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, TCPPI does not have a formal agreement with RepMar to provide future funding. In the event that copra subsidies from RepMar are reduced or eliminated, the Board and management of TCPPI will take appropriate action to initiate a reduction in purchase price of copra. The fiscal year 2008 copra subsidy is \$1,092,185.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2007 and 2006

(9) Commitment and Contingencies, Continued

Contingencies, Continued

Public Law 1992-2 was enacted on February 17, 1992. This law established the Tobolar Copra Processing Authority (the Authority). The objectives of the Authority include assuming responsibility for the management, operation and maintenance of all aspects of copra processing for RepMar. The Authority is specifically authorized and directed by Public Law 1992-2 to enter into appropriate arrangements with TCPPI for the assumption of all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI may have or control, including all rights to the use of the name "Tobolar". This assumption will occur once TCPPI has been liquidated. Although no steps have been taken at this date to liquidate TCPPI, it is anticipated that such action will be taken.

The real property on which the copra processing plant and related facilities are located is leased by MIDA from RepMar. No provision has yet been made for the sublease to TCPPI of the real property on which the processing plant is located. No rental payments for the use of the real property or warehouses are anticipated.

TCPPI is currently in default of repayment terms of a note payable to the RMI Ports Authority (RMIPA). In accordance with the associated promissory note, in the event of default, the total sum of principal and interest shall become immediately due and payable at the option of RMIPA, without notice. In the event of commencement of suit to enforce payment of this note payable, TCPPI will be liable for an additional sum equal to 5% of the total amount due. As of September 30, 2007, TCPPI has not received written notice of commencement of suit from RMIPA with respect to TCPPI's default.

(10) Subsequent Event

On November 9, 2007, TCPPI sold 2,392.139 metric tons of crude coconut oil for \$1,819,921.