

TOBOLAR COPRA PROCESSING PLANT, INC.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Tobolar Copra Processing Plant, Inc.:

We have audited the financial statements of Tobolar Copra Processing Plant, Inc. (TCPPI) as of and for the year ended September 30, 2003, and have issued our report thereon dated April 1, 2004. 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.

Compliance

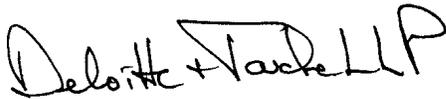
As part of obtaining reasonable assurance about whether TCPPI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings (pages 3 through 6) as items 2003-2 and 2003-4. We also noted certain immaterial instances of noncompliance, which we have reported to management of TCPPI in a separate letter dated April 1, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered TCPPI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect TCPPI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2003-1 and 2003-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-3 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of TCPPI in a separate letter dated April 1, 2004.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

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

April 1, 2004

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings
Year Ended September 30, 2003

Receivables

Finding No. 2003-1

Criteria: The accounts receivable subsidiary ledger should be closely monitored and used as a tool for credit control.

Condition: At September 30, 2003, TCPPI recorded non-affiliate receivables of \$67,301, which included amounts that have been outstanding for over six years. These amounts include a receivable from a director of TCPPI totaling \$6,890. An allowance for doubtful accounts has been established for these long outstanding receivables in the amount of \$48,694.

Cause: The cause of the above condition is the lack of follow-up from the Office of the Attorney General.

Effect: The effect of the above condition is further aging of the receivables and increased difficulty of collection.

Recommendation: We recommend that the Board and management of TCPPI follow-up with the Office of the Attorney General with respect to receivable accounts previously forwarded for collection. In the event that collection of these long outstanding balances is not considered probable, the Board should consider a write-off of these amounts.

Prior Year Status: Lack of follow-up of receivables with the Office of the Attorney General was reported as a finding in the audits of TCPPI for fiscal years 1998 through 2002.

Auditee Response and Corrective Action Plan: The Chief Financial Officer will contact the Office of the Attorney General with respect to accounts receivable previously forwarded for collection to determine the status of and/or potential for recovery.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2003

Local Noncompliance

Finding No. 2003-2

Criteria: Public Law 1992-2, enacted on February 17, 1992, established the Tobolar Copra Processing Authority (the Authority). Pursuant to this law, the Authority was specifically authorized and directed 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 was to occur once TCPPI had been liquidated.

Condition: TCPPI has not been liquidated and all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI has or controls have not been assumed by the Authority.

Cause: The cause of the above condition is that the requirements of Public Law 1992-2 have yet to be met.

Effect: The effect of the above condition is that TCPPI is in noncompliance with the requirements of Public Law 1992-2.

Recommendation: We recommend that management of TCPPI take steps to comply with the requirements of Public Law 1992-2. Such steps should include the consultation of legal counsel.

Prior Year Status: Noncompliance with the requirements of Public Law 1992-2 was reported as a finding in the audits of TCPPI for fiscal years 1994 through 2002.

Auditee Response and Corrective Action Plan: The Chief Financial Officer will discuss this with the Board and develop an appropriate action plan to comply with Public Law 1992-2. The action plan will include consultation with legal counsel.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2003

Revenue

Finding No. 2003-3

Criteria: A valid sales invoice should support sales.

Condition: During tests of crude oil and copra cake revenues, we noted two crude oil sales, totaling \$576,142 and \$714,838, respectively, and one copra cake sale for \$18,993 for which there was no supporting sales invoice. These recorded revenues were based on customer payments.

Cause: The cause of the above condition is that sales invoices for the specified sales were not on hand.

Effect: The effect of the above condition is that revenue is unsupported.

Recommendation: We recommend that management ensure sales are supported by sales invoices.

Auditee Response and Corrective Action Plan: Management has informed the appropriate individuals that a sales invoice is required on all transactions and will perform a periodic review to ensure compliance.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2003

Board Minutes

Finding No. 2003-4

Criteria: The Articles of Incorporation of TCPPI state that minutes and or resolutions approved in writing by all of the shareholders and/or by all of the directors or by an executive or operating committee as properly appointed by a majority of the directors shall be valid and effectual as if they had been passed or adopted at a meeting of the shareholders and/or of the directors duly called and constituted.

Condition: During the year ended September 30, 2003, the Board of Directors of TCPPI had several meetings for which there was no documentation.

Cause: The cause of the above condition is that minutes of the meetings were not prepared in a timely manner.

Effect: The effect of the above condition is non-compliance with the Articles of Incorporation.

Recommendation: We recommend that Board meetings be documented in writing and approved by the Executive Director to ensure validity and to comply with the Articles of Incorporation.

Auditee Response and Corrective Action Plan: The Board has been advised that meetings must be documented. Further, the Chairman directs an individual at each Board meeting to prepare and maintain the appropriate minutes of the meeting.

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2003

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (pages 3 to 6).