

TOBOLAR COPRA PROCESSING PLANT, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Tobolar Copra Processing Plant, Inc.:

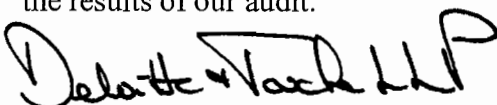
We have audited the accompanying statements of net assets of Tobolar Copra Processing Plant, Inc. (TCPPI), a component unit of the Republic of the Marshall Islands, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years 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, such financial statements present fairly, in all material respects, the financial position of TCPPI as of September 30, 2004 and 2003, 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 management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, on our consideration of TCPPI's internal control over financial reporting and 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.



August 15, 2005

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis Year Ended September 30, 2004

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, 2004. Please read it in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

TCPPI's net assets increased by \$526,385 or 51.1% from \$1,029,777 in 2003 to \$1,556,162 in 2004. The increase in the net assets was due to an increase in inventory of \$1,209,127 or 303.6% from \$398,307 in 2003 to \$1,607,434 in 2004. The increase in inventory was offset by a decrease in non-inventory assets and an increase in liabilities.

Operating revenues of TCPPI decreased by \$475,117 or 31.4% from \$1,511,893 in 2003 to \$1,036,776 in 2004. Within operating revenues, sales of refined oil and copra cake decreased by \$479,608 or 32.1% from \$1,491,783 in 2003 to \$1,012,175 in 2004 as a result of a decrease in the number of export shipments.

Cost of sales and operating expenses decreased by \$996,305 or 42.8% from \$2,329,445 in 2003 to \$1,333,140 in 2004. Within operating expenses, the cost of copra products manufactured and sold decreased by \$926,327 or 44.9% from \$2,063,166 in 2003 to \$1,136,839 in 2004, which is primarily due to a cost of goods sold adjustment to reflect both a substantially higher net realizable value and substantially higher quantity of inventory at September 30, 2004 versus September 30, 2003. The increase in net realizable value affects the cost of goods, because the inventory is priced at the lower of cost or market (net realizable value) and historically the cost has exceeded market.

Operating subsidies from the Republic of the Marshall Islands (RepMar) decreased by \$195,750 or 17.9% from \$1,095,750 in 2003 to \$900,000 in 2004.

#### 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>2004</u>         | <u>2003</u>         |
|----------------------------|---------------------|---------------------|
| Current and other assets   | \$ 2,045,891        | \$ 1,186,145        |
| Capital assets             | 1,007,717           | 1,068,153           |
| Total assets               | <u>3,053,608</u>    | <u>2,254,298</u>    |
| Current liabilities        | <u>1,497,446</u>    | <u>1,224,521</u>    |
| Total liabilities          | <u>1,497,446</u>    | <u>1,224,521</u>    |
| Net assets:                |                     |                     |
| Invested in capital assets | 1,007,717           | 1,068,153           |
| Unrestricted               | 548,445             | (38,376)            |
| Total net assets           | <u>\$ 1,556,162</u> | <u>\$ 1,029,777</u> |

## TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2004

As indicated above, total assets increased by \$799,310 or 35.0% from \$2,254,298 in 2003 to \$3,053,608 in 2004. This is comprised of an increase of \$859,746 in current and other assets and a decrease of \$60,436 in capital assets. The increase in current and other assets reflects an increase in inventory of \$1,209,127, due to an increase in the quantity of refined oil on hand at year-end and an increase in the net realizable value. The increase in the inventory was partially offset by a decrease in the non-inventory related current and other assets of \$349,381. The increase in the quantity of oil inventory was the result of a limited market for smaller producers during 2004. The oil was sold in February 2005 for net proceeds of \$1,596,435.

Total liabilities reflect an increase of \$272,925 or 22.3% from \$1,224,521 in 2003 to \$1,497,446 in 2004. The increase in total liabilities resulted from a delay in the sale of oil due to a limited market for smaller producers in 2004, which caused an increase in payables.

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

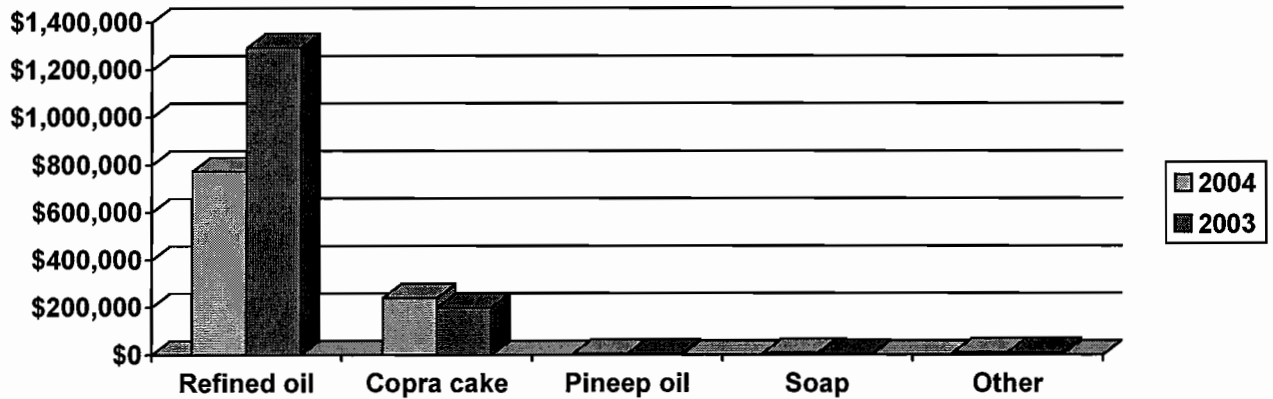
|                       | <u>2004</u>       | <u>2003</u>       |
|-----------------------|-------------------|-------------------|
| Revenues:             |                   |                   |
| Operating revenues    | \$ 1,036,776      | \$ 1,511,893      |
| Nonoperating revenues | <u>900,000</u>    | <u>1,095,750</u>  |
| Total revenues        | <u>1,936,776</u>  | <u>2,607,643</u>  |
| Expenses:             |                   |                   |
| Operating expenses    | 1,333,140         | 2,329,445         |
| Nonoperating expenses | <u>77,251</u>     | <u>70,343</u>     |
| Total expenses        | <u>1,410,391</u>  | <u>2,399,788</u>  |
| Change in net assets  | <u>\$ 526,385</u> | <u>\$ 207,855</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 decreased by \$670,867 or 25.7% from \$2,607,643 in 2003 to \$1,936,776 in 2004. This decrease reflects primarily a decrease in the sale of oil of \$520,328 and a decrease in the nonoperating revenues of \$195,750, which is offset by an increase in copra cake sales of \$40,721. The oil sales decreased in 2004 due a limited market for small producers. The oil was sold in February 2005 for net proceeds of \$1,596,435.

The graph below shows the major components of operating revenues for 2004 compared with 2003:

**TOBOLAR COPRA PROCESSING PLANT, INC.**

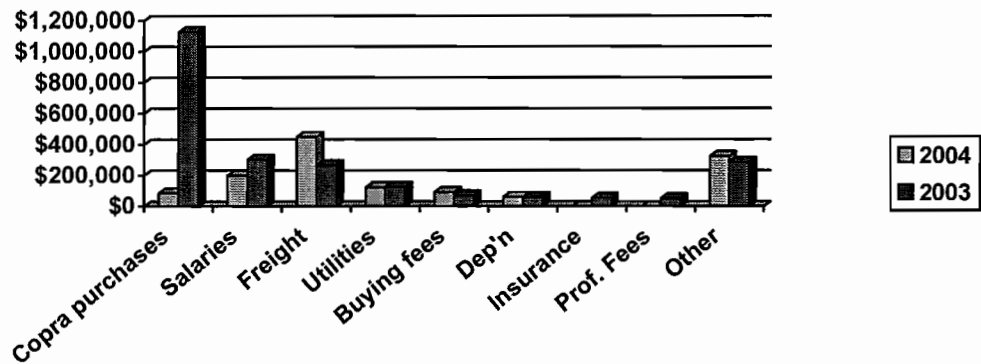
Management's Discussion and Analysis, Continued  
Year Ended September 30, 2004



Total expenses decreased by \$989,397 or 41.2% from \$2,399,788 in 2003 to \$1,410,391 in 2004. This decrease was primarily due to an inventory adjustment and related cost of goods sold adjustment to reflect the increase in inventory quantity at September 30, 2004, and the increase in the net realizable price. Oil inventory is priced at the lower of cost or net realizable price.

The net realizable price increased by \$0.1123 or 84.3% from \$0.1332 per pound in 2003 to \$0.2455 per pound in 2004. Further the inventory volume increased by 3,309,376 pounds or a 157.5% increase from 2,101,658 pounds in 2003 to 5,411,034 pounds in 2004. The result of the increase in net realizable value applied to a larger quantity of inventory, at September 30, 2004, resulted in an inventory adjustment of \$1,023,405, which increased inventory and reduced the cost of goods sold by a corresponding amount for the 12 months ended September 30, 2004.

The graph below shows the major components of operating expenses for 2004 compared with 2003:



## TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2004

### CAPITAL ASSETS

Net capital assets decreased by \$60,436 or 5.7% from \$1,068,153 in 2003 to \$1,007,717 in 2004 as a result of depreciation expense and no capital acquisitions. A summary of TCPPI's capital assets is presented below:

|                                      | <u>2004</u>         | <u>2003</u>         |
|--------------------------------------|---------------------|---------------------|
| Buildings and leasehold improvements | \$ 1,888,115        | \$ 1,888,115        |
| Equipment                            | 1,369,438           | 1,369,438           |
| Furniture and fixtures               | <u>70,032</u>       | <u>70,032</u>       |
|                                      | 3,327,585           | 3,327,585           |
| Less accumulated depreciation        | <u>(2,658,509)</u>  | <u>(2,598,073)</u>  |
|                                      | 669,076             | 729,512             |
| Construction work-in-progress        | <u>338,641</u>      | <u>338,641</u>      |
|                                      | <u>\$ 1,007,717</u> | <u>\$ 1,068,153</u> |

### ECONOMIC FACTORS AND NEXT YEAR'S RATES

The following factors were considered in preparing the TCPPI's budget for fiscal year 2005:

- 1) The price paid to copra producers would stay the same.
- 2) The new Republic of the Marshall Islands Government price support would remain at the FY 2004 level.
- 3) The balance of the ROC funding and outstanding RMI price support will be paid in FY 2005
- 4) The net cake price will maintain a pricing premium due to TCPPI's superior quality.
- 5) The world market oil price would be equal to the six-month period ending September 30, 2004, which reflects the highest oil price in 3 years.
- 6) There would be 4,000 tons of copra production, which is based on the last 6 years of copra production.

### 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, 2004 and 2003

| <u>ASSETS</u>                         | <u>2004</u>         | <u>2003</u>         |
|---------------------------------------|---------------------|---------------------|
| Current assets:                       |                     |                     |
| Cash                                  | \$ 80,578           | \$ 238,665          |
| Receivables:                          |                     |                     |
| Trade                                 | 226,322             | 32,463              |
| Affiliate                             | 142,750             | 433,661             |
| Employees                             | 24,167              | 21,504              |
| Advances to copra buyers              | 13,334              | 13,334              |
|                                       | <u>406,573</u>      | <u>500,962</u>      |
| Allowance for doubtful accounts       | (48,694)            | (48,694)            |
|                                       | <u>357,879</u>      | <u>452,268</u>      |
| Inventories                           | 1,607,434           | 398,307             |
| Advances to suppliers                 | -                   | 96,905              |
| Total current assets                  | <u>2,045,891</u>    | <u>1,186,145</u>    |
| Property, plant and equipment, net    | <u>1,007,717</u>    | <u>1,068,153</u>    |
|                                       | <u>\$ 3,053,608</u> | <u>\$ 2,254,298</u> |
| <br><u>LIABILITIES AND NET ASSETS</u> |                     |                     |
| Current liabilities:                  |                     |                     |
| Notes payable                         | \$ 750,000          | \$ 800,000          |
| Accounts payable                      | 200,957             | 36,296              |
| Payable to affiliates                 | 450,997             | 323,745             |
| Accrued interest                      | 85,258              | 64,480              |
| Other payables                        | 10,234              | -                   |
| Total current liabilities             | <u>1,497,446</u>    | <u>1,224,521</u>    |
| Commitment and contingencies          |                     |                     |
| Net assets:                           |                     |                     |
| Investment in capital assets          | 1,007,717           | 1,068,153           |
| Unrestricted                          | 548,445             | (38,376)            |
| Total net assets                      | <u>1,556,162</u>    | <u>1,029,777</u>    |
|                                       | <u>\$ 3,053,608</u> | <u>\$ 2,254,298</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, 2004 and 2003

|   | <u>2004</u>         | <u>2003</u>         |
|---|---------------------|---------------------|
| Sales   | \$ 1,036,776        | \$ 1,511,893        |
| Less cost of copra products manufactured and sold | <u>1,136,839</u>    | <u>2,063,166</u>    |
| Gross loss  | <u>(100,063)</u>    | <u>(551,273)</u>    |
| General and administrative expenses:              |                     |                     |
| Salaries and wages                                | 91,200              | 81,580              |
| Management fee                                    | 50,000              | 50,000              |
| Communications                                    | 12,184              | 11,856              |
| Office supplies                                   | 7,634               | 4,164               |
| Professional fees                                 | 6,321               | 25,520              |
| Travel and entertainment                          | 5,084               | 13,372              |
| Insurance   | 2,230               | 52,626              |
| Bad debts   | -                   | 17,721              |
| Miscellaneous                                     | <u>21,648</u>       | <u>9,440</u>        |
| Total general and administrative expenses         | <u>196,301</u>      | <u>266,279</u>      |
| Operating loss                                    | <u>(296,364)</u>    | <u>(817,552)</u>    |
| Nonoperating revenues (expenses):                 |                     |                     |
| Operating subsidies from RepMar                   | 900,000             | 1,095,750           |
| Interest expense                                  | <u>(77,251)</u>     | <u>(70,343)</u>     |
| Total nonoperating revenues (expenses), net       | <u>822,749</u>      | <u>1,025,407</u>    |
| Change in net assets                              | 526,385             | 207,855             |
| Net assets at beginning of year                   | <u>1,029,777</u>    | <u>821,922</u>      |
| Net assets at end of year                         | <u>\$ 1,556,162</u> | <u>\$ 1,029,777</u> |

See accompanying notes to financial statements.



**TOBOLAR COPRA PROCESSING PLANT, INC.**

Statements of Cash Flows  
Years Ended September 30, 2004 and 2003

|  | <u>2004</u>           | <u>2003</u>         |
|--|-----------------------|---------------------|
| Cash flows from operating activities:  |                       |                     |
| Cash received from customers   | \$ 812,504            | \$ 1,533,511        |
| Cash payments to suppliers for goods and services  | (1,820,243)           | (1,773,631)         |
| Cash payments to employees for services  | (262,536)             | (280,295)           |
| Net cash used for operating activities   | <u>(1,270,275)</u>    | <u>(520,415)</u>    |
| Cash flows from noncapital financing activities:   |                       |                     |
| Operating subsidies from RepMar  | 1,218,661             | 1,095,750           |
| Net repayments under line of credit  | (50,000)              | (222,478)           |
| Net decrease in bank overdraft   | -                     | (10,344)            |
| Interest paid on line of credit  | (56,473)              | (67,007)            |
| Net cash provided by noncapital financing activities                                     | <u>1,112,188</u>      | <u>795,921</u>      |
| Cash flows from capital and related financing activities:                                |                       |                     |
| Acquisition of capital assets  | -                     | (39,035)            |
| Net cash used for capital and related financing activities                               | <u>-</u>              | <u>(39,035)</u>     |
| Net (decrease) increase in cash  | (158,087)             | 236,471             |
| Cash at beginning of year  | 238,665               | 2,194               |
| Cash at end of year  | <u>\$ 80,578</u>      | <u>\$ 238,665</u>   |
| Reconciliation of operating loss to net cash used for operating activities:              |                       |                     |
| Operating loss   | \$ (296,364)          | \$ (817,552)        |
| Adjustments to reconcile loss from operations to net cash used for operating activities: |                       |                     |
| Depreciation   | 60,436                | 56,820              |
| Bad debts  | -                     | 17,721              |
| (Increase) decrease in assets:   |                       |                     |
| Receivables:   |                       |                     |
| Affiliate  | (27,750)              | (23,432)            |
| Trade  | (193,859)             | 49,671              |
| Employees  | (2,663)               | (4,621)             |
| Inventories  | (1,209,127)           | 500,242             |
| Advances to suppliers  | 96,905                | (96,905)            |
| Increase (decrease) in liabilities:  |                       |                     |
| Accounts payable   | 164,661               | (19,858)            |
| Payable to affiliates  | 127,252               | (131,435)           |
| Other payables   | 10,234                | (51,066)            |
| Net cash used for operating activities   | <u>\$ (1,270,275)</u> | <u>\$ (520,415)</u> |

See accompanying notes to financial statements.

## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2004 and 2003

### (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 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's financial statements are incorporated into the general purpose 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 assets categories:

- Investment 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, 2004 and 2003

### (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

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, 2004 and 2003, cash was \$80,578 and \$238,665, respectively, and the corresponding bank balance was \$84,247 and \$267,214, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits in the amount of \$84,247 and \$100,000, respectively, were FDIC insured. TCPPI does not require collateralization of its cash deposits; therefore, deposits in excess of FDIC insurance coverage are uncollateralized.

#### Receivables

All receivables are due from companies and farmers in the United States and copra buyers and others, including employees and an affiliate, 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, 2004 and 2003

### (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

TCPPI 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                 | 5 - 20 years  |
| Vehicles                  | 3 years       |
| Furniture and fixtures    | 3 - 5 years   |

#### 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.

#### New Accounting Standard

For fiscal year 2005, TCPPI will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. TCPPI has not evaluated the financial statement impact of GASB Statement No. 42.

### (3) Inventories

Inventories at September 30, 2004 and 2003, consist of the following:

|                    | <u>2004</u>         | <u>2003</u>       |
|--------------------|---------------------|-------------------|
| Copra oil          | \$ 1,328,409        | \$ 279,941        |
| Carts              | 195,448             | -                 |
| Raw copra          | 42,417              | 68,758            |
| Soap and materials | 38,641              | 40,001            |
| Copra cake         | 2,519               | 9,607             |
|                    | <u>\$ 1,607,434</u> | <u>\$ 398,307</u> |

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Notes to Financial Statements  
September 30, 2004 and 2003

**(4) Property, Plant and Equipment**

Capital asset activity for the years ended September 30, 2004 and 2003, was as follows:

|                               | 2004                |                    |             | September 30,<br>2004 |
|-------------------------------|---------------------|--------------------|-------------|-----------------------|
|                               | October 1,<br>2003  | Additions          | Retirements |                       |
| Building and improvements     | \$ 1,888,115        | \$ -               | \$ -        | \$ 1,888,115          |
| Equipment                     | 1,369,438           | -                  | -           | 1,369,438             |
| Furniture and fixtures        | <u>70,032</u>       | <u>-</u>           | <u>-</u>    | <u>70,032</u>         |
|                               | 3,327,585           | -                  | -           | 3,327,585             |
| Less accumulated depreciation | <u>(2,598,073)</u>  | <u>(60,436)</u>    | <u>-</u>    | <u>(2,658,509)</u>    |
|                               | 729,512             | (60,436)           | -           | 669,076               |
| Construction work-in-progress | <u>338,641</u>      | <u>-</u>           | <u>-</u>    | <u>338,641</u>        |
|                               | <u>\$ 1,068,153</u> | <u>\$ (60,436)</u> | <u>\$ -</u> | <u>\$ 1,007,717</u>   |
|                               | 2003                |                    |             |                       |
|                               | October 1,<br>2002  | Additions          | Retirements | September 30,<br>2003 |
| Building and improvements     | \$ 1,888,115        | \$ -               | \$ -        | \$ 1,888,115          |
| Equipment                     | 1,330,689           | 38,749             | -           | 1,369,438             |
| Furniture and fixtures        | <u>69,746</u>       | <u>286</u>         | <u>-</u>    | <u>70,032</u>         |
|                               | 3,288,550           | 39,035             | -           | 3,327,585             |
| Less accumulated depreciation | <u>(2,541,253)</u>  | <u>(56,820)</u>    | <u>-</u>    | <u>(2,598,073)</u>    |
|                               | 747,297             | (17,785)           | -           | 729,512               |
| Construction work-in-progress | <u>338,641</u>      | <u>-</u>           | <u>-</u>    | <u>338,641</u>        |
|                               | <u>\$ 1,085,938</u> | <u>\$ (17,785)</u> | <u>\$ -</u> | <u>\$ 1,068,153</u>   |

**(5) Notes Payable**

A schedule of TCPPI's short-term borrowings as of September 30, 2004 and 2003, is as follows:

|  | 2004              | 2003              |
|--|-------------------|-------------------|
| Bank credit line of \$1,000,000, with various terms, due on various dates, interest at bank's reference rate plus 2.5% (7.50% and 7.25% as of September 30, 2004 and 2003, respectively), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. | \$ 650,000        | \$ 700,000        |
| Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on January 23, 1998, due September 30, 1998, interest at 10%, unsecured.  | 50,000            | 50,000            |
| Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on February 27, 1998, due September 30, 1998, interest at 10%, unsecured.   | <u>50,000</u>     | <u>50,000</u>     |
|  | <u>\$ 750,000</u> | <u>\$ 800,000</u> |

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Notes to Financial Statements  
September 30, 2004 and 2003

(5) Notes Payable, Continued

TCPPI uses a line of credit facility to finance the purchase of raw copra product from growers. Short-term activity for the years ended September 30, 2004 and 2003 was as follows:

|                   | <u>Beginning<br/>Balance</u> | <u>Draws</u>      | <u>Repayments</u>   | <u>Ending<br/>Balance</u> |
|-------------------|------------------------------|-------------------|---------------------|---------------------------|
| Bank credit line: |                              |                   |                     |                           |
| 2004              | \$ <u>700,000</u>            | \$ <u>650,000</u> | \$ <u>(700,000)</u> | \$ <u>650,000</u>         |
| 2003              | \$ <u>922,478</u>            | \$ <u>-</u>       | \$ <u>(222,478)</u> | \$ <u>700,000</u>         |

(6) Related Party Transactions

TCPPI is wholly-owned by RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the RMI Ports Authority (RMIPA). As of September 30, 2004 and 2003, TCPPI has notes payable to RMIPA aggregating \$100,000.

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

PII is also TCPPI's agent for copra cake sales to customers in the United States, where only United States registered corporations, which includes PII, are allowed to sell copra cake. PII remits payments to TCPPI for such copra cake sales once PII receives payments from the customers in the United States. Therefore, these copra cake sales are not considered to be sales to PII. Total copra cake sales to customers in the United States for the years ended September 30, 2004 and 2003 amounted to \$233,497 and \$155,455, respectively.

During the years ended September 30, 2004 and 2003, the operations of TCPPI were funded by appropriations, totaling \$900,000 and \$1,095,750, respectively, from the Nitijela of RepMar. As of September 30, 2004 and 2003, \$100,000 and \$418,661, respectively, of these appropriations are receivable from RepMar and are recorded as receivable from affiliate.

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:

|   | 2004              |                   |
|---|-------------------|-------------------|
|   | <u>Expenses</u>   | <u>Payables</u>   |
| Pacific International, Inc. and affiliates      | \$ 531,233        | \$ 245,024        |
| RepMar  | 68,630            | 120,231           |
| Marshalls Energy Company, Inc.                  | 122,536           | 30,534            |
| Marshall Islands Social Security Administration | 37,756            | 12,043            |
| RMI Ports Authority                             | 4,286             | -                 |
| Other   | <u>-</u>          | <u>43,165</u>     |
|   | \$ <u>764,441</u> | \$ <u>450,997</u> |

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Notes to Financial Statements  
September 30, 2004 and 2003

(6) Related Party Transactions, Continued

|   | 2003              |                   |
|---|-------------------|-------------------|
|   | <u>Expenses</u>   | <u>Payables</u>   |
| Pacific International, Inc. and affiliates      | \$ 481,311        | \$ 210,210        |
| Bank of Marshall Islands                        | 104,116           | -                 |
| RepMar  | 50,465            | 84,350            |
| Marshalls Energy Company, Inc.                  | 124,351           | 18,656            |
| Marshall Islands Social Security Administration | 49,267            | 10,529            |
| Marshall Islands Ports Authority                | <u>10,975</u>     | <u>-</u>          |
|   | <u>\$ 820,485</u> | <u>\$ 323,745</u> |

During the years ended September 30, 2004 and 2003, all sales were derived from entities and individuals not considered to be affiliates of TCPPI.

(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; however, during the period from October 1, 2003 to July 30, 2004, TCPPI was self-insured for these risks. No material risks of loss occurred during the period that TCPPI was self-insured, and settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(8) Significant Customers

Approximately 96% of total sales were earned from two customers during the years ended September 30, 2004 and 2003.

(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.

Contingencies

TCPPI has suffered recurring operating losses at September 30, 2004. For the years ended September 30, 2004 and 2003, TCPPI received operating subsidies of \$900,000 and \$1,095,750, 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 funds in the future. In the event that operating subsidies from RepMar are reduced or eliminated, management of TCPPI will reduce the price at which raw copra is purchased.

## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2004 and 2003

### (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 two \$50,000 notes payable to the RMI Ports Authority (RMIPA). In accordance with the associated promissory notes, 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 these notes payable, TCPPI will be liable for an additional sum equal to 5% of the total amount due. As of September 30, 2004, TCPPI has not received written notice of commencement of suit from RMIPA with respect to TCPPI's default.

### (10) Subsequent Event

On February 7, 2005, TCPPI sold 3,006.159 metric tons of copra oil for \$1,596,435.