

TOBOLAR COPRA PROCESSING PLANT, INC.

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Tobolar Copra Processing Plant, Inc.:

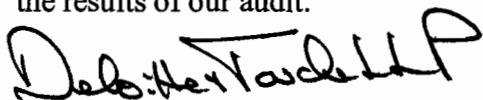
We have audited the accompanying statements of net assets of Tobolar Copra Processing Plant, Inc. (TCPPI), a component unit of the Republic of the Marshall Islands, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and of cash flows for the 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, such financial statements present fairly, in all material respects, the financial position of TCPPI as of September 30, 2005 and 2004, 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 the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2006, 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 2, 2006

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis Year Ended September 30, 2005

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, 2005. Please read it in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

TCPPI's net assets decreased by \$377,803 or 24.3% from \$1,556,162 in 2004 to \$1,178,359 in 2005. The decrease in the net assets was due to a decrease in inventory of \$1,395,986 or 86.8% from \$1,607,434 in 2004 to \$211,448 in 2005. The decrease in inventory was offset by an increase in non-inventory assets of \$859,725 and a decrease in liabilities of \$158,458.

Operating revenues of TCPPI increased by \$1,873,200 or 180.7% from \$1,036,776 in 2004 to \$2,909,976 in 2005. Within operating revenues, sales of refined oil increased by \$1,858,658 or 240.6% from \$772,567 in 2004 to \$2,631,225 in 2005 primarily as the result of the copra oil sales of 3,006.159 metric tons in February 07, 2005 and 2,006.266 metric tons on September 25, 2005.

Expenses increased by \$2,761,430 or 207.1% from \$1,333,140 in 2004 to \$4,094,570 in 2005. Within operating expenses, the cost of copra products manufactured and sold increased by \$2,680,884 or 235.8% from \$1,136,839 in 2004 to \$3,817,723 in 2005. The increase in operating expense is due primarily to the cumulative impact of inventory adjustments in 2005 and 2004 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. Further, in 2005, there is a higher volume of copra oil sold, which led to higher cost of sales.

Operating subsidies from the Republic of the Marshall Islands (RepMar) decreased by \$55,400 or 6.2% from \$900,000 in 2004 to \$844,600 in 2005.

#### 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>2005</u>	<u>2004</u>
Current and other assets	\$ 1,553,004	\$ 2,045,891
Capital assets	<u>964,343</u>	<u>1,007,717</u>
Total assets	<u>\$ 2,517,347</u>	<u>\$ 3,053,608</u>
Current liabilities	<u>\$ 1,338,988</u>	<u>\$ 1,497,446</u>
Net assets:		
Invested in capital assets	964,343	1,007,717
Unrestricted	<u>214,016</u>	<u>548,445</u>
Total net assets	<u>1,178,359</u>	<u>1,556,162</u>
	<u>\$ 2,517,347</u>	<u>\$ 3,053,608</u>

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis, Continued Year Ended September 30, 2005

As indicated above, total assets decreased by \$536,261 or 17.6% from \$3,053,608 in 2004 to \$2,517,347 in 2005. This is comprised of a decrease of \$492,887 in current and other assets and a decrease of \$43,374 in capital assets. The decrease in current and other assets reflects a decrease in inventory of \$1,395,986. Inventory decreased due to the February 07, 2005 sale of 3,006.159 metric tons of copra oil, September 25, 2005 sale of 2,006.266 metric tons of copra oil and the sale of copra oil as bio fuel. The decrease in the inventory was partially offset by an increase in non-inventory current assets and plant property and equipment of \$859,752.

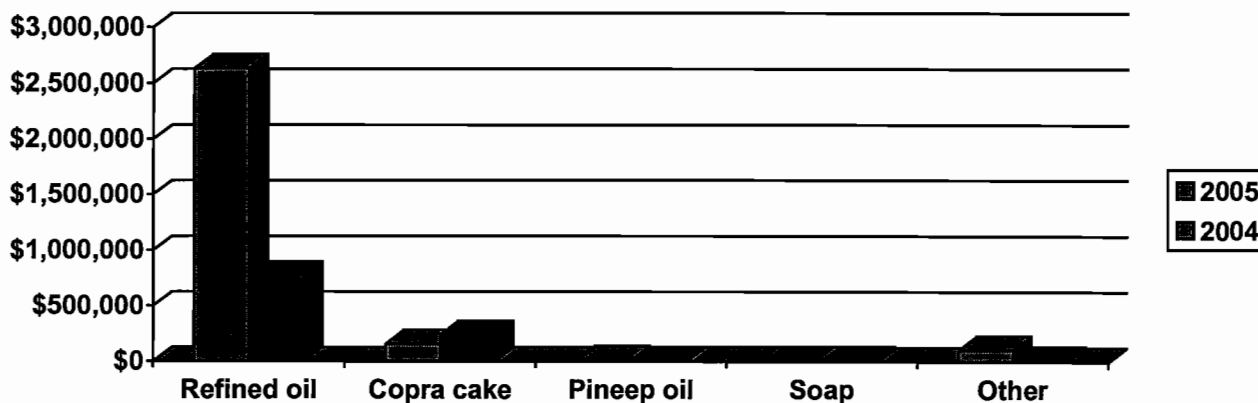
Total liabilities reflect a decrease of \$158,458 or 10.6% from \$1,497,446 in 2004 to \$1,338,988 in 2005. The decrease in total liabilities resulted from an increase in payables to affiliates of \$218,241, which was offset by an increase in other payables and accrued expenses of \$59,783

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

	<u>2005</u>	<u>2004</u>
Revenues:		
Operating revenues	\$ 2,909,976	\$ 1,036,776
Non-operating revenues	<u>844,600</u>	<u>900,000</u>
Total revenues	3,754,576	1,936,776
Expenses:		
Operating expenses	4,094,570	1,333,140
Non-operating expenses	<u>37,809</u>	<u>77,251</u>
Total expenses	<u>4,132,379</u>	<u>1,410,391</u>
Change in net assets	<u>\$ (377,803)</u>	<u>\$ 526,385</u>

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that impact the change in net assets. As indicated above, TCPPI's total revenues increased by \$1,817,800 or 93.9% from \$1,936,776 in 2004 to \$3,754,576 in 2005. This increase reflects primarily an increase in the sale of copra oil of \$1,858,658. There was an increase in non-oil sales of \$14,542 and a decrease in non-operating revenues of \$55,400.

The graph below shows the major components of operating revenues for 2005 compared with 2004:

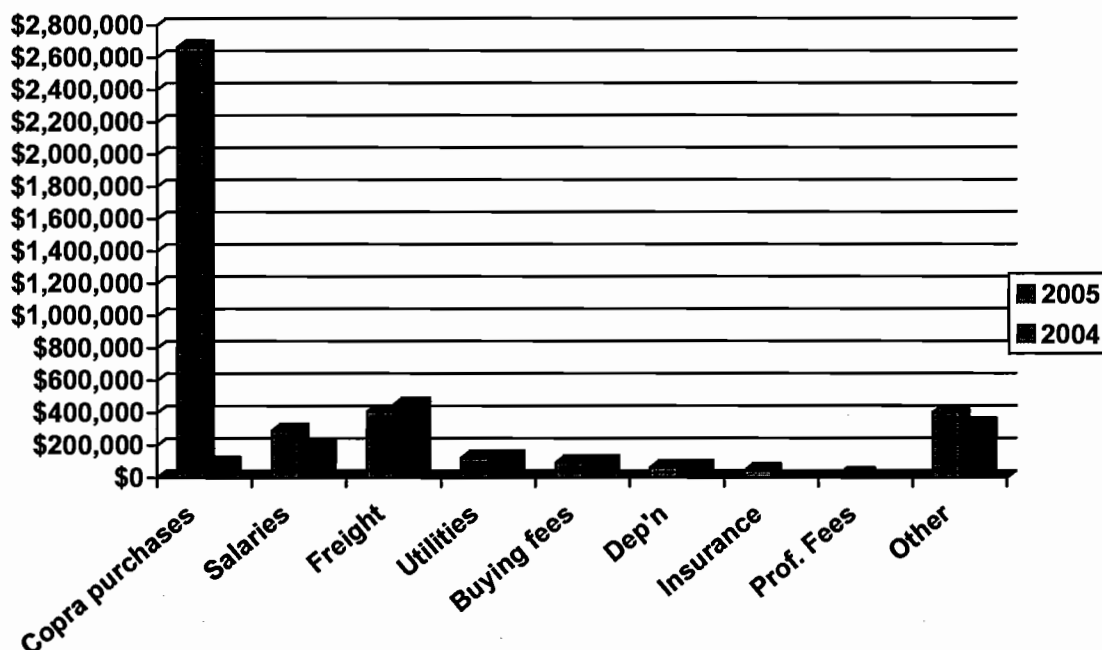


## TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2005

Total expenses increased by \$2,721,988 or 193.0% from \$1,410,391 in 2004 to \$4,132,379 in 2005. This increase was due to an increase in copra purchases of \$2,568,222 from \$84,816 in 2004 to \$2,683,038 in 2005. The increase in copra purchases is primarily due to the cumulative effects of inventory adjustments in 2005 and 2004 to reflect inventory at lower of cost or market (net realizable value). The adjustments to inventory have a corresponding entry to cost of goods sold. Further, in 2005, there is a higher volume of copra sold, which led to higher cost of sales. Non-copra operating expenses increased by \$183,309 and non-operating expenses decreased by \$30,422.

The graph below shows the major components of operating expenses for 2005 compared with 2004:



### CAPITAL ASSETS

Net capital assets decreased by \$43,375 or 7.37% from \$1,007,718 in 2004 to \$934,343 in 2005 as a result of depreciation expense of \$60,230 less capital acquisitions of \$16,855. A summary of TCPPI's capital assets is presented below:

	<u>2005</u>	<u>2004</u>
Buildings and leasehold improvements	\$ 1,888,115	\$ 1,888,115
Equipment	1,386,293	1,369,438
Furniture and fixtures	<u>70,032</u>	<u>70,032</u>
	3,344,440	3,327,585
Less accumulated depreciation	<u>(2,718,738)</u>	<u>(2,658,509)</u>
	625,702	669,076
Construction work-in-progress	<u>338,641</u>	<u>338,641</u>
	<u>\$ 964,343</u>	<u>\$ 1,007,717</u>

## **TOBOLAR COPRA PROCESSING PLANT, INC.**

Management's Discussion and Analysis, Continued  
Year Ended September 30, 2005

### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

The following factors were considered in preparing the TCPPI's budget for fiscal year 2006:

- 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 2005 level.
- 3) The balance of the ROC funding and outstanding RMI price support will be paid in FY 2006.
- 4) The net cake price will maintain a pricing premium due to TCPPI's superior quality.
- 5) 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.
- 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, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 55,096	\$ 80,578
Receivables:		
Trade	1,011,544	226,322
Affiliate	287,291	142,750
Employees	22,985	24,167
Advances to copra buyers	13,334	13,334
	<u>1,335,154</u>	<u>406,573</u>
Allowance for doubtful accounts	(48,694)	(48,694)
	<u>1,286,460</u>	<u>357,879</u>
Inventories	211,448	1,607,434
Total current assets	1,553,004	2,045,891
Property, plant and equipment, net	<u>964,343</u>	<u>1,007,717</u>
	<u>\$ 2,517,347</u>	<u>\$ 3,053,608</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Notes payable	\$ 900,000	\$ 750,000
Accounts payable	111,861	200,957
Payable to affiliates	232,756	450,997
Accrued interest	80,619	85,258
Other payables	13,752	10,234
Total current liabilities	<u>1,338,988</u>	<u>1,497,446</u>
Net assets:		
Investment in capital assets	964,343	1,007,717
Unrestricted	214,016	548,445
Total net assets	<u>1,178,359</u>	<u>1,556,162</u>
	<u>\$ 2,517,347</u>	<u>\$ 3,053,608</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Sales	\$ 2,909,976	\$ 1,036,776
Less cost of copra products manufactured and sold	<u>3,817,723</u>	<u>1,136,839</u>
Gross loss	<u>(907,747)</u>	<u>(100,063)</u>
General and administrative expenses:		
Salaries and wages	93,952	91,200
Management fee	50,000	50,000
Insurance	42,813	2,230
Communications	22,003	12,184
Professional fees	20,182	6,321
Travel and entertainment	10,039	5,084
Office supplies	9,787	7,634
Miscellaneous	<u>28,071</u>	<u>21,648</u>
Total general and administrative expenses	<u>276,847</u>	<u>196,301</u>
Operating loss	<u>(1,184,594)</u>	<u>(296,364)</u>
Nonoperating revenues (expenses):		
Operating subsidies from RepMar	844,600	900,000
Interest expense	<u>(37,809)</u>	<u>(77,251)</u>
Total nonoperating revenues (expenses), net	<u>806,791</u>	<u>822,749</u>
Change in net assets	(377,803)	526,385
Net assets at beginning of year	<u>1,556,162</u>	<u>1,029,777</u>
Net assets at end of year	<u>\$ 1,178,359</u>	<u>\$ 1,556,162</u>

See accompanying notes to financial statements.



**TOBOLAR COPRA PROCESSING PLANT, INC.**

Statements of Cash Flows  
Years Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 2,055,036	\$ 812,504
Cash payments to suppliers for goods and services	(2,653,400)	(1,820,243)
Cash payments to employees for services	(288,775)	(262,536)
Net cash used for operating activities	(887,139)	(1,270,275)
Cash flows from noncapital financing activities:		
Operating subsidies from RepMar	770,960	1,218,661
Net proceeds (repayment) under line of credit	150,000	(50,000)
Interest paid on line of credit	(42,448)	(56,473)
Net cash provided by noncapital financing activities	878,512	1,112,188
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(16,855)	-
Net cash used for capital and related financing activities	(16,855)	-
Net change in cash	(25,482)	(158,087)
Cash at beginning of year	80,578	238,665
Cash at end of year	\$ 55,096	\$ 80,578
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,184,594)	\$ (296,364)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	60,229	60,436
(Increase) decrease in assets:		
Receivables:		
Affiliate	(70,901)	(27,750)
Trade	(785,222)	(193,859)
Employees	1,182	(2,663)
Inventories	1,395,986	(1,209,127)
Advances to suppliers	-	96,905
Increase (decrease) in liabilities:		
Accounts payable	(89,096)	164,661
Payable to affiliates	(218,241)	127,252
Other payables	3,518	10,234
Net cash used for operating activities	\$ (887,139)	\$ (1,270,275)

See accompanying notes to financial statements.

# TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2005 and 2004

## (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, 2005 and 2004

### (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, 2005 and 2004, cash was \$55,096 and \$80,578, respectively, and the corresponding bank balance was \$65,030 and \$84,247, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. 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. As of September 30, 2005 and 2004, bank deposits in the amount of \$65,030 and \$84,247, respectively, were fully covered by FDIC insurance.

#### 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, 2005 and 2004

## (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 Standards

During fiscal year 2004, TCPPI implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement 14) and GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. GASB Statement No. 39 provides additional guidance on GASB Statement No.14, in determining whether an entity should be reported as a component unit based on the nature and significance of its relationship with a primary government. GASB Technical Bulletin No. 2003-1 applies to derivatives that are not reported at fair value on the statement of net assets and clarifies guidance on derivative disclosures, pending the results of GASB's project on reporting and measurement of derivatives and hedging activities. Implementation of these pronouncements did not have an effect on the financial statements of TCPPI.

During fiscal year 2005, TCPPI implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2005 and 2004

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

For fiscal year 2006, TCPPI will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. Management does not believe that the implementation of these Statements will have a material effect on the financial statements of TCPPI.

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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCPPI.

In July 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 postemployment 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, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of TCPPI.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of TCPPI.

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Notes to Financial Statements  
September 30, 2005 and 2004

**(3) Inventories**

Inventories at September 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Copra oil	\$ 41,853	\$ 1,328,409
Carts	99,288	195,448
Raw copra	7,345	42,417
Soap and materials	42,955	38,641
Copra cake	<u>20,007</u>	<u>2,519</u>
	<u>\$ 211,448</u>	<u>\$ 1,607,434</u>

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

Capital asset activity for the years ended September 30, 2005 and 2004 was as follows:

2005				
	<u>October 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2005</u>
Building and improvements	\$ 1,888,115	\$ -	\$ -	\$ 1,888,115
Equipment	1,369,438	16,855	-	1,386,293
Furniture and fixtures	<u>70,032</u>	<u>-</u>	<u>-</u>	<u>70,032</u>
	3,327,585	16,855	-	3,344,440
Less accumulated depreciation	<u>(2,658,509)</u>	<u>(60,229)</u>	<u>-</u>	<u>(2,718,738)</u>
	669,076	(43,374)	-	625,702
Construction work-in-progress	<u>338,641</u>	<u>-</u>	<u>-</u>	<u>338,641</u>
	<u>\$ 1,007,717</u>	<u>\$ (43,374)</u>	<u>\$ -</u>	<u>\$ 964,343</u>
2004				
	<u>October 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2004</u>
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>

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Notes to Financial Statements  
September 30, 2005 and 2004

**(5) Notes Payable**

A schedule of TCPPI's short-term borrowings as of September 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Bank credit line of \$1,000,000, with various terms, due on various dates, interest at bank's reference rate plus 2.5% (10% and 7.5% as of September 30, 2005 and 2004, respectively), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar.	\$ 800,000	\$ 650,000
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>\$ 900,000</u>	<u>\$ 750,000</u>

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, 2005 and 2004 was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Bank credit line:				
2005	\$ <u>650,000</u>	\$ <u>800,000</u>	\$ <u>(650,000)</u>	\$ <u>800,000</u>
2004	\$ <u>700,000</u>	\$ <u>650,000</u>	\$ <u>(700,000)</u>	\$ <u>650,000</u>

**(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 (RMIPA). As of September 30, 2005 and 2004, 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, 2005 and 2004 amounted to \$233,497 and \$155,455, respectively.

PII purchases coconut fuel oil from Tobolar. Total receivable from PII for sale of coconut fuel amounted to \$98,651 as of September 30, 2005.

## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2005 and 2004

### (6) Related Party Transactions, Continued

During the years ended September 30, 2005 and 2004, the operations of TCPPI were funded by appropriations totaling \$900,000 per year from the Nitijela of RepMar. However, in 2005, this subsidy was netted with \$55,400 of unreceived prior year subsidies that had been recognized in prior year. As of September 30, 2005 and 2004, \$173,640 and \$100,000, 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:

	2005	
	Expenses	Payables
Pacific International, Inc. and affiliates	\$ 477,152	\$ 37,073
RepMar	158,925	158,925
Marshalls Energy Company, Inc.	114,050	24,774
Marshall Islands Social Security Administration	41,123	11,984
	\$ 791,250	\$ 232,756
	2004	
	Expenses	Payables
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	-	43,165
	\$ 764,441	\$ 450,997

### (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 94% of total sales were earned from three customers for the year ended September 30, 2005.



## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2005 and 2004

### (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 during the years ended September 30, 2005 and 2004. For the years ended September 30, 2005 and 2004, TCPPI received operating subsidies in cash of \$770,960 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 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.

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, 2005, TCPPI has not received written notice of commencement of suit from RMIPA with respect to TCPPI's default.

The realization of construction work in progress of \$338,641 as of September 30, 2005 and 2004 is dependent upon the receipt of additional funding from RepMar. Management is of the opinion that such funding will be received. If additional funding is not received, the construction work in progress will not be realized.