TOBOLAR COPRA PROCESSING AUTHORITY

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tobolar Copra Processing Authority:

We have audited the accompanying statements of net assets of the Tobolar Copra Processing Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, 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 the Authority. 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 the Authority'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 the Authority as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2013, on our consideration of the Authority'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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

August 13, 2013

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis
September 30, 2012 and 2011

This section of the Tobolar Copra Processing Authority (TCPA) annual financial report presents our discussion and analysis of TCPA's financial performance during the fiscal year that ended on September 30, 2012. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net assets decreased by $871,710 or 20.8% from $4,195,386 in 2011 to $3,323,676 in 2012 due to substantial loss from sales of crude coconut oil. This affected the cash which decreased from $2,058,129 in 2011 to $1,508,039 in 2012 or 26.7%, a decrease in accounts receivable of $195,234 or 49.3% from $396,364 in 2011 to $201,130 in 2012 , a decrease in inventory of $80,104 or 8% from $997,392 in 2011 to $917,288 in 2012, and a net increase in Non-Current assets of $86,749 or 10.5% from $828,839 in 2011 to $915,588 in 2012 due to procurement of new Mazda pickup truck and various equipment/machines and tools for new projects and mill usage as $23,995 and $161,715 correspondingly. Moreover, an increase in accounts payable to affiliates of $96,101 or 256.10% from $37,531 in 2011 to $133,632 in 2012, and an increase in accounts payable ($40,163 in 2011 to $54,416 in 2012) and accrued /other payables ($15,809 in 2011 to $37,754 in 2012) of 35.5% and 138.8% respectively.

Operating revenues of TCPA decreased by $723,604 or 18% from $4,016,417 in 2011 to $3,292,813 in 2012, which was due to extensive slide in international market price of crude coconut oil (CNO) of $1,130 decrease or 57% from $1,975 /MT in 2011 to $845/MT in 2012. Meanwhile, other non-related CNO products increased as we diversified our products by $131,573 or 80.1% from $164,331 in 2011 to $295,904 in 2012. In which inclusively, copra cake (copra meal) highlighted this revenue by 103.8% or $129,652 from $124,921 in 2011 to $254,573 in 2012.

Operating expenses increased by $2,632,842 or 90.7% from $2,904,170 in 2011 to $5,537,012 in 2012. Inclusively in these expenses, the cost of copra products manufactured and sold tremendously increased by 101.5% or $2,559,607 from $2,520,765 in 2011 to $5,080,372 in 2012. This was the effect of managing with the targeted inventory and production of 6,600 tons of copra in 2012 from 4,200 tons in 2011.

Net Non Operating revenues (excluding capital contributions of $188,802) decreased by $50,417 or 4.1% from $1,234,104 in 2011 to $1,183,687 in 2012. Operating subsidies from the Republic of the Marshall Islands (RepMar) decreased by $94,402 from $1,245,600 in 2011 to $1,200,000 in 2012. For FY2012, Tobolar received through RepMar $188,802 from ROC (Taiwan) for Capital Projects compared with $270,000 received in FY 2011.

FINANACIAL ANALYSIS

The Statement of Net Assets (page 8) and the Statement of Revenues, Expenses and Changes in Net Assets (page 9) provide an indication of TCPA's financial condition. TCPA'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 TCPA's Statement of Net Assets is presented below:

	2012	2011	2010
Current and other asset	$ 2,633,890	$ 3,657,857	$ 1,088,349
Capital asset	915,588	631,032	612,803
Total assets	$ 3,549,478	$ 4,288,889	$ 1,701,152
Current liabilities	$ 225,802	$ 93,503	$ 122,117

Net Assets:			
Invested in capital assets	915,588	631,032	612,803
Unrestricted	2,408,088	3,564,354	966,232
Total net assets	3,323,676	4,195,386	1,579,035
	$ 3,549,478	$ 4,288,889	$ 1,701,152

As indicated above, total assets decreased by $739,411 or 17.2% from $4,288,889 in 2011 to $3,549,478 in 2012. This was caused by a decrease in cash of 26.7% and receivable of 49.3% while aggravated by a decline in ending inventory of 8% and prepayments/deposits of 9%. In spite of the decrease, Property, plant and equipment increased due to the purchase of a new truck and the recognition of a new pay loader from deposit to transportation equipment in FY 2012.

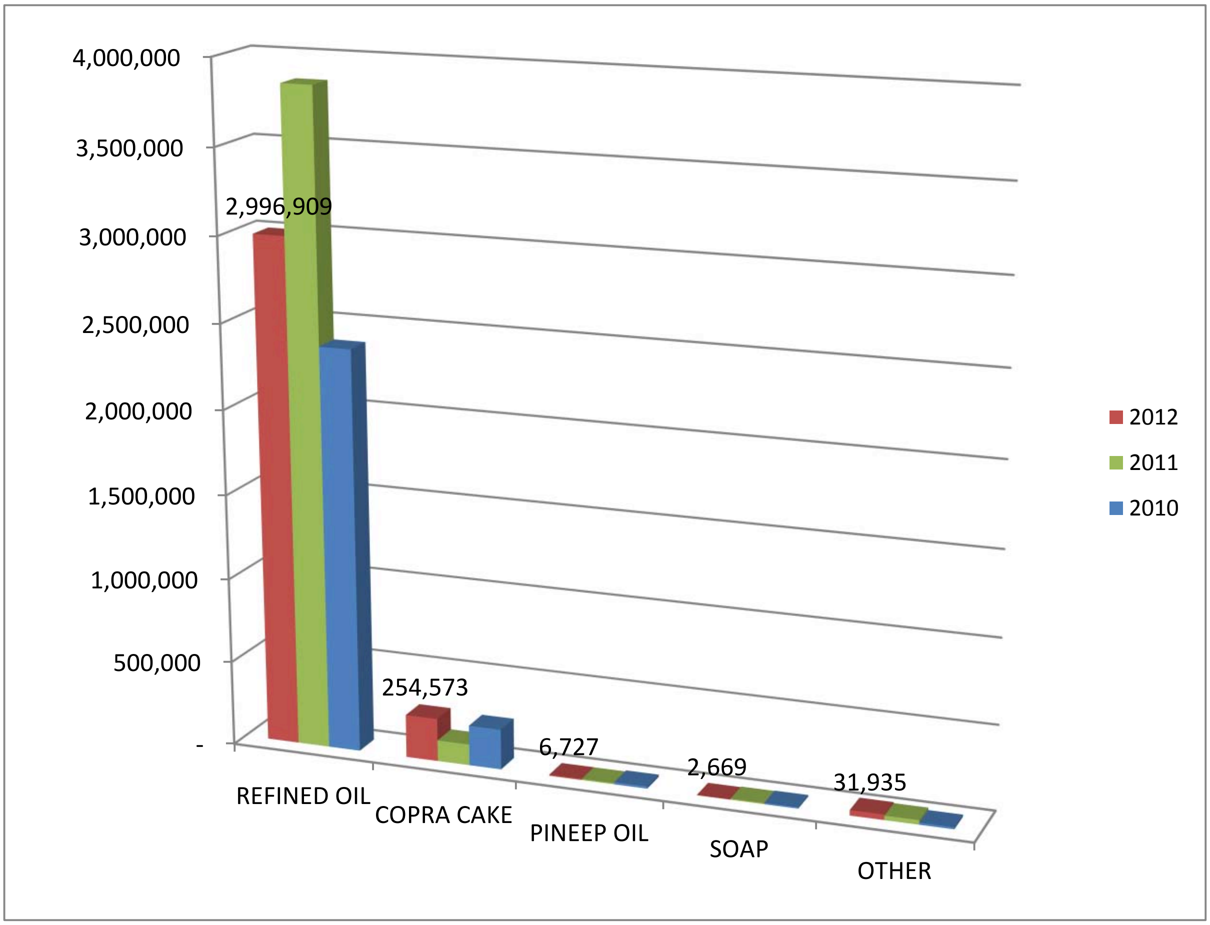
The total liabilities produced a significant increase for the year at 141.5% or $132,299 from $93,503 in 2011 to $225,802 in 2012. The greatest part the increase in the liabilities was due to payable to affiliates due primarily to the Marshall Islands Shipping Corporation (MISC) freight and related cost for copra buying and billings from electricity cost of the Marshalls Energy Company, Inc.

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

	2012	2011	2010
Revenues:			
Operating revenues	$ 3,292,813	$ 4,016,417	$ 2,651,689
Non- operating revenues and capital contributions	1,388,802	1,540,040	1,340,002
Total revenues	4,681,615	5,556,457	3,991,691
Expenses:			
Operating expenses	5,537,012	2,904,170	3,582,065
Non-operating expenses	16,313	35,936	55,587
Total expenses	5,553,325	2,940,106	3,637,652
Change in net assets	$ (871,710)	$ 2,616,351	$ 354,039

The Statement of Revenues, Expenses and Changes in Net assets identify the various revenue and expense items that affect the change in net assets. As indicated above, TCPA's total revenue decreased by 15.7% or $874,842 from $5,556,457 in 2011 to $4,681,615 in 2012. The downfall of the revenue, as we stated earlier, was from the influence of international market price plus the absence of the ROC Taiwan aid project fund in spite of the increase of copra meal sales during FY 2012.

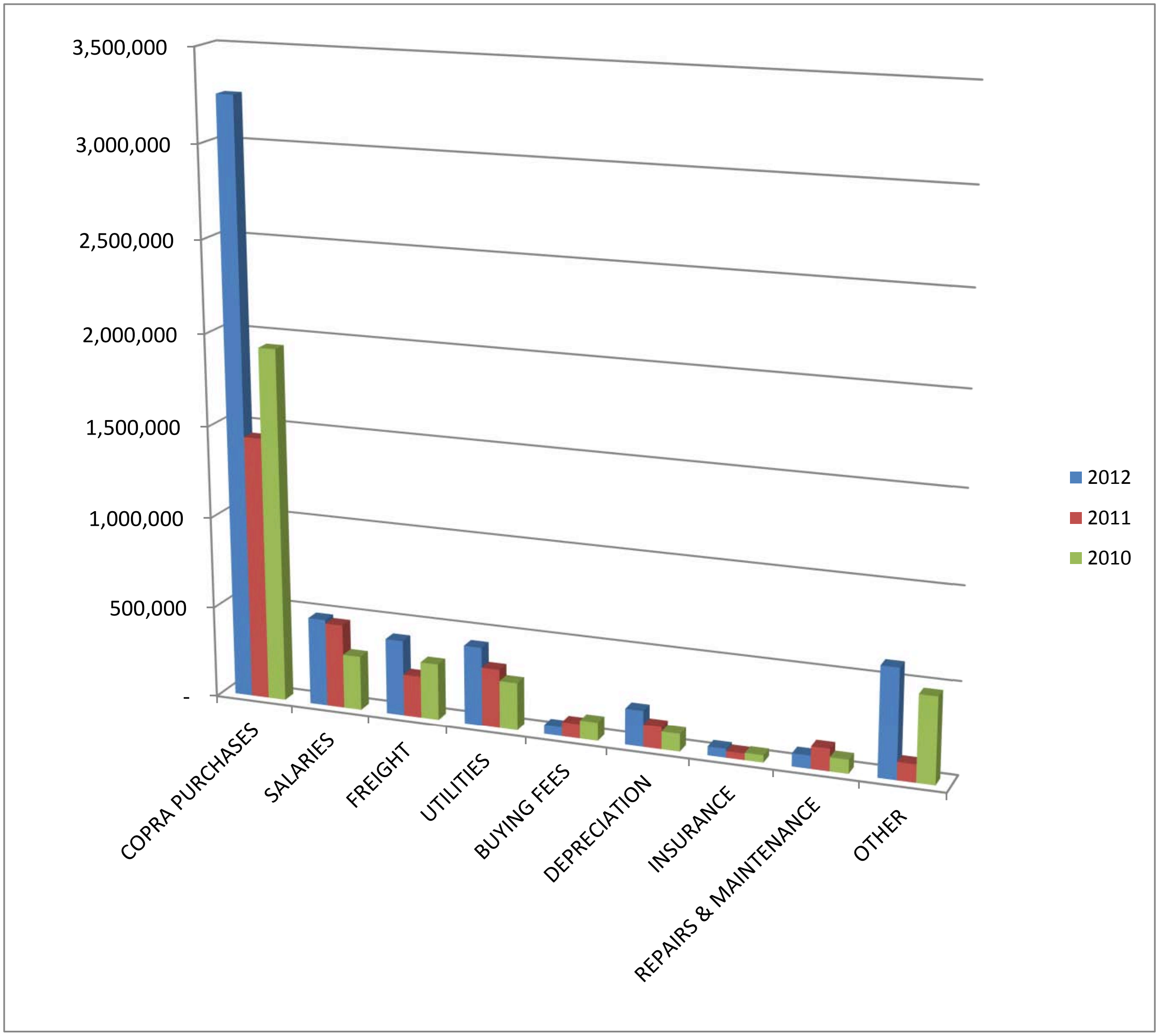
The graph below shows the major components of operating revenues for 2012 compared to 2011 and 2010.



Total expenses increased by $2,613,219 or 88.9% from $2,940,106 in 2011 to $5,553,325 in 2012.

The increase was caused by major increases in purchases of raw material (copra) to 6,600 tons for FY2012 from 4,200 tons of copra of FY2011. Likewise, this compliments the increase in production cost, salaries, power/electricity and other direct like freight and indirect cost for the mill operations which comprises 31% or $813,537 out of the total expense increment.

The graph below shows the major components of operating expenses for 2012 compared to 2011 and 2010.



Management's Discussion and Analysis for the year ended September 30, 2011, is set forth in the Authority's report on the audit of financial statements, which is dated March 13, 2012. That discussion and analysis explains the major factors impacting the 2011 financial statements and can be obtained from the Authority's General Manager via the contact information below.

CAPITAL ASSETS

Net capital assets increased by $284,556 or 45.1% from $631,032 in 2011 to $915,588 in 2012. This was because of the acquisition on the new Mazda truck and various tools and mill machineries and equipment's for the mill operations and the special projects which are still in process established by the 4-year strategic plan.

	2012	2011	2010
Capital Assets:			
Buildings and leasehold improvements	$ 2,003,891	$ 1,935,971	$ 1,916,941
Equipment	2,285,374	1,896,249	1,785,107
Furniture and fixture	90,693	89,061	85,174
	4,379,958	3,921,281	3,787,222
Less accumulated depreciation	(3,479,405)	(3,302,459)	(3,181,274)
	900,553	618,822	605,948
Construction work-in-progress	15,035	12,210	6,855
	$ 915,588	$ 631,032	$ 612,803

Please refer to note 4 to the accompanying financial statements for additional information regarding capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The following factors were considered in preparing the TCPA's budget for fiscal year 2013:

1. An expected rise of revenue from the diversified products like VCO, bio fuel, soap, cooking oil and bottled oil to cover up the unforeseen consistency of the CNO price in the world market.
2. Additional revenue would be source in from diversified products totaling around $1,900,000 inclusive of the shipping contribution from its freight, profit from commodities and savings in terms of buying fee and stevedoring.
3. An increase in production cost to cope up with the new project like the refinery for cooking oil and bio fuel from 5,300 tons in 2012 to 8,200 tons in 2013.
4. REPMAR will maintain the $1,200,000 copra subsidy for the copra price stabilization.
5. The net cake price would still a premium price due to TCPA's superior quality.
6. Assumption would be if price drops below $850/MT, TCPA will struggle however, if price drops to $650/MT copra price would need to reduce about $0.14 and price subsidy kept at $1,200,000 to maintain profitability.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide the Authority's customers and other interested parties with an overview of the Authority'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 Authority General Manager at P.O. Box G, Majuro MH 96960.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Net Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 1,508,039	$ 2,058,129
Receivables:		
Trade	278,464	187,492
Affiliates	53,446	245,702
Employees	7,629	15,479
Advances to suppliers and copra buyers	12,489	98,589
	352,028	547,262
Allowance for doubtful accounts	(150,898)	(150,898)
	201,130	396,364
Inventories	917,288	997,392
Prepayment and deposits	7,433	8,165
Total current assets	2,633,890	3,460,050
Noncurrent assets:		
Deposit for payloader	-	197,807
Capital assets:		
Nondepreciable capital assets	15,035	12,210
Capital assets, net of accumulated depreciation	900,553	618,822
Total noncurrent assets	915,588	828,839
	$ 3,549,478	$ 4,288,889
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 54,416	$ 40,163
Payable to affiliates	133,632	37,531
Other accrued liabilities	37,754	15,809
Total liabilities	225,802	93,503
Contingencies		
Net assets:		
Invested in capital assets	915,588	631,032
Unrestricted	2,408,088	3,564,354
Total net assets	3,323,676	4,195,386
	$ 3,549,478	$ 4,288,889

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Sales	$ 3,292,813	$ 4,016,417
Less cost of copra products manufactured and sold	5,080,372	2,520,765
Gross profit (loss)	(1,787,559)	1,495,652
General and administrative expenses:		
Salaries and wages	232,466	195,573
Travel and entertainment	59,139	16,392
Insurance	47,860	35,059
Repairs and maintenance	24,002	24,273
Membership dues and subscriptions	14,520	14,890
Communications	12,928	13,575
Office supplies	12,308	13,612
Depreciation	5,483	16,648
Professional fees	4,110	-
Management fee	3,950	6,800
Transportation	1,578	12,849
Miscellaneous	38,296	33,734
Total general and administrative expenses	456,640	383,405
Operating income (loss)	(2,244,199)	1,112,247
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,200,000	1,245,600
Other income	-	24,440
Interest expense	(16,313)	(35,936)
Total nonoperating revenues (expenses), net	1,183,687	1,234,104
Capital contributions from RepMar	188,802	270,000
Change in net assets	(871,710)	2,616,351
Net assets at beginning of year	4,195,386	1,579,035
Net assets at end of year	$ 3,323,676	$ 4,195,386

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 3,334,447	$ 3,936,119
Cash payments to suppliers for goods and services	(4,501,403)	(2,708,072)
Cash payments to employees for services	(539,904)	(428,843)
Net cash provided by (used for) operating activities	(1,706,860)	799,204
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	1,200,000	1,245,600
Grants received	-	24,440
Interest paid on line of credit	(16,313)	(49,915)
Net cash provided by noncapital financing activities	1,183,687	1,220,125
Cash flows from capital and related financing activities:		
Capital contributions received from RepMar	256,302	202,500
Acquisition of capital assets	(283,219)	(337,221)
Net cash used for capital and related financing activities	(26,917)	(134,721)
Net change in cash	(550,090)	1,884,608
Cash at beginning of year	2,058,129	173,521
Cash at end of year	$ 1,508,039	$ 2,058,129
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (2,244,199)	$ 1,112,247
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	196,470	121,185
(Increase) decrease in assets:		
Receivables:		
Trade	(90,972)	(65,237)
Affiliates	124,756	(16,563)
Employees	7,850	1,502
Advances to copra suppliers and buyers	86,100	(26,822)
Inventories	80,104	(304,571)
Prepayment and deposits	732	(7,902)
Increase (decrease) in liabilities:		
Accounts payable	14,253	(33,235)
Payable to affiliates	96,101	8,093
Other accrued liabilities	21,945	10,507
Net cash provided by (used for) operating activities	$ (1,706,860)	$ 799,204

See accompanying notes to financial statements.

(1) Organization

Tobolar Copra Processing Authority (the Authority), formerly the Tobolar Copra Processing Plant, Inc., 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). The Authority was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. The Authority is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). The Authority'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, Vietnam 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 the Authority (the Board).

The Authority is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority 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. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB 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*, 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 Statement No. 34, the Authority'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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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, the Authority is specifically exempt from this tax as the Authority is a government owned copra processing corporation.

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority'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. The Authority 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, 2012 and 2011, the carrying amount of the Authority's cash was $1,508,039 and $2,058,129, respectively, and the corresponding bank balance was $1,607,708 and $2,073,196, respectively. Of the bank balance amount, $1,607,708 and $807,681, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of $1,607,708 and $807,681, respectively, were FDIC insured. The Authority 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 Vietnam 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.

(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

Property, plant and equipment with cost that equals or exceed $1,500 and an estimated life of more than one year shall be 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, 2012 and 2011, an accumulated vacation leave liability of $42,441 and $20,225, 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

During fiscal year 2012, the Authority implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, Codification of Accounting and *Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

(3) Inventories

Inventories at September 30, 2012 and 2011 consist of the following:

	2012	2011
Copra oil	$ 404,331	$ 591,247
Raw copra	392,964	95,652
Soap and materials	91,103	150,389
Copra cake	28,890	97,951
Carts	-	62,153
	$ 917,288	$ 997,392

(4) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011 is as follows:

	2012			
	October 1, 2011	Additions	Reductions	September 30, 2012
Building and improvements	$ 1,935,971	$ 67,920	$ -	$ 2,003,891
Equipment	1,896,249	408,649	(19,524)	2,285,374
Furniture and fixtures	89,061	1,632	-	90,693
	3,921,281	478,201	(19,524)	4,379,958
Less accumulated depreciation	(3,302,459)	(196,470)	19,524	(3,479,405)
	618,822	281,731	-	900,553
Construction in progress	12,210	2,825	-	15,035
	$ 631,032	$ 284,556	$ -	$ 915,588

(4) Capital Assets, Continued

	2011			
	October 1, 2010	Additions	Reductions	September 30, 2011
Building and improvements	$ 1,916,941	$ 19,030	$ -	$ 1,935,971
Equipment	1,785,107	111,142	-	1,896,249
Furniture and fixtures	85,174	3,887	-	89,061
	3,787,222	134,059	-	3,921,281
Less accumulated depreciation	(3,181,274)	(121,185)	-	(3,302,459)
	605,948	12,874	-	618,822
Construction in progress	6,855	28,448	(23,093)	12,210
	$ 612,803	$ 41,322	$ (23,093)	$ 631,032

(5) Notes Payable

In the normal course of the company's operations, the Authority obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. The Authority has a bank credit line amounting to $1,500,000 as of September 30, 2012 and 2011, which is collateralized by a general security agreement over all assets of the Authority and a guarantee from RepMar. Notes drawn are subject to interest at bank's reference rate plus 2.5% and are repaid on various maturity dates but not to exceed 180 days from loan drawdown.

Short-term borrowings draw-down and paid during the years ended September 30, 2012 and 2011 are as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
2012	$ -	$ 800,000	$ (800,000)	$ -
2011	$ -	$ 1,500,000	$ (1,500,000)	$ -

(6) Related Party Transactions

The Authority is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the RMI Ports Authority and the Marshall Islands Shipping Corporation.

During the years ended September 30, 2012 and 2011, the operations of the Authority were funded by appropriations of $1,200,000 and $1,245,600, respectively, from the Nitijela of RepMar. In 2012, the Authority received $188,802 and $270,000, respectively, from a capital improvement projects subsidy. In addition, the Authority has recorded receivables from RepMar at September 30, 2012 and 2011 of $53,446 and $78,202, respectively, relating to miscellaneous services provided by the Authority.

(6) Related Party Transactions, Continued

The Authority 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 additional related party transactions is as follows:

	2012	
	Expenses	Payables
Marshall Islands Shipping Corporation	$ 1,407,478	$ 52,342
Marshalls Energy Company, Inc.	275,334	55,027
Marshall Islands Social Security Administration	39,303	26,263
RepMar		-
RMI Ports Authority	238	-
Others	9,485	-
	$ 1,731,838	$ 133,632

	2011	
	Expenses	Payables
Marshall Islands Shipping Corporation	$ 1,380,898	$ 14,561
Marshalls Energy Company, Inc.	317,152	-
Marshall Islands Social Security Administration	32,649	22,970
RepMar	3,962	-
RMI Ports Authority	26,024	-
Others	12,582	-
	$ 1,773,267	$ 37,531

(7) Risk Management

The Authority 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. The Authority 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 98% and 99% of total sales were earned from four and two customers during the years ended September 30, 2012 and 2011, respectively.

(9) Contingencies

During the year ended September 30, 2012, the Authority incurred a loss from operations of $2,244,199. For the years ended September 30, 2012 and 2011, the Authority received cash copra subsidies of $1,200,000 and $1,245,600, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, the Authority 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 the Authority will take appropriate action to initiate a reduction in purchase price of copra. For fiscal year 2013, a copra subsidy of $1,200,000 was appropriated by the Nitijela of RepMar.

The real property on which the copra processing plant and related facilities are located is leased by the Marshall Islands Development Authority (MIDA) from RepMar. No provision has yet been made for the sublease to the Authority 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.