

TOBOLAR COPRA PROCESSING PLANT, INC.

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(AS RESTATED)**

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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of TCPPI. Our responsibility is to express an opinion on these financial statements based on our audits.

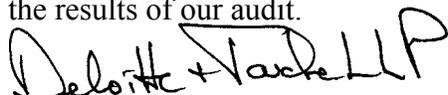
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCPPI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of TCPPI as of September 30, 2011 and 2010, 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.

As discussed in Note 10 to the financial statements, the accompanying 2010 financial statements have been restated to correct a misstatement.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012, on our consideration of TCPPI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



March 13, 2012

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2011 and 2010

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, 2011. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TCPPI's net assets increased by \$2,616,351 or 165.7% from \$1,579,035 (restated) in 2010 to \$4,195,386 in 2011 due to significant increase in copra products sales and related copra subsidies from RepMar government. This resulted in an increase in cash of \$1,884,608 or 1,086.1% from \$173,521 in 2010 to \$2,058,129 in 2011, a net increase in accounts receivable of \$174,620 or 78.7% from \$221,744 in 2010 to \$396,364 in 2011, an increase in inventory of \$304,571 or 44.0% from \$692,821 (restated) in 2010 to \$997,392 in 2011, and a net increase in Non Current Assets of \$216,036 or 35.3% from \$612,803 in 2010 to \$828,839 in 2011 due to deposits for payloader amounting \$197,807. In addition to the aforementioned increases in net assets, there was a decrease in accounts payable of \$33,235 or 45.3% from \$73,398 in 2010 to \$40,163 in 2011, and a net decrease on accrued expenses and other payables of \$4,801 or 23% from \$20,610 in 2010 to \$15,809 in 2011.

Operating revenues of TCPPI increased by \$1,364,728 or 51.5% from \$2,651,689 in 2010 to \$4,016,417 in 2011. Within operating revenues, sales of coconut oil significantly increased by \$1,472,928 or 61.9% from \$2,379,892 in 2010 to \$3,852,820 in 2011. However, non-coconut oil revenues decreased by \$108,200 or 39.8% from \$271,797 in 2010 to \$163,597 in 2011. The increase in coconut oil revenue was attributed to timely sale of coconut oil (CNO) when its world market price was still at its peak.

Operating expenses decreased by \$677,895 or 18.9% from \$3,582,065 (restated) in 2010 to \$2,904,170 in 2011. Within operating expenses, the cost of copra products manufactured and sold decreased by \$698,881 or 21.7% from \$3,219,646 (restated) in 2010 to \$2,520,765 in 2011. The decrease was mainly due to drop of 1,369 tons or 25.3% in copra purchases/production, from 5,406 tons in 2010 to 4,037 tons in 2011.

Net Non Operating revenues (excluding capital contributions of \$270,000) decreased by \$50,311 or 3.9% from \$1,284,415 in 2010 to \$1,234,104 in 2011. Operating subsidies from the Republic of the Marshall Islands (RepMar) decreased by \$94,402 from \$1,340,002 in 2010 to \$1,245,600 in 2011. For FY2011, Tobolar received through RepMar \$24,400 Australian aid and another \$270,000 from ROC (Taiwan) for Capital Projects.

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 Statements of Net Assets is presented below:

	<u>2011</u>	2010 (Restated)	<u>2009</u>
Current and other assets	\$ 3,657,857	\$ 1,088,349	\$ 996,302
Capital assets	<u>631,032</u>	<u>612,803</u>	<u>673,766</u>
Total assets	\$ <u>4,288,889</u>	\$ <u>1,701,152</u>	\$ <u>1,670,068</u>
Current liabilities	\$ <u>93,503</u>	\$ <u>122,117</u>	\$ <u>445,072</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2011 and 2010

	<u>2011</u>	2010 (Restated)	<u>2009</u>
Net assets:			
Invested in capital assets	631,032	612,803	673,766
Unrestricted	<u>3,564,354</u>	<u>966,232</u>	<u>551,230</u>
Total net assets	<u>4,195,386</u>	<u>1,579,035</u>	<u>1,224,996</u>
	\$ <u>4,288,889</u>	\$ <u>1,701,152</u>	\$ <u>1,670,068</u>

As indicated above, total assets increased by \$2,587,737 or 152.1% from \$1,701,152 in 2010 to \$4,288,889 in 2011. This is due to increases of \$2,569,508 in current and other assets and \$18,229 in capital assets. The increase in current and other assets reflects major increases in cash of \$1,884,608, accounts receivable of \$174,620, inventory of \$304,571 and \$197,807 deposit made for the payloader.

Total liabilities reflected a decrease of \$28,614 or 23.4% from \$122,117 in 2010 to \$93,503 in 2011. The decrease in total liabilities resulted from a decrease in non-affiliates payable of \$38,036 or 40.5% and a slight increase of \$9,422 or 33.5% in affiliate payables.

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

	<u>2011</u>	2010 (Restated)	<u>2009</u>
Revenues:			
Operating revenues	\$ 4,016,417	\$ 2,651,689	\$ 2,264,985
Non-operating revenues and Capital Contributions	<u>1,540,040</u>	<u>1,340,002</u>	<u>1,028,281</u>
Total revenues	5,556,457	3,991,691	3,293,266
Expenses:			
Operating expenses	2,904,170	3,582,065	4,634,598
Non-operating expenses	<u>35,936</u>	<u>55,587</u>	<u>58,576</u>
Total expenses	<u>2,940,106</u>	<u>3,637,652</u>	<u>4,693,174</u>
Change in net assets	\$ <u>2,616,351</u>	\$ <u>354,039</u>	\$ <u>(1,399,908)</u>

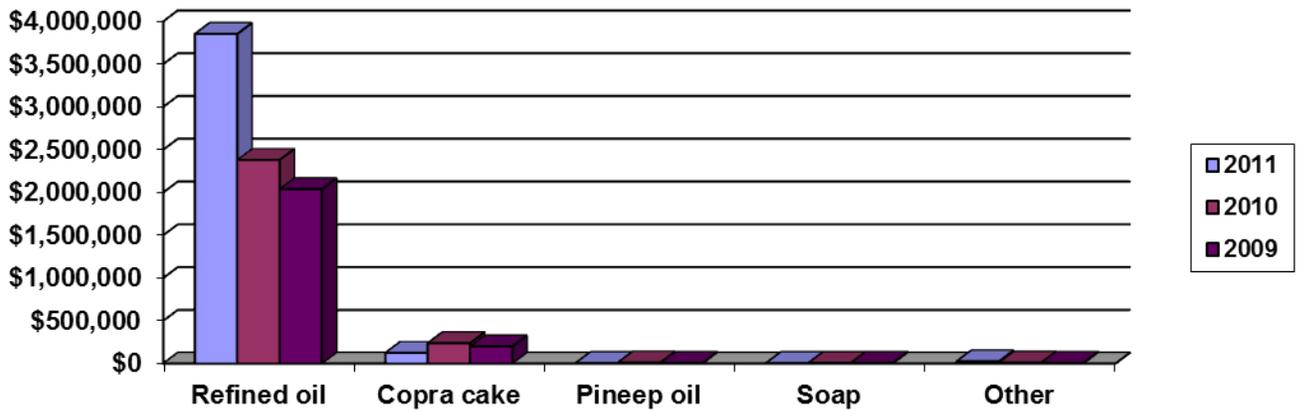
The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items that impact the change in net assets. As indicated above, TCPPI's total revenues increased by \$1,564,766 or 39.2% from \$3,991,691 in 2010 to \$5,556,457 in 2011. This increase is primarily due to an increase in the sale of coconut oil of \$1,472,928 and non-operating revenues of \$200,038 wherein \$270,000 came from capital contributions from ROC (Taiwan). On the other hand, non-coconut oil sales decreased by \$108,200.

The 2010 financial statements have been restated to correct a misstatement. Please refer to note 10 to the accompanying financial statements for additional information.

TOBOLAR COPRA PROCESSING PLANT, INC.

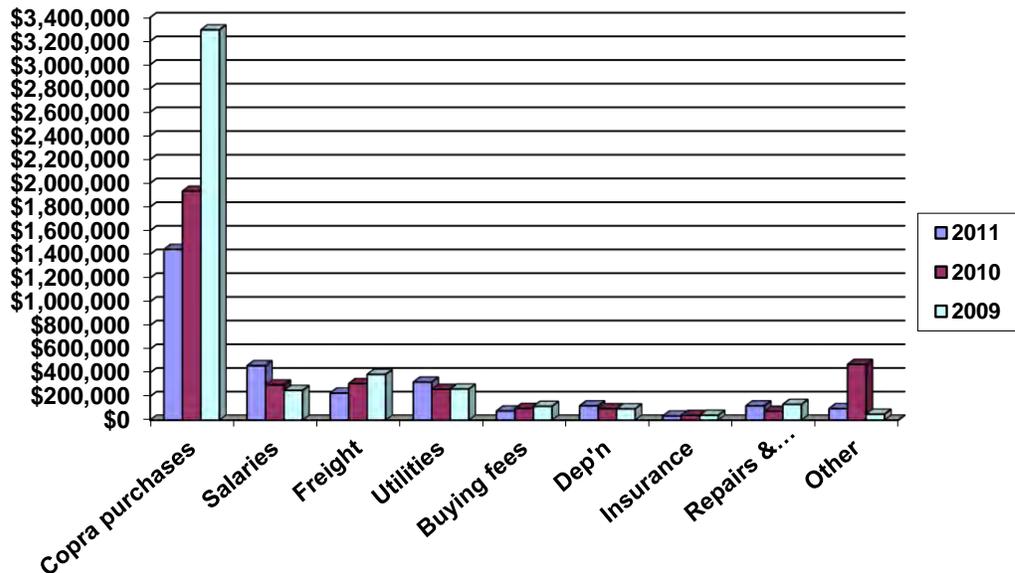
Management's Discussion and Analysis
September 30, 2011 and 2010

The graph below shows the major components of operating revenues for 2011 compared with 2010 and 2009.



Total expenses decreased by \$697,546 or 19.2% from \$3,637,652 in 2010 to \$2,940,106 in 2011. This decrease was primarily due to a decrease in copra purchases of \$491,904 or 25.4% from \$1,933,438 in 2010 to \$1,441,534 in 2011. Likewise, non-copra operating expenses decreased by \$185,991 and non-operating expenses decreased by \$19,651 for the same comparative period.

The graph below shows the major components of operating expenses for 2011 compared with 2010 and 2009.



TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis
September 30, 2011 and 2010

CAPITAL ASSETS

Net capital assets increased by \$18,229 or 3.0% from \$612,803 in 2010 to \$631,032 in 2011 as a result of acquisition of new equipment and machines and office extensions amounting to \$134,059 while depreciation expense also went up by \$121,185 or 3.8% from the previous year.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Buildings and leasehold improvements	\$ 1,935,971	\$ 1,916,941	\$ 1,907,164
Equipment	1,896,249	1,785,107	1,776,287
Furniture and fixtures	<u>89,061</u>	<u>85,174</u>	<u>74,709</u>
	3,921,281	3,787,222	3,758,160
Less accumulated depreciation	<u>(3,302,459)</u>	<u>(3,181,274)</u>	<u>(3,084,394)</u>
	618,822	605,948	673,766
Construction work-in-progress	<u>12,210</u>	<u>6,855</u>	<u>-</u>
	\$ <u>631,032</u>	\$ <u>612,803</u>	\$ <u>673,766</u>

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 TCPPI's budget for fiscal year 2012:

- 1) Republic of the Marshall Islands Government copra price support of \$1,200,000.
- 2) The price paid to copra producers would reflect the price support of \$1,200,000.
- 3) The net cake price will maintain a pricing premium due to TCPPI's superior quality.
- 4) The world market price will not maintain the historical levels experience in the last 3 years and copra oil would be sold as bio fuel when the price of bio fuel exceeds the net realization of selling copra oil in the world market.
- 5) There would be 5,300 tons of copra production, based on the last 6 years average production.
- 6) An additional \$200,000 government subsidy for Capital Improvements Projects.

Management's Discussion and Analysis for the year ended September 30, 2010, is set forth in the TCPPI's report on the audit of financial statements, which is dated June 3, 2011. That discussion and analysis explains the major factors impacting the 2010 financial statements and can be obtained from the TCPPI's General Manager via the contact information below.

ADDITIONAL FINANCIAL INFORMATION

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u> <u>(As Restated)</u>
Current assets:		
Cash	\$ 2,058,129	\$ 173,521
Receivables:		
Trade	187,492	122,255
Affiliates	245,702	161,639
Employees	15,479	16,981
Advances to suppliers and copra buyers	98,589	71,767
	<u>547,262</u>	<u>372,642</u>
Allowance for doubtful accounts	<u>(150,898)</u>	<u>(150,898)</u>
	<u>396,364</u>	<u>221,744</u>
Inventories	997,392	692,821
Prepayment and deposits	8,165	263
Total current assets	<u>3,460,050</u>	<u>1,088,349</u>
Noncurrent assets:		
Deposit for payloader	197,807	-
Property, plant and equipment, net	631,032	612,803
Total noncurrent assets	<u>828,839</u>	<u>612,803</u>
	<u>\$ 4,288,889</u>	<u>\$ 1,701,152</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 40,163	\$ 73,398
Payable to affiliates	37,531	28,109
Accrued interest	-	13,979
Other accrued liabilities	15,809	6,631
Total current liabilities	<u>93,503</u>	<u>122,117</u>
Contingencies		
Net assets:		
Invested in capital assets	631,032	612,803
Unrestricted	3,564,354	966,232
Total net assets	<u>4,195,386</u>	<u>1,579,035</u>
	<u>\$ 4,288,889</u>	<u>\$ 1,701,152</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, 2011 and 2010

	<u>2011</u>	<u>2010</u> <u>(As Restated)</u>
Sales	\$ 4,016,417	\$ 2,651,689
Less cost of copra products manufactured and sold	<u>2,520,765</u>	<u>3,219,646</u>
Gross profit (loss)	<u>1,495,652</u>	<u>(567,957)</u>
General and administrative expenses:		
Salaries and wages	195,573	143,906
Insurance	35,059	39,936
Repairs and maintenance	24,273	33,567
Depreciation	16,648	-
Travel and entertainment	16,392	36,020
Membership dues & subscriptions	14,890	25,034
Office supplies	13,612	6,982
Communications	13,575	10,589
Transportation	12,849	3,491
Management fee	6,800	14,700
Professional fees	-	22,775
Miscellaneous	<u>33,734</u>	<u>25,419</u>
Total general and administrative expenses	<u>383,405</u>	<u>362,419</u>
Operating income (loss)	<u>1,112,247</u>	<u>(930,376)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,245,600	1,340,002
Other income	24,440	-
Interest expense	<u>(35,936)</u>	<u>(55,587)</u>
Total nonoperating revenues (expenses), net	<u>1,234,104</u>	<u>1,284,415</u>
Capital contributions from RepMar	<u>270,000</u>	<u>-</u>
Change in net assets	2,616,351	354,039
Net assets at beginning of year	<u>1,579,035</u>	<u>1,224,996</u>
Net assets at end of year	<u><u>\$ 4,195,386</u></u>	<u><u>\$ 1,579,035</u></u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u> (As Restated)
Cash flows from operating activities:		
Cash received from customers	\$ 3,936,119	\$ 2,673,845
Cash payments to suppliers for goods and services	(2,708,072)	(3,444,820)
Cash payments to employees for services	(428,843)	(274,210)
Net cash provided by (used for) operating activities	<u>799,204</u>	<u>(1,045,185)</u>
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	1,245,600	1,340,002
Grants received	24,440	-
Advance to affiliates	-	(100,000)
Interest paid on line of credit	(49,915)	(55,587)
Net cash provided by noncapital financing activities	<u>1,220,125</u>	<u>1,184,415</u>
Cash flows from capital and related financing activities:		
Capital contributions received from RepMar	202,500	-
Acquisition of capital assets	(337,221)	(35,917)
Net cash used for capital and related financing activities	<u>(134,721)</u>	<u>(35,917)</u>
Net change in cash	1,884,608	103,313
Cash at beginning of year	<u>173,521</u>	<u>70,208</u>
Cash at end of year	<u>\$ 2,058,129</u>	<u>\$ 173,521</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 1,112,247	\$ (930,376)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	121,185	96,880
Bad debts	-	11,260
(Increase) decrease in assets:		
Receivables:		
Trade	(65,237)	11,909
Affiliates	(16,563)	26,994
Employees	1,502	(16,747)
Advances to copra suppliers and buyers	(26,822)	(48,896)
Inventories	(304,571)	126,746
Prepayment and deposits	(7,902)	-
Increase (decrease) in liabilities:		
Accounts payable	(33,235)	(18,947)
Payable to affiliates	8,093	(318,954)
Other accrued liabilities	10,507	14,946
Net cash provided by (used for) operating activities	<u>\$ 799,204</u>	<u>\$ (1,045,185)</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(1) Organization

Tobolar Copra Processing Plant, Inc. (TCPPI) was granted a corporate charter on August 13, 1977, under the laws of the Trust Territory of the Pacific Islands, as subsequently adopted by the Republic of the Marshall Islands (RepMar). TCPPI was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. TCPPI is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). TCPPI's principal lines of business are copra oil, copra cake and soap products. The principal market for the copra oil and copra cake are companies and farmers located in Australia, 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 TCPPI (the Board).

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

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

(2) Summary of Significant Accounting Policies

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 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, TCPPI's equity is presented in the following net asset categories:

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(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, TCPPI is specifically exempt from this tax as TCPPI is a government owned copra processing corporation.

Cash

Custodial credit risk is the risk that in the event of a bank failure, TCPPI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. TCPPI does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2011 and 2010, the carrying amount of TCPPI's cash was \$2,058,129 and \$173,521, respectively, and the corresponding bank balance was \$2,073,196 and \$219,607, respectively. Of the bank balance amount, \$807,681 and \$219,607, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$807,681 and \$219,607, respectively, were FDIC insured. TCPPI does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

All receivables are due from companies and farmers in Australia and 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.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(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	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, 2011 and 2010, an accumulated vacation leave liability of \$20,225 and \$11,583, 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 2011, TCPPI implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued 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 measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCPPI.

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 TCPPI.

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 TCPPI.

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 Financial Accounting Standards Board (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 TCPPI.

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued 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 provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCPPI.

(3) Inventories

Inventories at September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Copra oil	\$ 591,247	\$ 163,937
Soap and materials	150,389	72,874
Copra cake	97,951	11,648
Raw copra	95,652	362,677
Carts	<u>62,153</u>	<u>81,685</u>
	<u>\$ 997,392</u>	<u>\$ 692,821</u>

(4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2011 and 2010 is as follows:

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(4) Property, Plant and Equipment, Continued

	2010			
	<u>October 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2010</u>
Building and improvements	\$ 1,907,164	\$ 9,777	\$ -	\$ 1,916,941
Equipment	1,776,287	8,820	-	1,785,107
Furniture and fixtures	<u>74,709</u>	<u>10,465</u>	<u>-</u>	<u>85,174</u>
	3,758,160	29,062	-	3,787,222
Less accumulated depreciation	<u>(3,084,394)</u>	<u>(96,880)</u>	<u>-</u>	<u>(3,181,274)</u>
	673,766	(67,818)	-	605,948
Construction in progress	<u>-</u>	<u>6,855</u>	<u>-</u>	<u>6,855</u>
	<u>\$ 673,766</u>	<u>\$ (60,963)</u>	<u>\$ -</u>	<u>\$ 612,803</u>

(5) Notes Payable

In the normal course of the company's operations, TCPPI obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. TCCPI has a bank credit line amounting to \$1,500,000 as of September 30, 2011 and 2010, which is collateralized by a general security agreement over all assets of TCPPI 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, 2011 and 2010 are as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
2011	\$ <u>-</u>	\$ <u>1,500,000</u>	\$ <u>(1,500,000)</u>	\$ <u>-</u>
2010	\$ <u>-</u>	\$ <u>1,500,000</u>	\$ <u>(1,500,000)</u>	\$ <u>-</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 and the Marshall Islands Shipping Corporation.

During the years ended September 30, 2011 and 2010, the operations of TCPPI were funded by appropriations of \$1,245,600 and \$1,340,002, respectively, from the Nitijela of RepMar. In 2011, Tobolar also received \$202,500 from a \$270,000 capital improvement projects subsidy of which \$67,500 is recorded as a receivable at September 30, 2011. In addition, TCPPI has recorded receivables from RepMar at September 30, 2011 and 2010 of \$78,202 and \$61,639, respectively, relating to miscellaneous services provided by TCPPI.

During the year ended September 30, 2010, TCPPI advanced \$100,000 to the Marshall Islands Shipping Corporation (MISC) for the purpose of assisting MISC with purchasing copra from growers in the outer islands. The advance is interest-free and uncollateralized with a repayment date of September 1, 2011 but has remained unpaid as of September 30, 2011.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(6) Related Party Transactions, Continued

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 additional related party transactions is as follows:

	2011	
	<u>Expenses</u>	<u>Payables</u>
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	<u>12,582</u>	<u>-</u>
	<u>\$ 1,773,267</u>	<u>\$ 37,531</u>
	2010	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 1,407,642	\$ 14,561
Marshalls Energy Company, Inc.	251,418	-
Marshall Islands Social Security Administration	50,868	13,548
RepMar	33,847	-
RMI Ports Authority	4,876	-
Others	<u>9,445</u>	<u>-</u>
	<u>\$ 1,758,096</u>	<u>\$ 28,109</u>

(7) Risk Management

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

(8) Significant Customers

Approximately 99% and 97% of total sales were earned from four and two customers during the years ended September 30, 2011 and 2010, respectively.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2011 and 2010

(9) Contingencies

For the years ended September 30, 2011 and 2010, TCPPI received copra subsidies in cash of \$1,245,600 and \$1,340,002, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, TCPPI does not have a formal agreement with RepMar to provide future funding. In the event that copra subsidies from RepMar are reduced or eliminated, the Board and management of TCPPI will take appropriate action to initiate a reduction in purchase price of copra. For fiscal year 2012, a copra subsidy of \$1,200,000 and a capital improvement projects subsidy of \$200,000 was appropriated by the Nitijela of RepMar.

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 the Marshall Islands Development Authority (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.

(10) Restatement

Subsequent to the issuance of TCPPI's 2010 financial statements, TCPPI management determined that copra oil inventory was overstated by \$215,003. As a result of this determination, inventory and related cost of copra products manufactured and sold have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30:		
Current assets:		
Inventories	\$ <u>907,824</u>	\$ <u>692,821</u>
Net assets - Unrestricted	\$ <u>1,181,235</u>	\$ <u>966,232</u>
Total net assets	\$ <u>1,794,038</u>	\$ <u>1,579,035</u>
For the year ended September 30:		
Operating expenses:		
Cost of copra products manufactured and sold	\$ <u>3,004,643</u>	\$ <u>3,219,646</u>
Operating loss	\$ <u>(715,373)</u>	\$ <u>(930,376)</u>
Change in net assets	\$ <u>569,042</u>	\$ <u>354,039</u>
Net assets at end of year	\$ <u>1,794,038</u>	\$ <u>1,579,035</u>