

**TOBOLAR COPRA PROCESSING PLANT, INC.**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Tobolar Copra Processing Plant, Inc.:

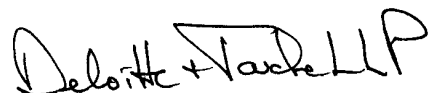
We have audited the accompanying statements of net assets of Tobolar Copra Processing Plant, Inc. (TCPPI), a component unit of the Republic of the Marshall Islands, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of cash flows for the 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, 2010 and 2009, 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 such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2011, 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.



June 3, 2011

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2010 and 2009

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, 2010. Please read it in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

TCPPI's net assets increased by \$569,042 or 46.5% from \$1,224,996 in 2009 to \$1,794,038 in 2010, which was primarily due to an increase in copra product sales and related copra subsidies from RepMar government. This resulted in an increase in cash of \$103,313 or 147.2% from \$70,208 in 2009 to \$173,521 in 2010, a net increase in accounts receivable of \$115,480 or 108.7% from \$106,264 in 2009 to \$221,744 in 2010, an increase in inventory of \$88,257 or 10.8% from \$819,567 in 2009 to \$907,824 in 2010. In addition to the aforementioned increases in net assets, there was a decrease in payable to affiliates of \$318,954 or 95.6% from \$333,515 in 2009 to \$14,561 in 2010, and a net decrease in non-affiliate payables, accrued expense and other payables of \$4,001 or 3.06% from \$111,557 in 2009 to \$107,556 in 2010. Further, there was a decrease in capital assets of \$60,963 or 9.0%.

Operating revenues of TCPPI increased by \$386,704 or 17.1% from \$2,264,985 in 2009 to \$2,651,689 in 2010. Within operating revenues, sales of coconut oil increased by \$340,921 or 16.7% from \$2,038,971 in 2009 to \$2,379,892 in 2010. There was also an increase in non-coconut oil revenues of \$45,783 in 2010 compared with 2009. The increase in coconut oil sales was primarily due to increasing market prices for coconut oil.

Expenses decreased by \$1,267,536 or 27.3% from \$4,634,598 in 2009 to \$3,367,062 in 2010. Within expenses, the cost of copra products manufactured and sold decreased by \$1,211,787 or 28.7% from \$4,216,430 in 2009 to \$3,004,643 in 2010. The decrease in expenses is primarily due to a decrease in the buying price of copra per pound by \$.07 from \$.22 in 2009 to \$.15 in 2010, and the cumulative impact of inventory adjustments in 2009 and 2010 to reflect the valuation of inventory at the lower of cost or market (net realizable value).

Operating subsidies from the Republic of the Marshall Islands (RepMar) increased by \$343,002 or 34.4% from \$997,000 in 2009 to \$1,340,002 in 2010 as a result of additional funds provided by the government through Cabinet Minutes as a subsidy for the decrease in copra buying price during 2010.

#### 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>2010</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 1,303,352	\$ 996,302	\$ 2,052,657
Capital assets	<u>612,803</u>	<u>673,766</u>	<u>769,506</u>
Total assets	<u>\$ 1,916,155</u>	<u>\$ 1,670,068</u>	<u>\$ 2,822,163</u>

# TOBOLAR COPRA PROCESSING PLANT, INC.

## Management's Discussion and Analysis September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current liabilities	\$ 122,117	\$ 445,072	\$ 197,259
Net assets:			
Invested in capital assets	612,803	673,766	769,506
Unrestricted	<u>1,181,235</u>	<u>551,230</u>	<u>1,855,398</u>
Total net assets	<u>1,794,038</u>	<u>1,224,996</u>	<u>2,624,904</u>
	<u>\$ 1,916,155</u>	<u>\$ 1,670,068</u>	<u>\$ 2,822,163</u>

As indicated above, total assets increased by \$246,087 or 14.7% from \$1,670,068 in 2009 to \$1,916,155 in 2010. This is due to increase of \$307,050 in current and other assets and decrease of \$60,963 in capital assets. The increase in current and other assets of \$307,050 reflects an increase in cash of \$103,313, an increase in net accounts receivable of \$115,480, and an increase in inventory of \$88,257. Receivables increased primarily due to an advance made by TCPPI to the Marshall Islands Shipping Corporation (MISC) in the amount of \$100,000 for the purpose of assisting MISC in the purchase of copra from growers in the outer islands.

Total liabilities reflected a decrease of \$322,955 or 72.6% from \$445,072 in 2009 to \$122,117 in 2010. The decrease in total liabilities resulted from a decrease in payables to affiliates of \$318,954, a decrease in non-affiliate payables of \$18,947 and an increase of accrued expense and other payables of \$14,946. TCPPI has a bank credit line of \$1,500,000 for the purpose of funding the purchase of raw copra from producers. Please refer to note 5 to the accompanying financial statements for additional information concerning this bank credit line.

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

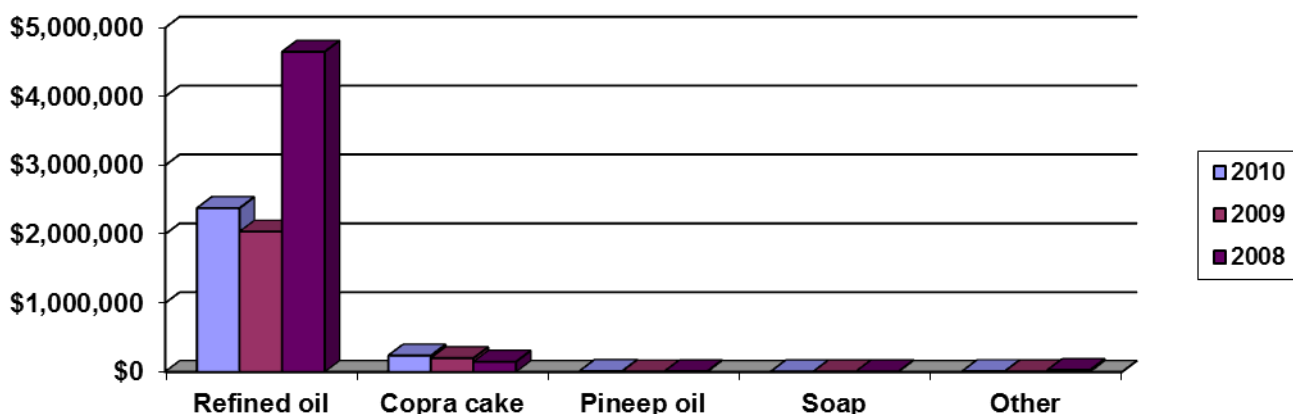
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
Operating revenues	\$ 2,651,689	\$ 2,264,985	\$ 4,845,932
Non-operating revenues	<u>1,340,002</u>	<u>1,028,281</u>	<u>1,173,595</u>
Total revenues	3,991,691	3,293,266	6,019,527
Expenses:			
Operating expenses	3,367,062	4,634,598	4,825,435
Non-operating expenses	<u>55,587</u>	<u>58,576</u>	<u>37,719</u>
Total expenses	<u>3,422,649</u>	<u>4,693,174</u>	<u>4,863,154</u>
Change in net assets	<u>\$ 569,042</u>	<u>\$ (1,399,908)</u>	<u>\$ 1,156,373</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 \$698,425 or 21.2% from \$3,293,266 in 2009 to \$3,991,691 in 2010. This increase is primarily due to an increase in the sale of coconut oil of \$340,921, an increase in non-coconut oil sales of \$45,782, and an increase in non-operating revenues for \$311,721 for the additional RMI subsidies.

## TOBOLAR COPRA PROCESSING PLANT, INC.

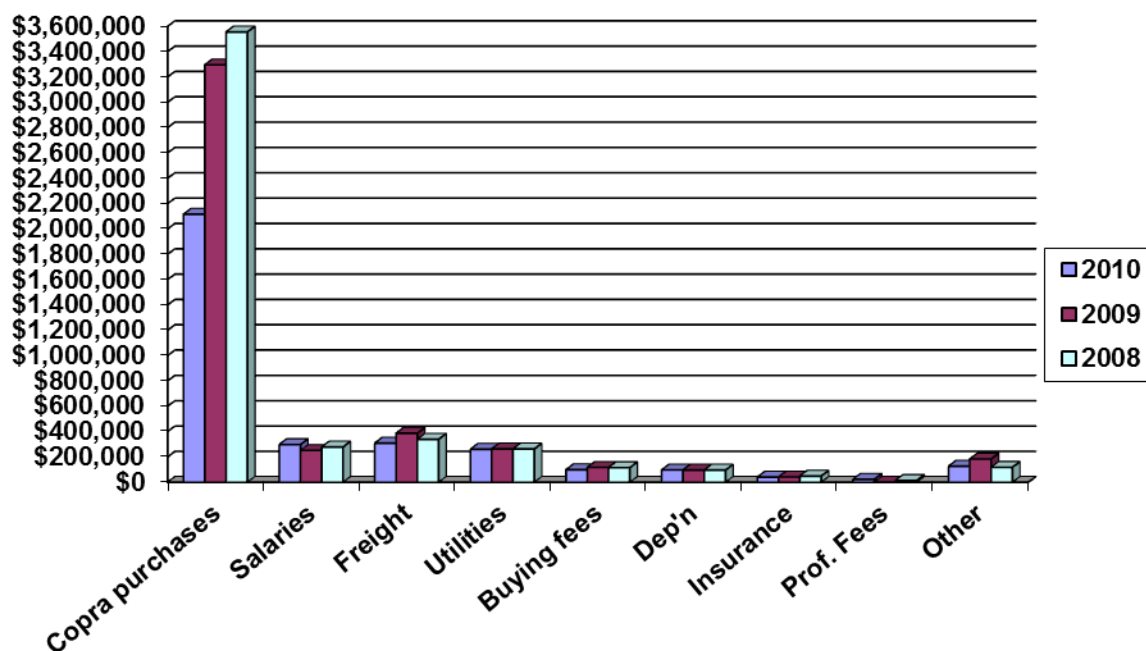
Management's Discussion and Analysis  
September 30, 2010 and 2009

The graph below shows the major components of operating revenues for 2010 compared with 2009 and 2008.



Total expenses decreased by \$1,270,525 or 27.1% from \$4,693,174 in 2009 to \$3,422,649 in 2010. This decrease was primarily due to a decrease in copra purchases of \$1,179,751, or 35.8%, from \$3,295,331 in 2009 to \$2,115,580 in 2010. Likewise, non-copra operating expenses decreased by \$87,785 and non-operating expenses decreased by \$2,989 for the same comparative period.

The graph below shows the major components of operating expenses for 2010 compared with 2009 and 2008:



## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2010 and 2009

#### CAPITAL ASSETS

Net capital assets decreased by \$60,963 or 9.0% from \$673,766 in 2009 to \$612,803 in 2010 as a result of depreciation expense of \$96,880 with increases in equipment, furniture and fixtures of \$19,285, building and improvements of \$9,777, and an increase in construction in progress of \$6,855.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Buildings and leasehold improvements	\$ 1,916,941	\$ 1,907,164	\$ 1,907,164
Equipment	1,785,107	1,766,287	1,799,899
Furniture and fixtures	<u>85,174</u>	<u>74,709</u>	<u>74,709</u>
	3,787,222	3,758,160	3,781,772
Less accumulated depreciation	<u>(3,181,274)</u>	<u>(3,084,394)</u>	<u>(3,012,266)</u>
	605,948	673,766	769,506
Construction work-in-progress	<u>6,855</u>	<u>-</u>	<u>-</u>
	<u>\$ 612,803</u>	<u>\$ 673,766</u>	<u>\$ 769,506</u>

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

Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the TCPPI's report on the audit of financial statements, which is dated April 15, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements and can be obtained from the TCPPI's General Manager via the contact information below.

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

The following factors were considered in preparing the TCPPI's budget for fiscal year 2011:

- 1) The FY 2011 Republic of the Marshall Islands Government 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 6,000 tons of copra production, which is based on the last 6 years of copra production.
- 6) An additional \$270,000 government subsidy for Capital Improvements Projects for FY2011.

#### 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, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash	\$ 173,521	\$ 70,208
Receivables:		
Trade	122,255	134,164
Affiliates	161,639	88,633
Employees	16,981	234
Advances to suppliers and copra buyers	71,767	22,871
	372,642	245,902
Allowance for doubtful accounts	(150,898)	(139,638)
	221,744	106,264
Inventories	907,824	819,567
Prepaid items	263	263
Total current assets	1,303,352	996,302
Property, plant and equipment, net	612,803	673,766
	<u>\$ 1,916,155</u>	<u>\$ 1,670,068</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 73,398	\$ 92,345
Payable to affiliates	14,561	333,515
Accrued interest	13,979	13,979
Other accrued liabilities	20,179	5,233
Total current liabilities	122,117	445,072
Contingencies		
Net assets:		
Invested in capital assets	612,803	673,766
Unrestricted	1,181,235	551,230
Total net assets	1,794,038	1,224,996
	<u>\$ 1,916,155</u>	<u>\$ 1,670,068</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Sales	\$ 2,651,689	\$ 2,264,985
Less cost of copra products manufactured and sold	<u>3,004,643</u>	<u>4,216,430</u>
Gross loss	<u>(352,954)</u>	<u>(1,951,445)</u>
General and administrative expenses:		
Salaries and wages	143,906	111,275
Insurance	39,936	41,674
Travel and entertainment	36,020	2,849
Repairs and maintenance	33,567	133,588
Membership dues & subscriptions	25,034	-
Professional fees	22,775	730
Management fee	14,700	50,000
Communications	10,589	10,617
Office supplies	6,982	14,132
Miscellaneous	<u>28,910</u>	<u>53,303</u>
Total general and administrative expenses	<u>362,419</u>	<u>418,168</u>
Operating loss	<u>(715,373)</u>	<u>(2,369,613)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,340,002	997,000
Interest expense	(55,587)	(58,576)
Other	<u>-</u>	<u>31,281</u>
Total nonoperating revenues (expenses), net	<u>1,284,415</u>	<u>969,705</u>
Change in net assets	569,042	(1,399,908)
Net assets at beginning of year	<u>1,224,996</u>	<u>2,624,904</u>
Net assets at end of year	<u><u>\$ 1,794,038</u></u>	<u><u>\$ 1,224,996</u></u>

See accompanying notes to financial statements.



**TOBOLAR COPRA PROCESSING PLANT, INC.**

Statements of Cash Flows  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,673,845	\$ 2,478,835
Cash payments to suppliers for goods and services	(3,444,820)	(3,912,454)
Cash payments to employees for services	<u>(274,210)</u>	<u>(265,845)</u>
Net cash used for operating activities	<u>(1,045,185)</u>	<u>(1,699,464)</u>
Cash flows from noncapital financing activities:		
Copra subsidies from RepMar	1,340,002	997,000
Advance to affiliates	(100,000)	-
Interest paid on line of credit	<u>(55,587)</u>	<u>(58,576)</u>
Net cash provided by noncapital financing activities	<u>1,184,415</u>	<u>938,424</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(35,917)</u>	<u>-</u>
Net change in cash	103,313	(761,040)
Cash at beginning of year	<u>70,208</u>	<u>831,248</u>
Cash at end of year	<u><u>\$ 173,521</u></u>	<u><u>\$ 70,208</u></u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (715,373)	\$ (2,369,613)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	96,880	95,740
Bad debts	11,260	-
(Increase) decrease in assets:		
Receivables:		
Trade	11,909	(16,380)
Affiliates	26,994	202,154
Employees	(16,747)	28,076
Advances to copra suppliers and buyers	(48,896)	(9,469)
Inventories	(88,257)	92,177
Prepaid items	-	30,038
Increase (decrease) in liabilities:		
Accounts payable	(18,947)	40,512
Payable to affiliates	(318,954)	208,680
Other accrued liabilities	<u>14,946</u>	<u>(1,379)</u>
Net cash used for operating activities	<u><u>\$ (1,045,185)</u></u>	<u><u>\$ (1,699,464)</u></u>

See accompanying notes to financial statements.

# TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2010 and 2009

## (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 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 five-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, 2010 and 2009

### **(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, 2010 and 2009, the carrying amount of TCPPI's cash was \$173,521 and \$70,208, respectively, and the corresponding bank balance was \$219,607 and \$533,140, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$219,607 and \$250,000, 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 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, 2010 and 2009

### (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, 2010 and 2009, an accumulated vacation leave liability of \$11,583 and \$4,500, 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 2010, TCPPI implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

## TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2010 and 2009

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

#### New Accounting Standards, Continued

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of TCPPI.

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 June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of TCPPI.

### (3) Inventories

Inventories at September 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Copra oil	\$ 378,940	\$ 223,772
Raw copra	362,677	448,994
Carts	81,685	83,446
Soap and materials	72,874	47,178
Copra cake	<u>11,648</u>	<u>16,177</u>
	\$ <u>907,824</u>	\$ <u>819,567</u>

# TOBOLAR COPRA PROCESSING PLANT, INC.

## Notes to Financial Statements September 30, 2010 and 2009

### (4) Property, Plant and Equipment

Capital asset activity for the years ended September 30, 2010 and 2009 is as follows:

	2010			
	October 1, 2009	Additions	Retirements	September 30, 2010
Building and improvements	\$ 1,907,164	\$ 9,777	\$ -	\$ 1,916,941
Equipment	1,776,287	8,820	-	1,785,107
Furniture and fixtures	74,709	10,465	-	85,174
	3,758,160	29,062	-	3,787,222
Less accumulated depreciation	(3,084,394)	(96,880)	-	(3,181,274)
	673,766	(67,818)	-	605,948
Construction in progress	-	6,855	-	6,855
	\$ 673,766	\$ (60,963)	\$ -	\$ 612,803
	2009			
	October 1, 2008	Additions	Retirements	September 30, 2009
Building and improvements	\$ 1,907,164	\$ -	\$ -	\$ 1,907,164
Equipment	1,799,899	-	(23,612)	1,776,287
Furniture and fixtures	74,709	-	-	74,709
	3,781,772	-	(23,612)	3,758,160
Less accumulated depreciation	(3,012,266)	(95,740)	23,612	(3,084,394)
	\$ 769,506	\$ (95,740)	\$ -	\$ 673,766

### (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, 2010 and 2009 which are collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. Notes drawn pay 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, 2010 and 2009 are as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
2010	\$ -	\$ 1,500,000	\$ (1,500,000)	\$ -
2009	\$ -	\$ 1,500,000	\$ (1,500,000)	\$ -

### (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.

# TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements  
September 30, 2010 and 2009

## (6) Related Party Transactions, Continued

TCPPI is affiliated with Pacific International, Inc. (PII), a company with whom TCPPI has contracted to manage its operations. TCPPI's management agreement with PII expired on December 31, 2009.

In the ordinary course of business, TCPPI contracted with PII for various services. During the year ended September 30, 2009, repairs and maintenance includes charges from PII amounting to \$83,890 for the cost of replacing the roof and siding of the copra plant. Total receivables from PII and its affiliates for sale of coconut fuel and other services amounted to \$18,987 as of September 30, 2009. Prepaid insurance of \$263 with an affiliate of PII was recorded as of September 30, 2009.

During the years ended September 30, 2010 and 2009, the operations of TCPPI were funded by appropriations totaling \$1,340,002 and \$997,000, respectively, from the Nitijela of RepMar. In addition, TCPPI recorded receivables from RepMar at September 30, 2010 and 2009 of \$61,639 and \$69,646, 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.

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:

	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	-
RepMar	33,847	-
RMI Ports Authority	4,876	-
Others	<u>9,445</u>	<u>-</u>
	\$ <u>1,758,096</u>	\$ <u>14,561</u>
	2009	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 1,168,646	\$ 22,838
Pacific International, Inc. and affiliates	1,637,019	298,153
RepMar	29,622	-
Marshalls Energy Company, Inc.	260,524	11,670
Marshall Islands Social Security Administration	47,936	-
RMI Ports Authority	6,137	-
Others	<u>11,763</u>	<u>854</u>
	\$ <u>3,161,647</u>	\$ <u>333,515</u>

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

Notes to Financial Statements  
September 30, 2010 and 2009

### **(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 97% of total sales was earned from two customers during the years ended September 30, 2010 and 2009.

### **(9) Contingencies**

TCPPI incurred an operating loss of \$715,372 and \$2,369,613 and experienced negative cash flows from operations of \$1,145,185 and \$1,699,464 during the years ended September 30, 2010 and 2009. For the years ended September 30, 2010 and 2009, TCPPI received copra subsidies in cash of \$1,340,002 and \$997,000, 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 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. The fiscal year 2011 appropriated copra subsidy is \$1,200,000 and the capital improvement projects subsidy is \$270,000.

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.



**TOBOLAR COPRA PROCESSING PLANT, INC.**

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

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2010**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Tobolar Copra Processing Plant, Inc.:

We have audited the financial statements of Tobolar Copra Processing Plant, Inc. (TCPPI) as of and for the year ended September 30, 2010, and have issued our report thereon dated June 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered TCPPI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TCPPI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of TCPPI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 6), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2010-1 through 2010-3 to be material weaknesses.

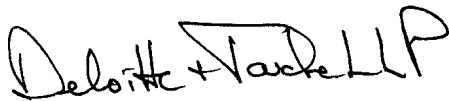
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether TCPPI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2010-4.

We also noted certain matters that we reported to management of TCPPI in a separate letter dated June 3, 2011.

TCPPI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit TCPPI's responses and, accordingly, we express no opinion on them.

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

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

June 3, 2011

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

### **Schedule of Findings and Responses Year Ended September 30, 2010**

#### Journal Entries

##### Finding No. 2010-1

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Further, an independent review of journal vouchers should occur.

Condition: TCPPI does not have a policy concerning authorization and review of manual journal entries. Manual journal entries are prepared and posted by a single person without independent review. Further, we noted that general ledger accounts does not reconcile to the sales ledger per customer and payables per vendor due to inappropriate entries booked to wrong customer and vendor accounts, respectively.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that journal entries are subjected to review and approval.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures to ensure that only authorized journal entries are posted to the general ledger.

Prior Year Status: The lack of internal control over approval and independent review of journal vouchers was reported as a finding in the audits of TCPPI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: As a recurring audit findings from previous years, Tobolar's new management was serious in resolving this particular issue to improve and comply with the effective internal control on journal entries and adjustments.

We have implemented an internal control over journal vouchers for FY2010 which we think were already put in place. All journal vouchers on file were prepared and recorded in the books by the Chief Accountant and signed by the Plant Manager to signify review and approval. The latter was designated by Tobolar board as the acting General Manager (GM) since the post was vacant until February 28, 2011.

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

### **Schedule of Findings and Responses, Continued Year Ended September 30, 2010**

#### Accounts Receivable

##### Finding No. 2010-2

Criteria: The aged accounts receivable subsidiary ledger should be monitored and used for credit control purposes.

Condition: Of total receivables of \$123,612 (which excludes RepMar and affiliates totaling \$178,126), \$120,978 or 98% is over 120 days old and has been outstanding for over one (1) year. Regular reconciliations between the accounts receivable sub ledger and the general ledger account were not performed during the year. Management has recorded a corresponding allowance for doubtful accounts of \$118,573 at September 30, 2010.

Cause: This condition arose due to a lack of ongoing collection effort throughout the year and a lack of policies and procedures to ensure that account reconciliations periodically occur during the year.

Effect: The effect of the above condition is that potential misstatements could occur and not be detected in a timely manner.

Recommendation: We recommend that management require periodic review and reconciliation of accounts receivable. In addition, we recommend that collection procedures be implemented, on-going status meetings organized and collection targets established.

Prior Year Status: The lack of internal control over monitoring of accounts receivable was reported as a finding in the audit of TCPPI for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: Apparently the Accounts Receivables are from prior management which perhaps made attempt to collect but unable to succeed. The current management will ascertain adequate effort to collect the overdue receivables in FY2011. A staff will be assigned to retrieve the old files and records of these outstanding receivables and will take full charge of communicating with each respective clients to collect the outstanding balance.

Said staff will ensure proper monitoring of receivables on an ongoing basis to establish effective collections. The Chief Accountant will be supervising the collection and on monthly basis report any progress and development to the General Manager accordingly.

Subject to the outcome of the collection, the Chief Accountant will consult with the General Manager on determining uncollectable account(s) to be written off.

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

### **Schedule of Findings and Responses, Continued Year Ended September 30, 2010**

#### Sick Leave Accruals

#### Finding No. 2010-3

Criteria: Internal control over the monitoring of sick leave hours should be established and implemented.

Condition: TCPPI does not maintain a sick leave subsystem to monitor sick leave hours earned and utilized.

Cause: The cause of the above condition is that TCPPI has not instituted control over the monitoring of sick leave hours.

Effect: The effect of the above condition is that sick leave hours could be incorrectly paid or accounted for.

Recommendation: We recommend that management ensure that a sick leave subsystem that tracks sick leave hours earned and utilized is maintained.

Prior Year Status: The lack of internal control over monitoring of sick leave hours was reported as a finding in the audits of TCPPI for fiscal years 2005 through 2009.

Auditee Response and Corrective Action Plan: Our payroll officer is currently reconciling sick leave hours of all employees (from previous years to present) and hopefully finished it within May or June 2011. Once finalized, we will try to integrate this with our QuickBooks System, in particular the payroll module, the Sick Leave, including Annual Leave hours for easy and systematic monitoring. The Chief Accountant will be primarily in charge of ensuring that the leave hours are monitored, reconciled, and importantly, properly recorded.

The Chief Accountant will provide a generated report to the General Manager who will check and make sure that the monitoring and recording of the leave hours are properly and acceptably done.

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

### **Schedule of Findings and Responses, Continued Year Ended September 30, 2010**

#### Local Noncompliance

##### Finding No. 2010-4

Criteria: Public Law 1992-2, enacted on February 17, 1992, established the Tobolar Copra Processing Authority (the Authority). Pursuant to this law, the Authority was specifically authorized and directed to enter into appropriate arrangements with TCPPI for the assumption of all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI may have or control, including all rights to the use of the name "Tobolar". This assumption was to occur once TCPPI had been liquidated.

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

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

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

Recommendation: We recommend that management take steps to comply with the requirements of Public Law 1992-2, including consultation with a legal counsel.

Prior Year Status: Noncompliance with the requirements of Public Law 1992-2 was reported as a finding in the audits of TCPPI for fiscal years 1994 through 2009.

Auditee Response and Corrective Action Plan: The finding involves legal implication which requires assistance and guidance from the Office of the Attorney General. In this respect, Tobolar Management contacted the Office of the Attorney General and obtained a legal opinion on options to pursue. Such opinion will be reviewed by the Tobolar Board of Directors who will decide on which option to pursue.

Both options will still require the support of the Office of the Attorney General and therefore subject to the Board decision and further instruction. Tobolar management will be responsible to facilitate action accordingly. It is Tobolar's main objective to resolve the audit finding as early as possible.

**TOBOLAR COPRA PROCESSING PLANT, INC.**

Unresolved Prior Year Findings  
Year Ended September 30, 2010

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 through 6).