

TOBOLAR COPRA PROCESSING PLANT, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002



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, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of TCPPI. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of TCPPI as of September 30, 2003 and 2002, 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 described in note 2 to the accompanying financial statements, TCPPI adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2004, on our consideration of TCPPI's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

April 1, 2004

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis Year Ended September 30, 2003

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, 2003. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TCPPI's net assets increased by \$207,855 or 25.3% from \$821,922 in 2002 to \$1,029,777 in 2003. Operating revenues of TCPPI increased by \$571,760 or 60.8% from \$940,133 in 2002 to \$1,511,893 in 2003. Within operating revenues, sales of refined oil and copra cake increased by \$570,737 or 62.0% from \$921,046 in 2002 to \$1,491,783 in 2003 as a result of an increase in the number of export shipments. Operating expenses increased by \$537,175 or 30.0% from \$1,792,270 in 2002 to \$2,329,445 in 2003. Within operating expenses, the cost of copra products manufactured and sold increased by \$523,442 or 34.0% from \$1,539,724 in 2002 to \$2,063,166 in 2003 due to an increase in the purchase of raw copra from growers in the outer islands. Operating subsidies from the Republic of the Marshall Islands (RepMar) increased by \$146,286 or 15.4% from \$949,464 in 2002 to \$1,095,750 in 2003.

FINANCIAL ANALYSIS OF TCPPI

The Statement of Net Assets (page 5) and the Statement of Revenues, Expenses and Changes in Net Assets (page 6) 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>2003</u>	<u>2002</u>
Current and other assets	\$ 1,186,145	\$ 1,392,350
Capital assets	<u>1,068,153</u>	<u>1,085,938</u>
Total assets	<u>2,254,298</u>	<u>2,478,288</u>
Current liabilities	<u>1,224,521</u>	<u>1,656,366</u>
Total liabilities	<u>1,224,521</u>	<u>1,656,366</u>
Net assets:		
Invested in capital assets	1,068,153	1,085,938
Unrestricted	<u>(38,376)</u>	<u>(264,016)</u>
Total net assets	<u>\$ 1,029,777</u>	<u>\$ 821,922</u>

As indicated above, total assets decreased by \$223,990 or 9.0% from \$2,478,288 in 2002 to \$2,254,298 in 2003. This is comprised of a decrease of \$206,205 in current and other assets and a decrease of \$17,785 in capital assets. The decrease in current and other assets reflects a reduction in inventory balances primarily due to a reduction in refined oil on hand at year end.

Total liabilities reflect a decrease of \$431,845 or 26.1% from \$1,656,366 in 2002 to \$1,224,521 in 2003. This decrease is the result of improved cash flows due to an increase in sales of refined copra products during the year enabling TCPPI to pay down some of its bank debt and to settle liabilities to its suppliers and vendors.

TOBOLAR COPRA PROCESSING PLANT, INC.

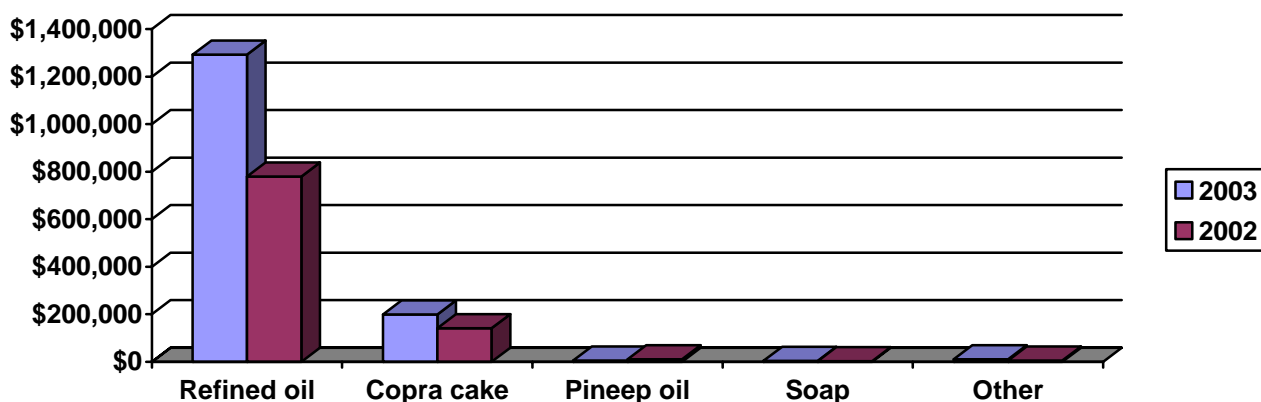
**Management's Discussion and Analysis, Continued
Year Ended September 30, 2003**

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

	<u>2003</u>	<u>2002</u>
Revenues:		
Operating revenues	\$ 1,511,893	\$ 940,133
Nonoperating revenues	<u>1,095,750</u>	<u>1,449,464</u>
Total revenues	<u>2,607,643</u>	<u>2,389,597</u>
Expenses:		
Operating expenses	2,329,445	1,792,270
Nonoperating expenses	<u>70,343</u>	<u>91,180</u>
Total expenses	<u>2,399,788</u>	<u>1,883,450</u>
Change in net assets	<u>\$ 207,855</u>	<u>\$ 506,147</u>

The Statement of Revenues, Expenses and Changes in Net Assets identifies the various revenue and expense items that impact the change in net assets. As indicated above, TCPPI's total revenues increased by \$218,046 or 9.1% from \$2,389,597 in 2002 to \$2,607,643 in 2003. This increase reflects an increase in the sale of refined copra products offset somewhat by a one time debt forgiveness from RepMar in 2002 pertaining to a cash advance made to TCPPI in 1999.

The graph below shows the major components of operating revenues for 2003 compared with 2002:

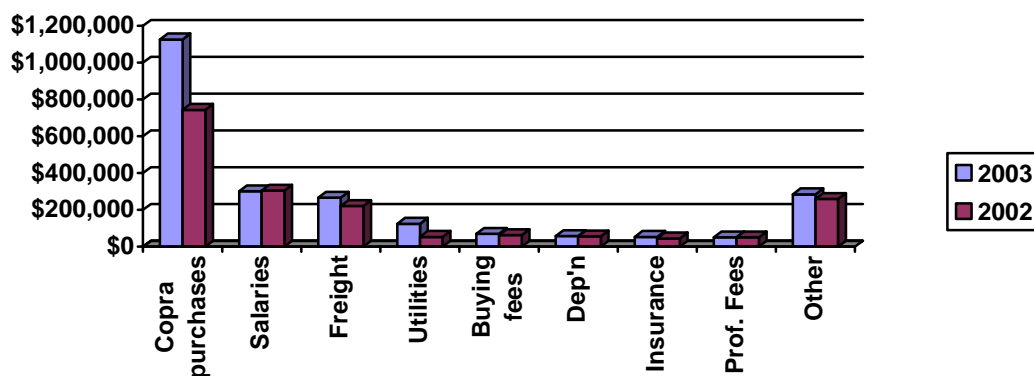


Total expenses increased by \$516,338 or 27.4% from \$1,883,450 in 2002 to \$2,399,788 in 2003. This was the result of an increase in the purchase of raw copra from growers in the outer islands.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis, Continued Year Ended September 30, 2003

The graph below shows the major components of operating expenses for 2003 compared with 2002:



CAPITAL ASSETS

Net capital assets decreased by \$17,785 in 2003 primarily as a result of depreciation expense exceeding current year acquisitions of equipment. A summary of TCPPI's capital assets is presented below:

	<u>2003</u>	<u>2002</u>
Buildings and leasehold improvements	\$ 1,888,115	\$ 1,888,115
Equipment	1,369,438	1,330,689
Furniture and fixtures	<u>70,032</u>	<u>69,746</u>
	3,327,585	3,288,550
Less accumulated depreciation	<u>(2,598,073)</u>	<u>(2,541,253)</u>
	729,512	747,297
Construction work-in-progress	<u>338,641</u>	<u>338,641</u>
	<u>\$ 1,068,153</u>	<u>\$ 1,085,938</u>

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The following factors were considered in preparing the TCPPI's budget for fiscal year 2004:

- 1) The price paid to copra producers would stay the same.
- 2) The new Republic of the Marshall Islands Government subsidy would increase over the fiscal year 2003.
- 3) The net cake price will maintain a pricing premium due to TCPPI's superior quality.
- 4) The world market oil price would be slightly higher than the average world market oil price for the 6-month period ending September 30, 2002.
- 5) There would be 4,000 tons of copra production, which is based on the last 6 years of copra production.

ADDITIONAL FINANCIAL INFORMATION

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Statement of Net Assets
September 30, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ 238,665	\$ 2,194
Receivables:		
Affiliate	433,661	410,229
Trade	32,463	82,134
Employees	21,504	16,883
Advances to copra buyers	13,334	13,334
	<u>500,962</u>	<u>522,580</u>
Allowance for doubtful accounts	<u>(48,694)</u>	<u>(30,973)</u>
	<u>452,268</u>	<u>491,607</u>
Inventories	398,307	898,549
Advances to suppliers	96,905	-
Total current assets	1,186,145	1,392,350
Property, plant and equipment, net	<u>1,068,153</u>	<u>1,085,938</u>
	<u>\$ 2,254,298</u>	<u>\$ 2,478,288</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Bank overdraft	\$ -	\$ 10,344
Notes payable	800,000	1,022,478
Accounts payable	36,296	56,154
Payable to affiliates	323,745	455,180
Accrued interest	64,480	61,144
Other payables	-	51,066
Total current liabilities	<u>1,224,521</u>	<u>1,656,366</u>
Commitment and contingencies		
Net assets:		
Investment in capital assets	1,068,153	1,085,938
Unrestricted	<u>(38,376)</u>	<u>(264,016)</u>
Total net assets	<u>1,029,777</u>	<u>821,922</u>
	<u>\$ 2,254,298</u>	<u>\$ 2,478,288</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Sales	\$ 1,511,893	\$ 940,133
Less cost of copra products manufactured and sold	<u>2,063,166</u>	<u>1,539,724</u>
Gross loss	<u>(551,273)</u>	<u>(599,591)</u>
General and administrative expenses:		
Salaries and wages	81,580	94,338
Insurance	52,626	44,302
Management fee	50,000	50,000
Professional fees	25,520	10,109
Bad debts	17,721	-
Travel and entertainment	13,372	19,408
Communications	11,856	8,041
Office supplies	4,164	5,295
Miscellaneous	<u>9,440</u>	<u>21,053</u>
Total general and administrative expenses	<u>266,279</u>	<u>252,546</u>
Operating loss	<u>(817,552)</u>	<u>(852,137)</u>
Nonoperating revenues (expenses):		
Operating subsidies from RepMar	1,095,750	949,464
Forgiveness of debt	-	500,000
Interest expense	<u>(70,343)</u>	<u>(91,180)</u>
Total nonoperating revenues (expenses), net	<u>1,025,407</u>	<u>1,358,284</u>
Change in net assets	207,855	506,147
Net assets at beginning of year	<u>821,922</u>	<u>315,775</u>
Net assets at end of year	<u>\$ 1,029,777</u>	<u>\$ 821,922</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,533,511	\$ 1,181,498
Cash payments to suppliers for goods and services	(1,773,631)	(1,591,753)
Cash payments to employees for services	(280,295)	(304,191)
Net cash used for operating activities	<u>(520,415)</u>	<u>(714,446)</u>
Cash flows from noncapital financing activities:		
Operating subsidies from RepMar	1,095,750	949,464
Net repayments under line of credit	(222,478)	(77,522)
Net decrease in bank overdraft	(10,344)	(32,542)
Interest paid on line of credit	(67,007)	(78,052)
Net cash provided by noncapital financing activities	<u>795,921</u>	<u>761,348</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(39,035)	(44,758)
Net cash used for capital and related financing activities	<u>(39,035)</u>	<u>(44,758)</u>
Net increase in cash	236,471	2,144
Cash at beginning of year	2,194	50
Cash at end of year	<u>\$ 238,665</u>	<u>\$ 2,194</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (817,552)	\$ (852,137)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	56,820	54,882
Bad debts	17,721	-
(Increase) decrease in assets:		
Receivables:		
Affiliate	(23,432)	239,771
Trade	49,671	3,933
Employees	(4,621)	(2,339)
Inventories	500,242	129,805
Advances to suppliers	(96,905)	-
Decrease in liabilities:		
Accounts payable	(19,858)	(50,202)
Payable to affiliates	(131,435)	(181,031)
Other payables	(51,066)	(57,128)
Net cash used for operating activities	<u>\$ (520,415)</u>	<u>\$ (714,446)</u>
Supplemental schedule of noncash activities:		
Decrease in advances from RepMar	\$ -	\$ 500,000
Forgiveness of debt	-	(500,000)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(1) Organization

Tobolar Copra Processing Plant, Inc. (TCPPI) was granted a corporate charter on August 13, 1977, under the laws of the Trust Territory of the Pacific Islands, as subsequently adopted by the Republic of the Marshall Islands (RepMar). TCPPI was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. TCPPI is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). TCPPI's principal lines of business are copra oil, copra cake and soap products. The principal market for the copra oil and copra cake are companies and farmers located in the United States. Sales are based on the world market price at the time of sale for the respective products. Soap products are sold primarily to customers in the Marshall Islands. Raw copra is purchased at a price set by the Board of Directors of TCPPI (the Board).

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting policies of TCPPI conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. TCPPI has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements. TCPPI is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003.

To conform to the requirements of GASB 34, the following changes have been made to TCPPI's financial statements:

- Retained earnings have been reclassified into the following net assets categories:
 - Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- 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.
- The statement of cash flows has been presented using the direct method.

Proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, TCPPI is specifically exempt from this tax as TCPPI is a government owned copra processing corporation.

Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand deposits. As of September 30, 2003 and 2002, cash was \$238,665 and \$2,194, respectively, and the corresponding bank balance was \$267,214 and \$6,867, respectively, which is maintained in one bank subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003 and 2002, bank deposits in the amount of \$100,000 were FDIC insured. TCPPI does not require collateralization of its cash deposits; therefore, deposits in excess of FDIC insurance coverage are uncollateralized.

Receivables

All receivables are due from companies and farmers in the United States and copra buyers and others, including employees and an affiliate, within the Republic of the Marshall Islands. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, Continued

Inventories

Inventories consist of raw copra, copra oil, copra cake, and soap and materials. Raw copra is 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).

Fixed Assets

Fixed assets are stated at cost. Singular pieces of equipment, vehicles, furniture and fixtures that exceed \$100 are capitalized. Buildings and improvements with a cost that exceeds \$500 are capitalized. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Building and improvements	10 - 20 years
Equipment	5 - 20 years
Vehicles	3 years
Furniture and fixtures	3 - 5 years

New Accounting Standards

For fiscal year 2004, TCPPI will be implementing GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. For fiscal year 2005, TCPPI will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. TCPPI has not evaluated the financial statement impact of GASB Statement Nos. 39, 40 and 42.

(3) Inventories

Inventories at September 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Copra oil	\$ 279,941	\$ 574,498
Raw copra	68,758	284,937
Soap and materials	40,001	38,115
Copra cake	<u>9,607</u>	<u>999</u>
	\$ <u>398,307</u>	\$ <u>898,549</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(4) Fixed Assets

Capital asset activity for the years ended September 30, 2003 and 2002, was as follows:

	2003			
	October 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2003</u>
Building and improvements	\$ 1,888,115	\$ -	\$ -	\$ 1,888,115
Equipment	1,330,689	38,749	-	1,369,438
Furniture and fixtures	<u>69,746</u>	<u>286</u>	<u>-</u>	<u>70,032</u>
	3,288,550	39,035	-	3,327,585
Less accumulated depreciation	<u>(2,541,253)</u>	<u>(56,820)</u>	<u>-</u>	<u>(2,598,073)</u>
	747,297	(17,785)	-	729,512
Construction work-in-progress	<u>338,641</u>	<u>-</u>	<u>-</u>	<u>338,641</u>
	<u>\$ 1,085,938</u>	<u>\$ (17,785)</u>	<u>\$ -</u>	<u>\$ 1,068,153</u>
	2002			
	October 1, <u>2001</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2002</u>
Building and improvements	\$ 1,888,115	\$ -	\$ -	\$ 1,888,115
Equipment	1,192,152	175,475	(36,938)	1,330,689
Furniture and fixtures	<u>58,264</u>	<u>11,482</u>	<u>-</u>	<u>69,746</u>
	3,138,531	186,957	(36,938)	3,288,550
Less accumulated depreciation	<u>(2,523,309)</u>	<u>(54,882)</u>	<u>36,938</u>	<u>(2,541,253)</u>
	615,222	132,075	-	747,297
Construction work-in-progress	<u>480,840</u>	<u>-</u>	<u>(142,199)</u>	<u>338,641</u>
	<u>\$ 1,096,062</u>	<u>\$ 132,075</u>	<u>\$ (142,199)</u>	<u>\$ 1,085,938</u>

(5) Notes Payable

A schedule of TCPPI's short-term borrowings as of September 30, 2003 and 2002, is as follows:

	2003	2002
Bank credit line of \$1,000,000, with various terms, due on various dates, interest at bank's reference rate plus 2.5% (7.25% and 9% as of September 30, 2003 and 2002, respectively), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar.	\$ 700,000	\$ 922,478
Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on January 23, 1998, due September 30, 1998, interest at 10%, unsecured.	50,000	50,000
Note payable to the Marshall Islands Ports Authority of \$50,000, advanced on February 27, 1998, due September 30, 1998, interest at 10%, unsecured.	<u>50,000</u>	<u>50,000</u>
	<u>\$ 800,000</u>	<u>\$ 1,022,478</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(5) Notes Payable, Continued

TCPPI uses a line of credit facility to finance the purchase of raw copra product from growers. Short-term activity for the years ended September 30, 2003 and 2002 was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Bank credit line:				
2003	\$ <u>922,478</u>	\$ <u>-</u>	\$ <u>(222,478)</u>	\$ <u>700,000</u>
2002	\$ <u>1,000,000</u>	\$ <u>-</u>	\$ <u>(77,522)</u>	\$ <u>922,478</u>

(6) Related Party Transactions

TCPPI is wholly-owned by RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Ports Authority (MIPA). As of September 30, 2003 and 2002, TCPPI has notes payable to MIPA aggregating \$100,000.

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

PII is also TCPPI's agent for copra cake sales to customers in the United States, where only United States registered corporations, which includes PII, are allowed to sell copra cake. PII remits payments to TCPPI for such copra cake sales once PII receives payments from the customers in the United States. Therefore, these copra cake sales are not considered to be sales to PII. Total copra cake sales to customers in the United States for the years ended September 30, 2003 and 2002 amounted to \$155,455 and \$100,836, respectively.

During the years ended September 30, 2003 and 2002, the operations of TCPPI were funded by appropriations, totaling \$1,095,750 and \$949,464, respectively, from the Nitijela of RepMar. As of September 30, 2003 and 2002, \$418,661 and \$395,229, respectively, of these appropriations are receivable from RepMar and are recorded as receivable from affiliate.

During the year ended September 30, 1999, TCPPI obtained advances from RepMar, in accordance with Cabinet Minute (C.M.) 154(99), of \$500,000 to permit continued purchase of copra and the operation of the facility. In accordance with C.M. 016(2003), RepMar forgave these advances in 2002.

TCPPI utilizes services from its affiliates at the same rates charged to third parties and at substantially more favorable terms than those afforded to third parties. A summary of related party transactions is as follows:

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(6) Related Party Transactions, Continued

	<u>2002</u>	
	<u>Expenses</u>	<u>Payables</u>
Pacific International, Inc. and affiliates	\$ 607,468	\$ 249,621
Bank of Marshall Islands	190,845	20,272
RepMar	-	107,899
Marshalls Energy Company, Inc.	38,718	56,283
Marshall Islands Social Security Administration	30,249	16,540
Marshall Islands Ports Authority	10,421	-
Other	-	<u>4,565</u>
	<u>\$ 877,701</u>	<u>\$ 455,180</u>

During the years ended September 30, 2003 and 2002, all sales were derived from entities and individuals not considered to be affiliates of TCPPI.

(7) Risk Management

TCPPI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error 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 96% and 93% of total sales were earned from two and one customers during the years ended September 30, 2003 and 2002, respectively.

(9) Commitment and Contingencies

Commitment

A three-year management agreement was renewed effective April 1, 2003 with PII, wherein PII is to manage the operations of TCPPI for an annual fee of \$50,000, adjusted each year by the change in the United States consumer price index as of December 31.

Contingencies

TCPPI has suffered recurring operating losses and has a significant working capital deficiency at September 30, 2003, that raise substantial doubt about its ability to continue as a going concern. TCPPI depends on RepMar for cash funding to continue its operations. For the years ended September 30, 2003 and 2002, TCPPI received operating subsidies of \$1,095,750 and \$949,464, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, TCPPI does not have a formal agreement with RepMar to provide funds in the future. In the event that operating subsidies from RepMar are reduced or eliminated, management of TCPPI will reduce the price at which raw copra is purchased.

TOBOLAR COPRA PROCESSING PLANT, INC.

Notes to Financial Statements
September 30, 2003 and 2002

(9) Commitment and Contingencies, Continued

Contingencies, Continued

Public Law 1992-2 was enacted on February 17, 1992. This law established the Tobolar Copra Processing Authority (the Authority). The objectives of the Authority include assuming responsibility for the management, operation and maintenance of all aspects of copra processing for RepMar. The Authority is specifically authorized and directed by Public Law 1992-2 to enter into appropriate arrangements with TCPPI for the assumption of all rights and title to any and all assets, equipment, contracts, liabilities, rights, obligations, functions, powers, etc., that TCPPI may have or control, including all rights to the use of the name "Tobolar". This assumption will occur once TCPPI has been liquidated. Although no steps have been taken at this date to liquidate TCPPI, it is anticipated that such action will be taken.

The real property on which the copra processing plant and related facilities are located is leased by MIDA from RepMar. No provision has yet been made for the sublease to TCPPI of the real property on which the processing plant is located. No rental payments for the use of the real property or warehouses are anticipated.

TCPPI is currently in default of repayment terms of two \$50,000 notes payable to the Marshall Islands Ports Authority (MIPA). In accordance with the associated promissory notes, in the event of default, the total sum of principal and interest shall become immediately due and payable at the option of MIPA, without notice. In the event of commencement of suit to enforce payment of these notes payable, TCPPI will be liable for an additional sum equal to 5% of the total amount due. As of September 30, 2003, TCPPI has not received written notice of commencement of suit from MIPA with respect to TCPPI's default.