

TOBOLAR COPRA PROCESSING PLANT, INC.

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

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2004, and have issued our report thereon dated August 15, 2005. 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

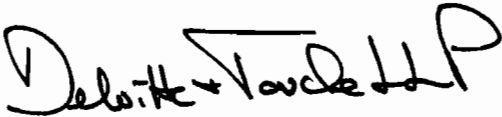
In planning and performing our audit, we considered TCPPI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect TCPPI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 5) as items 2004-1 and 2004-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-3 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of TCPPI in a separate letter dated August 15, 2005.

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 grants, 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 that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-2.

This report is intended solely for the information and use of the Board of Directors and management of TCPPI 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 + Touche LLP". The signature is stylized and written in a cursive-like font.

August 15, 2005

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings
Year Ended September 30, 2004

Receivables

Finding No. 2004-1

Criteria: The accounts receivable subsidiary ledger should be closely monitored and used as a tool for credit control.

Condition: At September 30, 2004, TCPPI recorded certain accounts receivable totaling \$31,800, which included amounts that have been outstanding for over seven years. These amounts include a receivable from a director of TCPPI totaling \$6,890. An allowance for doubtful accounts has been established for these long outstanding receivables and other receivables in the amount of \$48,694.

Cause: The cause of the above condition is the lack of follow-up from the Office of the Attorney General.

Effect: The effect of the above condition is further aging of the receivables and increased difficulty of collection.

Recommendation: We recommend that the Board and management of TCPPI follow-up with the Office of the Attorney General with respect to receivable accounts previously forwarded for collection. In the event that collection of these long outstanding balances is not considered probable, the Board should consider a write-off of these amounts.

Prior Year Status: Lack of follow-up of receivables with the Office of the Attorney General was reported as a finding in the audits of TCPPI for fiscal years 1998 through 2003.

Auditee Response and Corrective Action Plan: The Chief Financial Officer and Office Manager will contact the Office of the Attorney General with respect to the accounts receivable that has been forwarded for collection to determine the collection status. The Chief Financial Officer will contact the director concerning the \$6,890 due to TCPPI.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-2

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 of TCPPI take steps to comply with the requirements of Public Law 1992-2. Such steps should include the consultation of 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 2003.

Auditee Response and Corrective Action Plan: The Chairman of the Board has been contacted and he has authorized the Chief Financial Officer to work with the Office of the Attorney General to prepare the necessary legal documents and filings necessary to comply with Public Law 1992-2.

TOBOLAR COPRA PROCESSING PLANT, INC.

Schedule of Findings, Continued
Year Ended September 30, 2004

Revenue

Finding No. 2004-3

Criteria: A valid sales invoice should support sales.

Condition: During tests of copra oil revenues, we noted one sale totaling \$756,960 for which there was no supporting sales invoice. This recorded revenue was based on the customer's payment.

Cause: The cause of the above condition is that no sales invoice for the specified sale was prepared.

Effect: The effect of the above condition is that revenue is unsupported.

Recommendation: We recommend that management ensure sales are supported by sales invoices.

Auditee Response and Corrective Action Plan: A procedure has been place into effect that all sales of oil, copra cake, etc. are invoiced. If the ultimate selling price and invoice amount is dependent upon a market price at the time of sale, an estimate of the selling price and the invoice amount will be made and marked "subject to revision based on actual market price at the time of sale".

TOBOLAR COPRA PROCESSING PLANT, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2004

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (pages 3 through 5).