

TOBOLAR COPRA PROCESSING AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

TOBOLAR COPRA PROCESSION AUTHORITY

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tobolar Copra Processing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Tobolar Copra Processing Authority (the Authority), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tobolar Copra Processing Authority as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

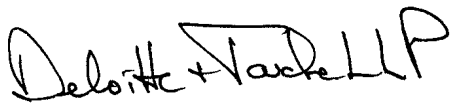
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

December 10, 2014

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2013 and 2012

This section of the Tobolar Copra Processing Authority (TCPA) annual financial report presents our discussion and analysis of TCPA's financial performance during the fiscal year ended September 30, 2013. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position decreased by \$1,637,988 or 49% from \$3,323,676 in 2012 to \$1,685,688 in 2013 due to losses from operations. Such losses are attributed, to a large extent, to the increased cost of electricity running our manufacturing operations and higher fuel consumption incurred on our outer island trips related to our copra purchases. To this effect, cash had substantially dropped by \$1,401,074 or 93% from \$1,508,039 in 2012 to a minimal \$106,965 in 2013. Although net receivables had increased by \$420,531 from \$201,130 in 2012 to \$621,661 in 2013, the decrease in cash had caused the downfall of \$1,232,767 in current assets from \$2,633,890 in 2012 to \$1,232,767 in 2013.

Operating revenues increased by \$405,932 or 12% from the \$3,292,813 registered in 2012 to \$3,698,745 in 2013. Much of the increase in total revenues was brought about mainly by the copra cake (copra meal) sales which had increased tremendously by \$175,452 or 69% from last year's figure of \$254,573 to \$430,025 for the current year. Another factor that brought about the increase is the crude oil sales which posted a \$126,535 or 4% increase from \$3,044,943 posted in 2012 to \$3,171,478 in 2013.

On the operating expenses side, general and administrative increased by \$416,091 or about 91% from last year's figure of \$456,640 to \$872,731 for the current year. Much of the increase was brought about by salaries and wages which had increased by \$112,739 or 48% from 2012 figure of \$232,466 to \$345,205 in 2013. Travel and entertainment also increased by \$100,772 or 170% from \$59,139 in 2012 to \$159,911 in 2013. A provision for bad debts for 2013 also contributed \$47,033 to total expenses and an increase of \$38,626 or 314% in office supplies from \$12,308 registered in 2012 to \$50,934 in 2013 are among the major contributors on the increase in operating expenses for 2013.

Net non-operating revenues decreased by \$105,896 or 9% from previous year figure of \$1,183,687 due mainly to the interest expense from our bank loans. Operating subsidies are sourced through the Republic of the Marshall Islands (RepMar) General account and from ROC Taiwan.

FINANCIAL ANALYSIS

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of TCPA's financial condition. TCPA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2013 and 2012

A summary of TCPA's Statements of Net Position is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 1,232,767	\$ 2,633,890	\$ 3,657,857
Capital assets	<u>1,235,487</u>	<u>915,588</u>	<u>631,032</u>
Total assets	<u>\$ 2,468,254</u>	<u>\$ 3,549,478</u>	<u>\$ 4,288,889</u>
Other liabilities	\$ 482,566	\$ 225,802	\$ 93,503
Long-term liabilities	300,000	-	-
Net position	<u>1,685,688</u>	<u>3,323,676</u>	<u>4,195,386</u>
Total liabilities and net position	<u>\$ 2,468,254</u>	<u>\$ 3,549,478</u>	<u>\$ 4,288,889</u>

As indicated above, total assets decreased by \$1,081,224 or 30% from \$3,549,478 in 2012 to \$2,468,254 in 2013. Current assets decreased by \$1,401,123 or 53% due mainly to the cash utilized in operations and the construction of the new Refinery Plant in Woja as shown on the increase in capital assets by \$319,899 or 35% from the 2012 figure of \$915,588 to \$1,235,487 in 2013.

Total liabilities had increased tremendously by \$556,764 or 247% from 2012 figure of \$225,802 to \$782,566 in 2013. Among the major contributors to the increase are the Pacific Islands Development Bank loan, the accounts payable from copra purchases, and the payable to affiliates on freight and other shipping charges owed to Marshall Islands Shipping Corporation (MISC).

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

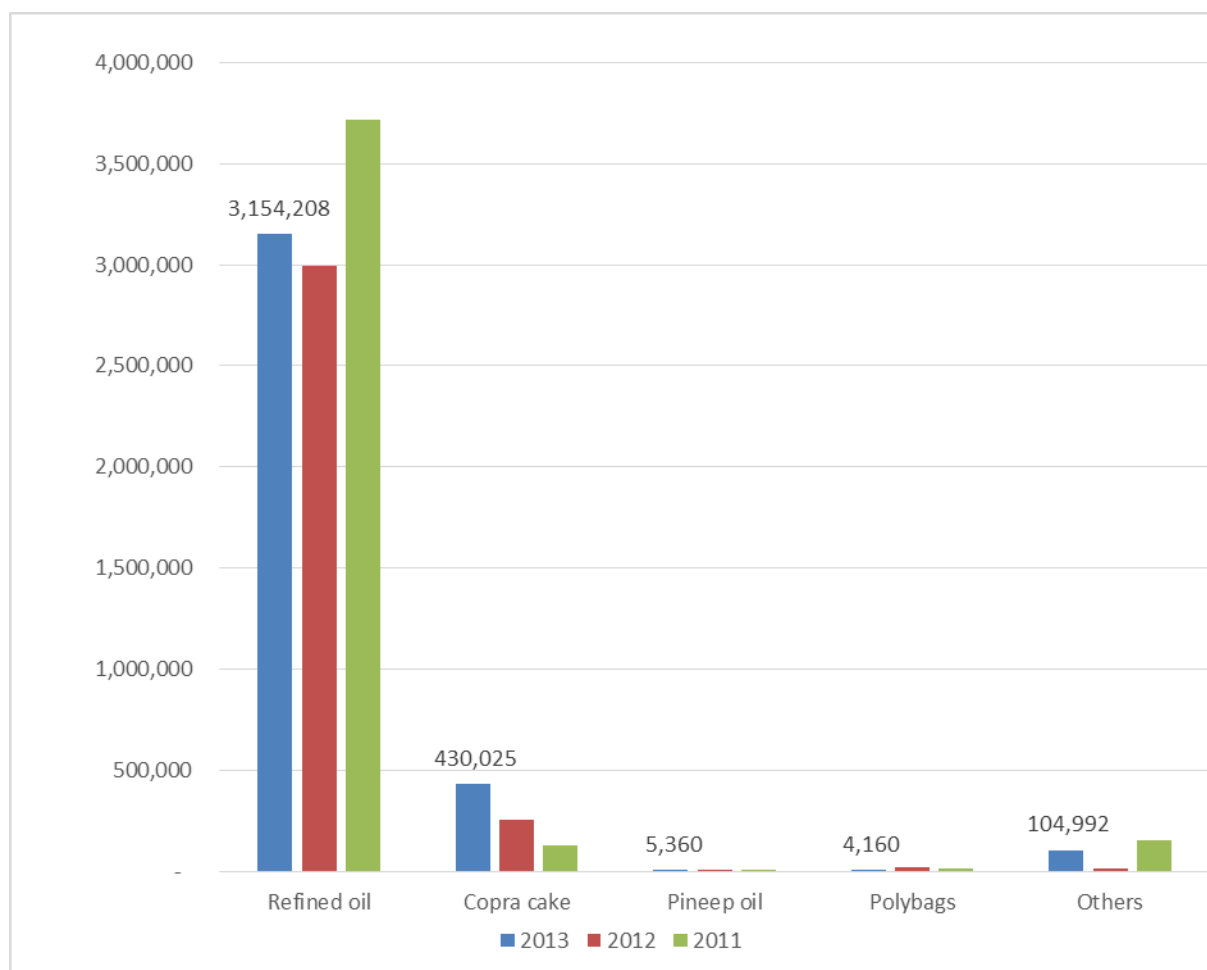
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Operating revenues	\$ 3,698,745	\$ 3,292,813	\$ 4,016,417
Non-operating revenues and capital contributions	<u>1,252,544</u>	<u>1,388,802</u>	<u>1,540,040</u>
Total revenues	<u>4,951,289</u>	<u>4,681,615</u>	<u>5,556,457</u>
Expenses:			
Operating expenses	6,476,668	5,537,012	2,904,170
Non-operating expenses	<u>112,609</u>	<u>16,313</u>	<u>35,936</u>
Total expenses	<u>6,589,277</u>	<u>5,553,325</u>	<u>2,940,106</u>
Change in net position	<u>\$ (1,637,988)</u>	<u>\$ (871,710)</u>	<u>\$ 2,616,351</u>

The Statement of Revenues, Expenses, and Changes in Net Position identify the various revenue and expense items that affect net position. As indicated above, TCPA's total revenue increased by \$269,674 or 6% from the \$4,681,615 registered in 2012 to \$4,951,289 in 2013. Such increase is attributed to higher sales on copra cake and refined oil.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis
September 30, 2013 and 2012

The graph below shows the major components of operating revenues for 2013 compared to 2012 and 2011:

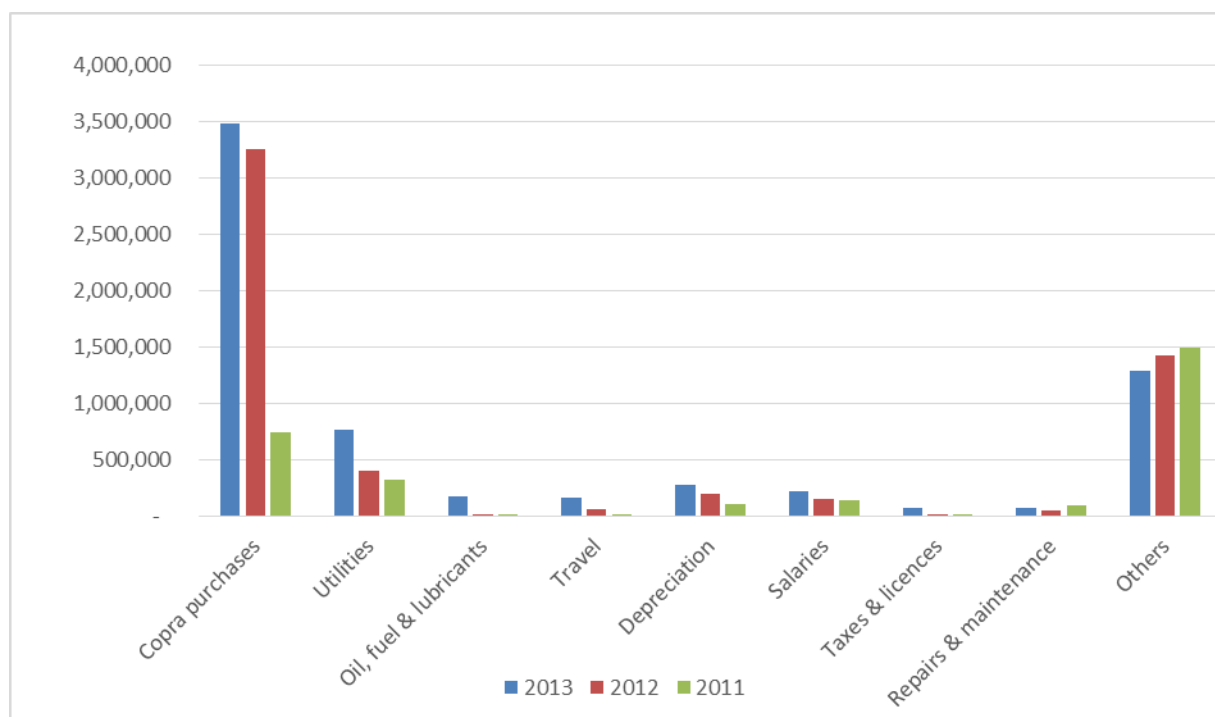


On the expenses side, operating expenses increased by \$939,656 or 17% from previous year figure of \$5,537,012 to \$6,476,668 for the current year. The increase is attributed largely to the increase in purchases of raw materials (copra) from 5,960 tons in 2012 to 7,048 in 2013. Higher production cost like salaries, power and electricity and other indirect costs incurred on our mill operations had also complimented the increase. In addition, higher fuel cost was incurred in 2013 due to the transport of two (2) new boats acquired from Taiwan.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2013 and 2012

The graph below shows the major components of operating expenses for 2013 as compared to 2012 and 2011.



Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in TCPA's report on the audit of financial statements, which is dated August 13, 2013. That discussion and analysis explains the major factors impacting the 2012 financial statements and can be obtained from the TCPA's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets increased by \$319,899 or 35% from 2012 figure of \$915,588 to \$1,235,487 in 2013 due to acquisitions of vehicles, machineries, equipment and building improvements. Among those acquisitions and improvements includes the MV Tobolar vessel, the Ford Ranger (service car of Shipping Department), parts of Expeller (the refinery equipment in Woja), rehabilitation of CNO Storage tank, construction of digital weighing scale and improvement of office flooring. Summary of capital assets is as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital assets:			
Buildings and leasehold improvements	\$ 2,097,433	\$ 2,003,891	\$ 1,935,971
Equipment	2,765,259	2,285,374	1,896,249
Furniture and fixtures	90,693	90,693	89,061
	<u>4,953,385</u>	<u>4,379,958</u>	<u>3,921,281</u>
Less accumulated depreciation	<u>(3,749,262)</u>	<u>(3,479,405)</u>	<u>(3,302,459)</u>
	1,204,123	900,553	618,822
Construction in progress	31,364	15,035	12,210
	<u>\$ 1,235,487</u>	<u>\$ 915,588</u>	<u>\$ 631,032</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2013 and 2012

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

During 2013, TCPA obtained a loan from the Pacific Islands Development Bank of \$300,000 for the purpose of financing certain capital expenditures. In addition, TCPA utilized a bank credit line of \$1,500,000 in 2013 and 2012 for the purpose of funding the purchase of raw copra from producers. Please refer to notes 5 and 6 of the accompanying financial statements for additional information regarding TCPA's debt.

ECONOMIC FACTOR'S AND NEXT YEAR'S RATES

The following factors were considered in preparing TCPA's budget for fiscal year 2014:

1. A rise in revenue is expected from the diversified product like VCO, bio fuel, soap, cooking oil and bottled oil to cover up the unforeseen consistency of the CNO price in the world market.
2. Additional revenue will be expected from other diversified products including income from shipping/freight from our Tobolar ships, profit from outer island sales of merchandise and savings in buying fee and stevedoring from use of own vessel.
3. An increase in production is expected for cooking oil and bio fuel to be contributed by our new refinery projects.
4. REPMAR will maintain the \$1,200,000 copra subsidy to help stabilize the price of copra.
5. A contingency plan is being set that if the cake price drops below \$850 M/T, TCPA will struggle; however, if price drops to \$650 M/T, the copra price needs to be reduced by about \$0.14. The \$1,200,000 subsidy will help maintain profitability.

ADDITIONAL FINANCIAL INFORMATION

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

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Net Position
September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 106,965	\$ 1,508,039
Receivables:		
Trade	737,396	278,464
Affiliates	53,446	53,446
Employees	28,750	7,629
Advances to suppliers and copra buyers	-	12,489
	<u>819,592</u>	<u>352,028</u>
Allowance for doubtful accounts	<u>(197,931)</u>	<u>(150,898)</u>
	<u>621,661</u>	<u>201,130</u>
Inventories	496,708	917,288
Prepayment and deposits	7,433	7,433
Total current assets	<u>1,232,767</u>	<u>2,633,890</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	31,364	15,035
Capital assets, net of accumulated depreciation	<u>1,204,123</u>	<u>900,553</u>
Total noncurrent assets	<u>1,235,487</u>	<u>915,588</u>
	<u>\$ 2,468,254</u>	<u>\$ 3,549,478</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Bank overdraft	\$ 69,764	\$ -
Current portion of long-term debt	10,284	-
Accounts payable	190,610	54,416
Payable to affiliates	192,148	133,632
Other accrued liabilities	<u>30,044</u>	<u>37,754</u>
Total current liabilities	492,850	225,802
Long-term debt, net of current portion	<u>289,716</u>	<u>-</u>
Total liabilities	<u>782,566</u>	<u>225,802</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	935,487	915,588
Unrestricted	<u>750,201</u>	<u>2,408,088</u>
Total net position	<u>1,685,688</u>	<u>3,323,676</u>
	<u>\$ 2,468,254</u>	<u>\$ 3,549,478</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Sales	\$ 3,698,745	\$ 3,292,813
Less cost of copra products manufactured and sold	5,603,937	5,080,372
Gross loss	(1,905,192)	(1,787,559)
General and administrative expenses:		
Salaries and wages	345,205	232,466
Travel and entertainment	159,911	59,139
Office supplies	50,934	12,308
Bad debts expense	47,033	-
Membership dues and subscriptions	40,427	14,520
Insurance	39,232	47,860
Repairs and maintenance	19,992	24,002
Communications	18,856	12,928
Management fee	13,200	3,950
Professional fees	10,000	4,110
Transportation	56	1,578
Depreciation	-	5,483
Miscellaneous	127,885	38,296
Total general and administrative expenses	872,731	456,640
Operating loss	(2,777,923)	(2,244,199)
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,190,400	1,200,000
Interest expense	(112,609)	(16,313)
Total nonoperating revenues (expenses), net	1,077,791	1,183,687
Capital contributions	62,144	188,802
Change in net position	(1,637,988)	(871,710)
Net position at beginning of year	3,323,676	4,195,386
Net position at end of year	\$ 1,685,688	\$ 3,323,676

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 3,218,692	\$ 3,334,447
Cash payments to suppliers for goods and services	(4,852,786)	(4,501,403)
Cash payments to employees for services	(686,923)	(539,904)
Net cash used for operating activities	(2,321,017)	(1,706,860)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	1,190,400	1,200,000
Net proceeds from bank overdraft facility	69,764	-
Interest paid on line of credit	(112,609)	(16,313)
Net cash provided by noncapital financing activities	1,147,555	1,183,687
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	300,000	-
Capital contributions received from RepMar	-	256,302
Acquisition of capital assets	(527,612)	(283,219)
Net cash used for capital and related financing activities	(227,612)	(26,917)
Net change in cash	(1,401,074)	(550,090)
Cash and cash equivalents at beginning of year	1,508,039	2,058,129
Cash and cash equivalents at end of year	\$ 106,965	\$ 1,508,039
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,777,923)	\$ (2,244,199)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	269,857	196,470
Provision for doubtful debts	47,033	-
(Increase) decrease in assets:		
Receivables:		
Trade	(461,797)	(90,972)
Affiliates	2,865	124,756
Employees	(21,121)	7,850
Advances to copra suppliers and buyers	12,489	86,100
Inventories	420,580	80,104
Prepayment and deposits	-	732
Increase (decrease) in liabilities:		
Accounts payable	136,194	14,253
Payable to affiliates	58,516	96,101
Other accrued liabilities	(7,710)	21,945
Net cash used for operating activities	\$ (2,321,017)	\$ (1,706,860)
Supplemental disclosure of noncash activities:		
Acquisition of capital assets	\$ (62,144)	\$ -
Capital contributions	62,144	-
	\$ -	\$ -

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds.

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

To conform to the requirements of GASB Statement No. 34, the Authority's equity is presented in the following net asset categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position 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 AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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 position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Estimates

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

Taxes

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

Cash and Cash Equivalents

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

For purposes of the statements of net position and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand deposits as well as time certificates of deposit with a maturity date within three months of the date acquired. As of September 30, 2013 and 2012, the carrying amount of the Authority's cash and cash equivalents was \$106,965 and \$1,508,039, respectively, and the corresponding bank balance was \$353,667 and \$1,607,708, respectively. Of the bank balance amount, \$253,330 and \$1,607,708, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$100,337 and \$0, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$250,000 and \$1,607,708, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense. Bad debts are written-off against the reserve on the specific identification method.

Inventories

Inventories consist of carts, raw copra, copra oil, copra cake, and soap and materials. Carts and raw copra are valued at the lower of cost (first-in, first-out method) or market value. Copra oil, copra cake, and soap and materials are valued at the lower of production cost, which includes raw copra, direct labor and factory overhead, or market (net realizable value).

Property, Plant and Equipment

Property, plant and equipment with cost that equals or exceed \$1,500 and an estimated life of more than one year shall be capitalized. Such assets are stated at cost. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MEC has no items that qualify for reporting in this category.

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, 2013 and 2012, an accumulated vacation leave liability of \$27,817 and \$42,441, respectively, is included within the statement of net position in other accrued liabilities.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MEC has no items that qualify for reporting in this category.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

(3) Inventories

Inventories at September 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Copra oil	\$ 160,158	\$ 404,331
Raw copra	237,039	392,964
Soap and materials	58,595	91,103
Copra cake	40,665	28,890
Carts	<u>251</u>	<u>-</u>
	<u>\$ 496,708</u>	<u>\$ 917,288</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(4) Capital Assets

Capital asset activity for the years ended September 30, 2013 and 2012 is as follows:

	2013			
	October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2013</u>
Building and improvements	\$ 2,003,891	\$ 49,020	\$ 44,522	\$ 2,097,433
Equipment	2,285,374	479,885	-	2,765,259
Furniture and fixtures	<u>90,693</u>	<u>-</u>	<u>-</u>	<u>90,693</u>
	4,379,958	528,905	44,522	4,953,385
Less accumulated depreciation	<u>(3,479,405)</u>	<u>(269,857)</u>	<u>-</u>	<u>(3,749,262)</u>
	900,553	259,048	44,522	1,204,123
Construction in progress	<u>15,035</u>	<u>60,851</u>	<u>(44,522)</u>	<u>31,364</u>
	<u>\$ 915,588</u>	<u>\$ 319,899</u>	<u>\$ -</u>	<u>\$ 1,235,487</u>
	2012			
	October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2012</u>
Building and improvements	\$ 1,935,971	\$ 67,920	\$ -	\$ 2,003,891
Equipment	1,896,249	408,649	(19,524)	2,285,374
Furniture and fixtures	<u>89,061</u>	<u>1,632</u>	<u>-</u>	<u>90,693</u>
	3,921,281	478,201	(19,524)	4,379,958
Less accumulated depreciation	<u>(3,302,459)</u>	<u>(196,470)</u>	<u>19,524</u>	<u>(3,479,405)</u>
	618,822	281,731	-	900,553
Construction in progress	<u>12,210</u>	<u>2,825</u>	<u>-</u>	<u>15,035</u>
	<u>\$ 631,032</u>	<u>\$ 284,556</u>	<u>\$ -</u>	<u>\$ 915,588</u>

(5) Short-term Debt

In the normal course of the company's operations, the Authority obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. The Authority has a bank credit line amounting to \$1,500,000 as of September 30, 2013 and 2012, which is collateralized by a general security agreement over all assets of the Authority and a guarantee from RepMar. This bank credit line was terminated on September 30, 2013. 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 drawn-down and paid during the years ended September 30, 2013 and 2012 are as follows:

	Beginning <u>Balance</u>	<u>Draws</u>	<u>Repayments</u>	Ending <u>Balance</u>
2013	\$ <u>-</u>	\$ <u>1,650,000</u>	\$ <u>(1,650,000)</u>	\$ <u>-</u>
2012	\$ <u>-</u>	\$ <u>800,000</u>	\$ <u>(800,000)</u>	\$ <u>-</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(6) Long-term Debt

Long-term debt at September 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Loan with Pacific Islands Development Bank, an investee of RepMar, dated August 15, 2013, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$2,781 through October 15, 2028, collateralized by a general security agreement over certain assets of the Authority and a guarantee from RepMar. Loan proceeds of \$300,000 were used to fund capital expenditures.	\$ <u>300,000</u>	\$ <u>-</u>

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 10,284	\$ 23,088	\$ 33,372
2015	12,052	21,320	33,372
2016	12,988	20,384	33,372
2017	13,996	19,376	33,372
2018	15,083	18,289	33,372
2019-2023	94,906	71,954	166,860
2024-2028	137,927	28,933	166,860
2029	<u>2,764</u>	<u>17</u>	<u>2,781</u>
	<u>\$ 300,000</u>	<u>\$ 203,361</u>	<u>\$ 503,361</u>

(7) Related Party Transactions

The Authority is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Marine Resources Authority (MIMRA).

During the years ended September 30, 2013 and 2012, the operations of the Authority were funded by appropriations of \$1,190,400 and \$1,200,000, respectively, from the Nitijela of RepMar. In 2012, the Authority received \$188,802 from a capital improvement projects subsidy. In addition, the Authority has recorded receivables from RepMar at September 30, 2013 and 2012 of \$50,581 and \$53,446, respectively, relating to miscellaneous services provided by the Authority.

During the year ended September 30, 2013, MIMRA advanced funds to the Authority in the amount of \$100,000 for the purpose of assisting the Authority in funding the purchase of copra. The advance is uncollateralized and non-interest bearing and is due and payable by the Authority from the proceeds of oil sales.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(7) Related Party Transactions, Continued

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

	2013	
	<u>Expenses</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 485,888	\$ 40,384
Marshall Islands Shipping Corporation	168,906	14,561
Marshall Islands Social Security Administration	60,834	28,490
RepMar	57,102	6,226
RMI Ports Authority	14,661	-
Others	821	2,487
	\$ <u>788,212</u>	\$ <u>92,148</u>
	2012	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 1,407,478	\$ 52,342
Marshalls Energy Company, Inc.	275,334	55,027
Marshall Islands Social Security Administration	39,303	26,263
RMI Ports Authority	238	-
Others	9,485	-
	\$ <u>1,731,838</u>	\$ <u>133,632</u>

(8) Risk Management

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

(9) Significant Customers

Approximately 84% and 98% of total sales were earned from four and two customers during the years ended September 30, 2013 and 2012, respectively.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(10) Commitments

On June 5, 2013, the Authority entered into a twenty-five year ground lease agreement for a portion of Wojale Weto expiring on January 5, 2038. Total future minimum lease payments for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	
2014	\$ 13,668
2015	13,668
2016	13,668
2017	13,668
2018	13,668
2019 - 2023	68,340
2024 - 2028	68,340
2029 - 2033	68,340
2034 - 2038	<u>54,672</u>
	<u>\$ 328,032</u>

(11) Contingencies

During the years ended September 30, 2013 and 2012, the Authority incurred losses from operations of \$2,777,923 and \$2,244,199, respectively. For the years ended September 30, 2013 and 2012, the Authority received cash copra subsidies of \$1,190,400 and \$1,200,000, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, the Authority does not have a formal agreement with RepMar to provide future funding. In the event that copra subsidies from RepMar are reduced or eliminated, the Board and management of the Authority will take appropriate action to initiate a reduction in purchase price of copra. For fiscal year 2014, a copra subsidy of \$1,200,000 was appropriated by the Nitijela of RepMar.

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

(12) Subsequent Event

On October 4, 2014, the Authority obtained a one-year \$1,700,000 bank loan for the purpose of buying copra.

**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 Authority:

We have audited, in accordance with the 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, the financial statements of Tobolar Copra Processing Authority (the Authority), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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 2013-002 through 2013-006 to be material weaknesses.

Compliance and Other Matters

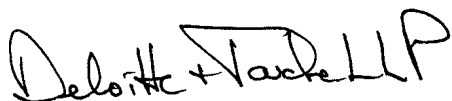
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-001.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 10, 2014

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses Year Ended September 30, 2013

Local Noncompliance

Finding No. 2013-001

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions of goods and services provide full and open competition and compliance with this provision should be appropriately documented in the procurement files. For the following seven (7) items, supporting documentation was inadequate to evidence the procurement process:

<u>Items Description</u>	<u>Amount</u>	<u>Comment</u>
Refinery Equipment	\$115,145	Written award notice to supplier was not completed
MV Tobolar	\$156,031	Written award notice to supplier was not completed
Copra Warehouse	\$38,686	Written award notice to supplier was not completed
Mitsubishi Truck	\$21,928	Price quotations from vendors were not available.
Weishaupt Oil Burner	\$35,396	Written award notice to supplier was not completed
Fiberglass Boat	\$15,725	Price quotations from vendors were not available.
Weighing Scales	\$33,180	Procurement procedures do not appear to have been followed.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to support compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Local Noncompliance

Finding No. 2013-001, Continued

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audits of the Authority for fiscal years 2011 and 2012.

Auditee Response and Corrective Action Plan: Management will ensure that proposed projects will undergo bidding and that contracts will be awarded through competitive bids. For ensuing projects, management will ensure compliance with RepMar's Procurement Code specifically Section 124, 127 and 128. Management agrees with comment and recommendation that establishment of internal control policies is required to document procurement procedures to support compliance with the Code.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Accounts Receivable

Finding No. 2013-002

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

Condition: Of total receivables of \$769,011 (which excludes RepMar and affiliates of \$50,581), \$669,648 or 87% have been outstanding for over one year. Management has recorded a corresponding allowance for doubtful accounts of \$197,931 at September 30, 2013. In addition, delays in collection of 30 days or more from current customers were noted. Regular reconciliations of customer subledger accounts were not performed during the year. Furthermore, the aging report indicated credit balances under the "current" portion of \$2.8 million and debit balances of \$2.3 million under the "1-30 days due" portion, which was due to late posting of receipts and incorrect application of receipts. One \$28,884 invoice, dated September 24, 2013, was not recorded as revenue as of September 30, 2013. Finally, the Authority does not timely reconcile accounts receivable balances against customer invoices.

Cause: This cause of the above condition is due to a lack of extensive collection efforts throughout the year and a lack of policies and procedures requiring periodic account reconciliations.

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

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 audits of the Authority for fiscal years 2008 through 2012.

Auditee Response and Corrective Action Plan: TCPA's management agrees that there should be a process in place to regularly review receivable balances and write off those that are uncollectible. Management is to set procedures to periodically review the aged receivables and write off those we believe we cannot collect.

For ensuing periods, we will ensure timely recording of sales and properly manage accounts receivable. Collection efforts will be extensively pursued for outstanding accounts and reconciliation of customer balances will be properly maintained. We will also evaluate the credit worthiness of our customers and those not in compliance with agreed credit terms will be acted upon accordingly. We will perform regular reconciliation of customer balances to ensure proper application of payments and correctness of aging schedules.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Significant Delay in the Accounting Records

Finding No. 2013-003

Criteria: Day-to-day transactions should be posted timely. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be performed monthly.

Condition: The Authority does not have an established set of policies, procedures and controls in place to timely process and post transactions, and to timely prepare and review reconciliations and reports. During the year ended September 30, 2013, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- Bank reconciliations were not prepared and were not independently reviewed in a timely manner. The September 30, 2013 reconciliations were completed in June 2014, which included the following discrepancies:
 - a. unaccounted for transactions amounting to \$11,416 in several bank accounts;
 - b. reconciling items of \$2,373 relating to outstanding checks greater than twelve months old; and
 - c. reconciling items with no or incomplete information (check number, check date or payees were not provided) amounting to \$229,670.
 - d. variance of \$61,104 between confirmation and general ledger balance for the revolving fund account (GL A/c # 1040), which was corrected through proposed audit adjustments.
 - e. variance of \$61,116 between confirmation and general ledger balance for the TCD account (GL A/c # 1060), which was corrected through proposed audit adjustments.
 - f. three checks issued from the general bank account (check #s 27958, 27983 and 27984) for \$90,000 were not recorded as corresponding deposits in transit of the imprest copra buying account. Such was corrected through proposed audit adjustments.
 - g. one check issued from the general bank account (check # 27514) for \$9,896 was not recorded as a corresponding deposit in transit of the payroll account. Such was corrected through proposed audit adjustments.
- Inventory reports were prepared but did not timely occur and were not independently reviewed. The September 30, 2013 reports and posting of year-end inventory adjustments were completed in June 2014.
- The fixed asset register for fiscal year 2013 did not agree with the general ledger balance. Fixed asset acquisitions were not recorded in the system, but were included in the register or vice versa. Furthermore, depreciation expense and related accumulated depreciation of \$264,679 was not recorded. Finally, fixed asset acquisitions that required capitalization was recorded as expenditures. These matters were resolved in August 2014.
- At September 30, 2013, the Authority did not accrue social security taxes of \$16,418 relating to the quarter ended September 30, 2013, utility costs of \$40,384 relating to the September 2013 billing, and other miscellaneous expenses of \$105,587 relating to fiscal year 2013. This condition was corrected through proposed audit adjustments.
- The beginning net position of \$3,650,726 did not agree to the prior year ending net position of \$3,323,676 resulting in an unreconciled variance of \$327,050. This condition was corrected through proposed audit adjustments.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Significant Delay in the Accounting Records

Finding No. 2013-003, Continued

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above condition is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: Management should implement procedures that require timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis. Prudence indicates that posting of daily transactions be performed within a week, and the reconciliation of key balance sheet accounts should be performed within a month.

Prior Year Status: The delay in accounting records was reported as a finding in the audits of the Authority for fiscal years 2011 and 2012.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation regarding the establishment of procedures for timely posting of daily transactions and periodic review and reconciliation of accounts. For ensuing years, all transactions are to be recorded on quickbooks on a timely basis supported by adequate documentation.

The following are the Authority's proposed action plans to resolve each of the audit findings:

Bank reconciliation – Management had applied for online banking at Bank of Guam for easy access to details of deposits and cleared checks. Because this account has the bulk of activity, we expect that this will expedite the monthly reconciliation process. As we will be granted access, we expect to quickly bring the rest of the months up to date.

Inventory – Management is setting policies to account for accurate inventory and timely performance of the count. Periodic inventory reports are to be reviewed and proper costing is to be observed. Timely posting of inventory balances is also to be implemented.

Fixed assets - As part of internal control, management will begin reviewing fixed asset transactions to ensure proper capitalization of assets and classification of repairs. For 2014 onwards, a lapsing schedule will be maintained to include monitoring of fixed asset additions, retirements and computation of depreciation.

Accruals – Policies and procedures will be established to periodically review expenses incurred and properly account for accruals and deferrals.

Beginning account balances – Upon completion of the audit, audit adjustments for FY 2013 are to be recorded on quickbooks to reconcile book balances to audited figures. This will ensure correctness of amounts forwarded as beginning balances for next year.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Compensated Absences Payable

Finding No. 2013-004

Criteria: Internal control over the monitoring of compensated absences (sick leave and vacation leave) should be established and implemented.

Condition: At September 30, 2013, the Authority did not accrue vacation leave of \$27,817 and did not maintain or utilize a sick leave subsystem to monitor sick leave hours earned and utilized. An audit adjustment was proposed to correct vacation leave accrual.

Cause: The cause of the above condition is the lack of internal control policies and procedures over the monitoring of sick leave hours and the accrual of vacation leave hours.

Effect: The effect of the above condition is potential misstatements of vacation leave accruals and sick leave hours being incorrectly paid or accounted for.

Recommendation: We recommend that management require the timely monitoring of sick leave hours earned and utilized and the timely recording of vacation leave accruals.

Auditee Response and Corrective Action Plan: Management is in the process of reviewing its records to account for vacation and sick leave balances. Such review includes recomputation of leave accruals to ensure correctness of hours earned and ensuring that availments are deducted on each of the employees' ledger. We expect to generate correct balances and recognized any liability due each period once this process is complete.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Employee Advances

Finding No. 2013-005

Criteria: A policy concerning authorization of employee advances should be documented and adopted.

Condition: At September 30, 2013, the Authority recorded advances to certain employees of \$18,600 for the purchase of 30 motorbikes; however, there were no approved promissory notes or advance form agreed with each employee. Since the Authority recorded the advances as cost of sales, no monitoring of accounts receivables and collections occurred. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation, recording and monitoring of employee advances.

Effect: The effect of the above condition is the misstatement of expenses and related receivables from employees.

Recommendation: We recommend that management establish policies and procedures requiring the authorization and collection of payroll advances.

Auditee Response and Corrective Action Plan: Management agrees with recommendation to set policies and procedures concerning employee advances. For the 30 motorbikes, management will undertake procedures to account for such advances and ensure that collection efforts are undertaken to recover amounts due from those employees concerned.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Cost of Goods Sold

Finding No. 2013-006

Criteria: Adequate internal control policies and procedures should be established requiring that cost of goods sold be accurately supported, identified, recorded, and paid.

Condition: The following exceptions concerning cost of goods sold were noted:

1. Payments related to the purchase of equipment, interest, fuel, utilities and other expenditures were recorded as cost of goods sold. The total amount subsequently reclassified from cost of goods sold amounted to \$1,188,152.
2. Of 81 cost of goods sold expenses tested, totaling \$3,709,676, the following variances were not supported by reports for excess cash, validated bank deposit slips, or cash receipts for redeposited cash:

<u>Check #</u>	<u>Check Amount</u>	<u>Total Supporting Tickets</u>	<u>Unsupported Variance</u>
27272	\$ 50,000	\$ 46,321	\$ 3,679
27304	\$ 100,000	\$ 99,556	\$ 444
27366	\$ 50,000	\$ 48,634	\$ 1,366
27445/ 27521	\$ 150,000	\$ 147,408	\$ 2,592

Cause: The cause of the above condition is the lack of established policies and procedures that require that cost of goods sold be accurately supported, identified, recorded and paid.

Effect: The effect of the above condition is a possible misstatement of cost of goods sold.

Recommendation: We recommend that management establish policies and procedures requiring that all supporting excess cash reports, bank validated slips and cash receipts be arranged and be kept in file. Furthermore, we recommend that the Authority require review of the classification of cost of goods sold.

Auditee Response and Corrective Action Plan: We agree with the auditors' comments and recommendations, and the following actions will be undertaken to improve the situation. All recorded transactions on quickbooks specifically those pertaining to expenses and cost of goods sold will be periodically reviewed. Management will adopt policies for proper documentation of transactions and set necessary procedures to ensure that such transactions are properly recorded and classified.

TOBOLAR COPRA PROCESSING AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report.