

**TOBOLAR COPRA PROCESSING AUTHORITY**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

**TOBOLAR COPRA PROCESSION AUTHORITY**

Years Ended September 30, 2016 and 2015  
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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, 2016 and 2015, 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, 2016 and 2015, 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.

## **Emphasis-of-Matter**

### *Going Concern*

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, the Authority's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 12 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

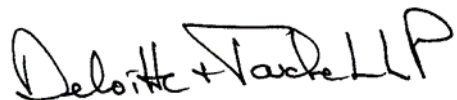
## **Other Matters**

### *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 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 June 13, 2017, 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.



June 13, 2017

## TOBOLAR COPRA PROCESSING AUTHORITY

### Management's Discussion and Analysis September 30, 2016 and 2015

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, 2016. Please read it in conjunction with the financial statements, which follow this section.

#### FINANCIAL HIGHLIGHTS

TCPA's change in net position improved from (\$915,863) in 2015 to \$988,671 in 2016. This is attributed mainly to two (2) factors:

1. Increase in copra subsidies of \$1,633,412 or 95%, and
2. Increase in sales revenue of \$935,081 or 31% from the previous year.

Gross loss decreased due to improved performance in revenues. The increase in sales price of crude oil coupled by higher sales posted for copra meal this year contributed to a combined 31% increase in revenues.

On the operating expense side, general and administrative expenses increased by \$103,622 or 13% from \$784,190 in 2015 to \$887,812 in 2016. This increase was primarily due to increases in salary rates that increased salaries and wages, and the recognition of a provision for bad debts of \$30,366.

Net non-operating revenues increased by \$1,625,067 or 102% from \$1,589,155 in 2015 to \$3,214,222 in 2016. Such increase is attributed to the additional copra subsidy granted to TCPA for the year. Operating subsidies are sourced through the Republic of the Marshall Islands (RepMar) General Fund 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 reflect the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

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

|                                    | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|------------------------------------|---------------------|---------------------|---------------------|
| Current and other assets           | \$ 1,728,056        | \$ 1,032,310        | \$ 1,103,675        |
| Capital assets                     | <u>1,114,628</u>    | <u>1,319,531</u>    | <u>1,426,470</u>    |
| Total assets                       | <u>\$ 2,842,684</u> | <u>\$ 2,351,841</u> | <u>\$ 2,530,145</u> |
| Current liabilities                | \$ 681,558          | \$ 2,419,926        | \$ 1,674,441        |
| Long-term debt                     | <u>1,521,782</u>    | <u>281,242</u>      | <u>289,168</u>      |
| Total liabilities                  | <u>2,203,340</u>    | <u>2,701,168</u>    | <u>1,963,609</u>    |
| Net position                       | <u>639,344</u>      | <u>(349,327)</u>    | <u>566,536</u>      |
| Total liabilities and net position | <u>\$ 2,842,684</u> | <u>\$ 2,351,841</u> | <u>\$ 2,530,145</u> |

As indicated above, total assets increased by \$490,843 or 21% from \$2,351,841 in 2015 to \$2,842,684 in 2016. Current and other assets increased by \$695,746 or 67% from \$1,032,310 in 2015 to \$1,728,056 in 2016. In addition, capital assets decreased by \$204,903 or 16% from \$1,319,531 in 2015 to \$1,114,628 in 2016 due to depreciation.

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2016 and 2015

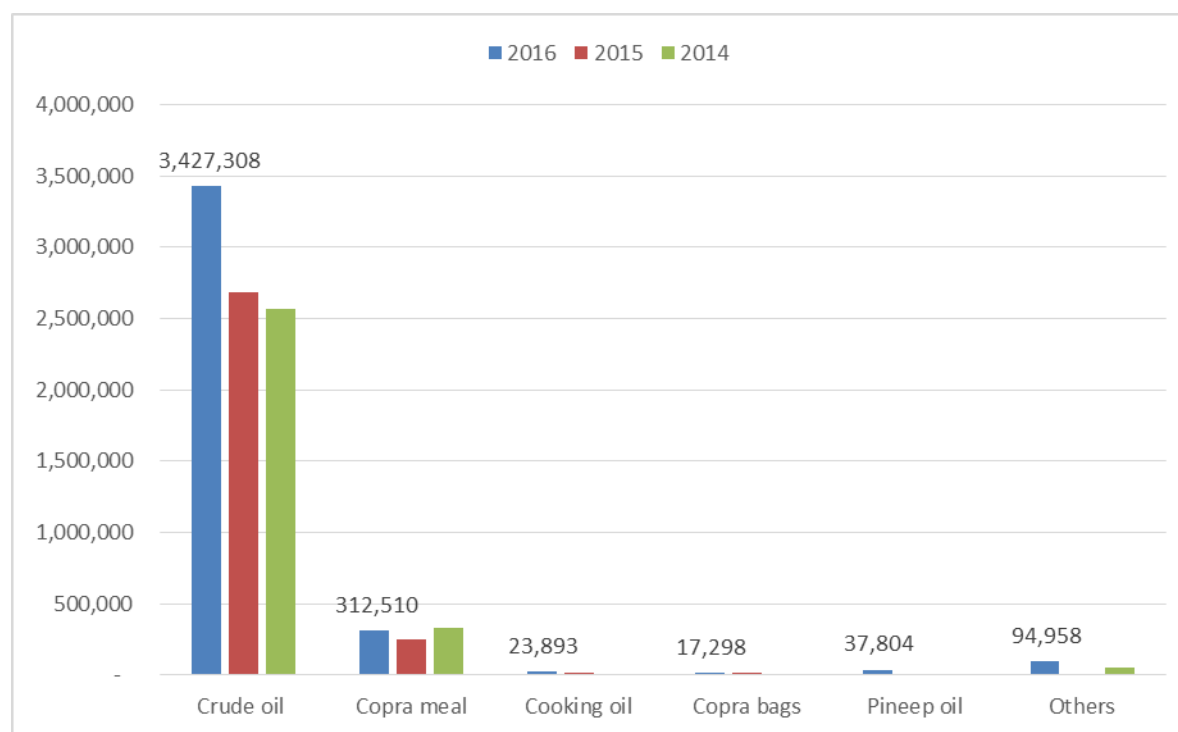
Total liabilities decreased by \$497,828 or 18% from \$2,701,168 in 2015 to \$2,203,340 in 2016. This is due mainly to payment of amortization on TCPA's loans to Bank of Marshall Islands and Pacific Islands Development Bank.

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

|                                   | <u>2016</u>              | <u>2015</u>                | <u>2014</u>                |
|-----------------------------------|--------------------------|----------------------------|----------------------------|
| <b>Revenues:</b>                  |                          |                            |                            |
| Operating revenues                | \$ 3,913,772             | \$ 2,978,691               | \$ 2,967,610               |
| Non-operating revenues and grants | <u>3,352,548</u>         | <u>1,720,272</u>           | <u>1,410,400</u>           |
| <b>Total revenues</b>             | <u><u>7,266,320</u></u>  | <u><u>4,698,963</u></u>    | <u><u>4,378,010</u></u>    |
| <b>Expenses:</b>                  |                          |                            |                            |
| Operating expenses                | 6,139,323                | 5,483,709                  | 5,235,318                  |
| Non-operating expenses            | <u>138,326</u>           | <u>131,117</u>             | <u>72,548</u>              |
| <b>Total expenses</b>             | <u><u>6,277,649</u></u>  | <u><u>5,614,826</u></u>    | <u><u>5,307,866</u></u>    |
| <b>Change in net position</b>     | <u><u>\$ 988,671</u></u> | <u><u>\$ (915,863)</u></u> | <u><u>\$ (929,856)</u></u> |

The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that affect net position. As indicated above, TCPA's total revenue increased by \$2,567,357 or 55% from \$4,698,963 in 2015 to \$7,266,320 in 2016. Such increase is attributed to increased sales and additional subsidy received for the year.

The graph below shows the major components of operating revenues for 2016 compared to 2015 and 2014:

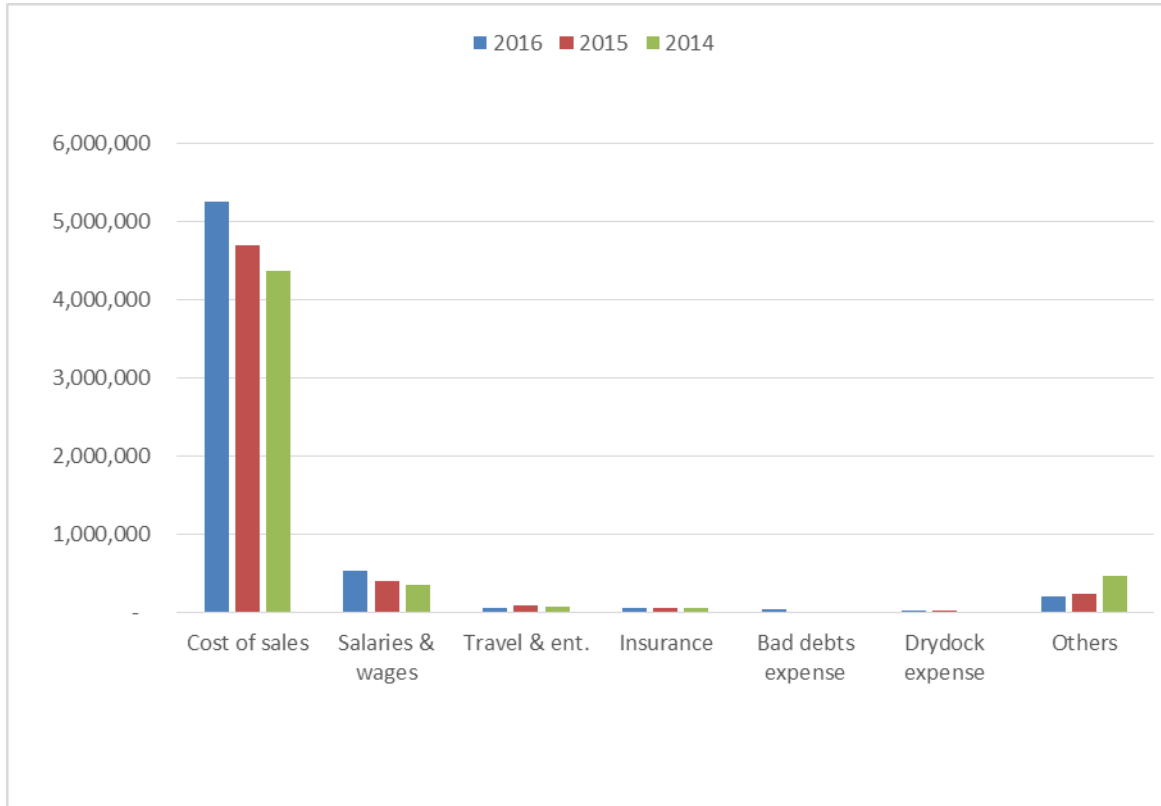


## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2016 and 2015

On the expenses side, operating expenses increased by \$655,614 or 12% from \$5,483,709 in 2015 to \$6,139,323 in 2016. The increase is attributed to increase in cost of sales and salaries and wages.

The graph below shows the major components of operating expenses for 2016 as compared to 2015 and 2014.



Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Authority's report on the audit of financial statements, which is dated May 31, 2016. That discussion and analysis explains the major factors impacting the 2015 financial statements and can be obtained from the Authority's General Manager via the contact information below.

### **CAPITAL ASSETS AND DEBT**

Net capital assets decreased by \$204,903 or 16% from \$1,319,531 in 2015 to \$1,114,628 in 2016 on account of depreciation. The decrease in construction in progress is attributed to the completion of our digital weighing scale that was reclassified to leasehold improvements in September 2016.

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2016 and 2015

|                                      | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|--------------------------------------|---------------------|---------------------|---------------------|
| Capital assets:                      |                     |                     |                     |
| Buildings and leasehold improvements | \$ 2,533,738        | \$ 2,502,598        | \$ 2,101,777        |
| Equipment                            | 3,151,561           | 3,059,194           | 3,032,445           |
| Furniture and fixture                | 98,028              | 98,028              | 94,890              |
|                                      | <u>5,783,327</u>    | <u>5,659,820</u>    | <u>5,229,112</u>    |
| Less accumulated depreciation        | <u>(4,668,699)</u>  | <u>(4,366,429)</u>  | <u>(4,048,262)</u>  |
|                                      | 1,114,628           | 1,293,391           | 1,180,850           |
| Construction in progress             | -                   | 26,140              | 245,620             |
|                                      | <u>\$ 1,114,628</u> | <u>\$ 1,319,531</u> | <u>\$ 1,426,470</u> |

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

TCPA previously 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 \$1,700,000 in 2016 and 2015 for the purpose of funding the purchase of copra from producers. Such balance was converted to a term loan in June 2016 in the amount of \$1,430,000 requiring TCPA a monthly amortization of \$25,500 until fully paid. Please refer to notes 6 and 7 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 2017.

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 \$3,000,000 copra subsidy to help stabilize the price of copra.
5. A contingency plan is being set that if the crude oil price drops to \$650 M/T, copra price needs to be reduced by about \$0.14. We expect that the government subsidy will help offset whatever loss anticipated for the said decrease in price.

#### 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, 2016 and 2015

|   | 2016         | 2015         |
|---|--------------|--------------|
| <u>ASSETS</u>                                   |              |              |
| Current assets:                                 |              |              |
| Cash and cash equivalents                       | \$ 86,032    | \$ 4,066     |
| Time certificates of deposit                    | 110,848      | 106,584      |
| Receivables:                                    |              |              |
| Trade   | 508,293      | 390,267      |
| Affiliates                                      | 92,094       | 90,670       |
| Employees                                       | 53,170       | 14,111       |
| Advances to suppliers and copra buyers          | 145,060      | 203,421      |
| Allowance for doubtful accounts                 | (119,007)    | (368,024)    |
|   | 679,610      | 330,445      |
| Inventories                                     | 798,316      | 520,658      |
| Current portion of prepaid drydocking           | 26,915       | 22,869       |
| Prepayment and deposits                         | 3,450        | 1,950        |
| Total current assets                            | 1,705,171    | 986,572      |
| Noncurrent assets:                              |              |              |
| Prepaid drydocking, net of current portion      | 22,885       | 45,738       |
| Capital assets:                                 |              |              |
| Nondepreciable capital assets                   | -            | 26,140       |
| Capital assets, net of accumulated depreciation | 1,114,628    | 1,293,391    |
| Total noncurrent assets                         | 1,137,513    | 1,365,269    |
|   | \$ 2,842,684 | \$ 2,351,841 |
| <u>LIABILITIES AND NET POSITION</u>             |              |              |
| Liabilities:                                    |              |              |
| Bank overdraft                                  | \$ -         | \$ 23,018    |
| Short-term borrowings                           | -            | 1,794,327    |
| Current portion of long-term debt               | 214,942      | 13,069       |
| Accounts payable                                | 262,654      | 295,257      |
| Payable to affiliates                           | 354,889      | 211,925      |
| Other accrued liabilities                       | 64,015       | 95,399       |
| Total current liabilities                       | 896,500      | 2,432,995    |
| Long-term debt, net of current portion          | 1,306,840    | 268,173      |
| Total liabilities                               | 2,203,340    | 2,701,168    |
| Commitments and contingencies                   |              |              |
| Net position:                                   |              |              |
| Net investment in capital assets                | 845,980      | 1,038,289    |
| Unrestricted                                    | (206,636)    | (1,387,616)  |
| Total net position                              | 639,344      | (349,327)    |
|   | \$ 2,842,684 | \$ 2,351,841 |

See accompanying notes to financial statements.

**TOBOLAR COPRA PROCESSING AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2016 and 2015

|   | 2016         | 2015         |
|---|--------------|--------------|
| Sales   | \$ 3,913,772 | \$ 2,978,691 |
| Less cost of copra products manufactured and sold | (5,251,511)  | (4,699,519)  |
| Gross loss  | (1,337,739)  | (1,720,828)  |
| General and administrative expenses:              |              |              |
| Salaries and wages                                | 521,191      | 401,418      |
| Travel and entertainment                          | 54,327       | 85,710       |
| Insurance   | 52,590       | 57,389       |
| Bad debts expense                                 | 30,366       | -            |
| Drydock expense                                   | 26,695       | 4,250        |
| Taxes and licenses                                | 21,071       | 15,566       |
| Rent expense                                      | 19,420       | 13,047       |
| Communications                                    | 18,732       | 22,392       |
| Membership dues and subscriptions                 | 15,954       | 16,163       |
| Office supplies                                   | 13,900       | 30,908       |
| Management fees                                   | 12,900       | 11,250       |
| Professional fees                                 | 10,761       | 15,767       |
| Repairs and maintenance                           | 6,787        | 21,078       |
| Miscellaneous                                     | 83,118       | 89,252       |
| Total general and administrative expenses         | 887,812      | 784,190      |
| Operating loss                                    | (2,225,551)  | (2,505,018)  |
| Nonoperating revenues (expenses):                 |              |              |
| Copra subsidies from RepMar                       | 3,352,254    | 1,718,842    |
| Grant   | 294          | 1,430        |
| Interest expense                                  | (138,326)    | (131,117)    |
| Total nonoperating revenues (expenses), net       | 3,214,222    | 1,589,155    |
| Change in net position                            | 988,671      | (915,863)    |
| Net position at beginning of year                 | (349,327)    | 566,536      |
| Net position at end of year                       | \$ 639,344   | \$ (349,327) |

See accompanying notes to financial statements.

**TOBOLAR COPRA PROCESSING AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2016 and 2015

|  | 2016           | 2015           |
|--|----------------|----------------|
| Cash flows from operating activities:  |                |                |
| Cash received from customers   | \$ 3,475,880   | \$ 2,915,001   |
| Cash payments to suppliers for goods and services                                  | (4,985,081)    | (4,278,137)    |
| Cash payments to employees for services  | (916,099)      | (806,613)      |
| Net cash used for operating activities   | (2,425,300)    | (2,169,749)    |
| Cash flows from noncapital financing activities:                                   |                |                |
| Copra subsidies received from RepMar   | 3,352,254      | 1,718,842      |
| Operating grant received   | 294            | 1,430          |
| Net borrowings on (payment of) line of credit                                      | (364,327)      | 794,261        |
| Net payment of bank overdraft facility   | (23,018)       | (49,085)       |
| Principal repayment of long-term debt  | (176,866)      | -              |
| Interest paid  | (153,818)      | (97,816)       |
| Net cash provided by noncapital financing activities                               | 2,634,519      | 2,367,632      |
| Cash flows from capital and related financing activities:                          |                |                |
| Principal repayment of long-term debt  | (12,594)       | (7,926)        |
| Interest paid on long-term debt  | (17,292)       | (25,446)       |
| Acquisition of capital assets  | (97,367)       | (211,228)      |
| Net cash used for capital and related financing activities                         | (127,253)      | (244,600)      |
| Net change in cash and cash equivalents  | 81,966         | (46,717)       |
| Cash and cash equivalents at beginning of year                                     | 4,066          | 50,783         |
| Cash and cash equivalents at end of year   | \$ 86,032      | \$ 4,066       |
| Reconciliation of operating loss to net cash used for operating activities:        |                |                |
| Operating loss   | \$ (2,225,551) | \$ (2,505,018) |
| Adjustments to reconcile operating loss to net cash used for operating activities: |                |                |
| Depreciation   | 302,270        | 318,167        |
| Provision for doubtful debts   | 30,366         | -              |
| (Increase) decrease in assets:   |                |                |
| Receivables:   |                |                |
| Trade  | (397,409)      | (36,660)       |
| Affiliates   | (1,424)        | (28,089)       |
| Employees  | (39,059)       | 1,059          |
| Advances to copra suppliers and buyers   | 58,361         | (153,421)      |
| Inventories  | (277,658)      | 309,848        |
| Prepayment and deposits  | 17,307         | (66,786)       |
| Increase (decrease) in liabilities:  |                |                |
| Accounts payable   | (32,603)       | (25,163)       |
| Payable to affiliates  | 142,964        | 46,562         |
| Other accrued liabilities  | (2,864)        | (30,248)       |
| Net cash used for operating activities   | \$ (2,425,300) | \$ (2,169,749) |
| Summary of noncash financing activities:   |                |                |
| Refinancing of short-term debt:  |                |                |
| Long-term debt   | \$ 1,430,000   | \$ -           |
| Short-term borrowings  | (1,430,000)    | -              |
|  | \$ -           | \$ -           |

See accompanying notes to financial statements.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

### (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, equity is presented in the following net position 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.

#### Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

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

#### Estimates

The preparation of financial statements in accordance 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 deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures 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 and Time Certificates of Deposit

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. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statements of net position. As of September 30, 2016 and 2015, the carrying amount of the Authority's cash and cash equivalents was \$196,880 and \$110,650, respectively, and the corresponding bank balance was \$247,078 and \$114,287, respectively. Of the bank balance amount, \$134,989 and \$7,615, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$112,089 and \$106,672, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$134,989 and \$7,615, 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.

#### 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.

# TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

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

### Inventories

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

### Deferred Dry Dock Expenditures

Dry dock expenditures have been recognized as an asset when the recognition criteria were met. The recognition is made when the dry docking has been performed and is amortized over the period until the next scheduled dry docking, usually two to three years. Any remaining carrying amount of the cost of the previous inspection is derecognized. Ordinary repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

### Property, Plant and Equipment

Property, plant and equipment with costs that equal or exceed \$1,500 and have 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 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. The Authority 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, 2016 and 2015, an accumulated vacation leave liability of \$34,784 and \$39,389, respectively, is included in the statements of net position within 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 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. The Authority has no items that qualify for reporting in this category.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

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

#### Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses result directly from the production and sale of copra and copra related products. Nonoperating revenues and expenses are generally limited to financing and capital activities, and noncapital contributions from the Republic of the Marshall Islands.

#### Reclassifications

Certain balances in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

#### New Accounting Standards

During the year ended September 30, 2016, the Authority implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

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

#### New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.



**TOBOLAR COPRA PROCESSING AUTHORITY**

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Inventories

Inventories at September 30, 2016 and 2015 consist of the following:

|                    | <u>2016</u>       | <u>2015</u>       |
|--------------------|-------------------|-------------------|
| Raw copra          | \$ 634,088        | \$ 318,886        |
| Copra oil          | 37,150            | 124,418           |
| Soap and materials | 80,710            | 41,478            |
| Copra cake         | <u>46,368</u>     | <u>35,876</u>     |
|                    | <u>\$ 798,316</u> | <u>\$ 520,658</u> |

(4) Capital Assets

Capital asset activity for the years ended September 30, 2016 and 2015 is as follows:

|                               | <u>2016</u>                |                     |                    |                               |
|-------------------------------|----------------------------|---------------------|--------------------|-------------------------------|
|                               | <u>October 1,<br/>2015</u> | <u>Additions</u>    | <u>Reductions</u>  | <u>September 30,<br/>2016</u> |
| Building and improvements     | \$ 2,502,598               | \$ 31,140           | \$ -               | \$ 2,533,738                  |
| Equipment                     | 3,059,194                  | 92,367              | -                  | 3,151,561                     |
| Furniture and fixtures        | <u>98,028</u>              | <u>-</u>            | <u>-</u>           | <u>98,028</u>                 |
|                               | 5,659,820                  | 123,507             | -                  | 5,783,327                     |
| Less accumulated depreciation | <u>(4,366,429)</u>         | <u>(302,270)</u>    | <u>-</u>           | <u>(4,668,699)</u>            |
|                               | 1,293,391                  | (178,763)           | -                  | 1,114,628                     |
| Construction in progress      | <u>26,140</u>              | <u>5,000</u>        | <u>(31,140)</u>    | <u>-</u>                      |
|                               | <u>\$ 1,319,531</u>        | <u>\$ (173,763)</u> | <u>\$ (31,140)</u> | <u>\$ 1,114,628</u>           |

**TOBOLAR COPRA PROCESSING AUTHORITY**

Notes to Financial Statements  
September 30, 2016 and 2015

(4) Capital Assets, Continued

|                               | 2015                |                   |                     |                       |
|-------------------------------|---------------------|-------------------|---------------------|-----------------------|
|                               | October 1,<br>2014  | <u>Additions</u>  | <u>Reductions</u>   | September 30,<br>2015 |
| Building and improvements     | \$ 2,101,777        | \$ 400,821        | \$ -                | \$ 2,502,598          |
| Equipment                     | 3,032,445           | 26,749            | -                   | 3,059,194             |
| Furniture and fixtures        | <u>94,890</u>       | <u>3,138</u>      | <u>-</u>            | <u>98,028</u>         |
|                               | 5,229,112           | 430,708           | -                   | 5,659,820             |
| Less accumulated depreciation | <u>(4,048,262)</u>  | <u>(318,167)</u>  | <u>-</u>            | <u>(4,366,429)</u>    |
|                               | 1,180,850           | 112,541           | -                   | 1,293,391             |
| Construction in progress      | <u>245,620</u>      | <u>178,928</u>    | <u>(398,408)</u>    | <u>26,140</u>         |
|                               | <u>\$ 1,426,470</u> | <u>\$ 291,469</u> | <u>\$ (398,408)</u> | <u>\$ 1,319,531</u>   |

(5) Prepaid Drydocking

During the year ended September 30, 2015, the Authority incurred drydock expenses of \$72,857 for the MV Tobolar ship in Fiji, which is to be amortized over 3 years. During the years ended September 30, 2016 and 2015, amortized drydock expenses amounted to \$26,695 and \$4,250, respectively. As of September 30, 2016 and 2015, prepaid drydocking amounted to \$49,800 and \$68,607, respectively.

(6) Short-term Debt

In the normal course of operations, the Authority obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. On October 4, 2013, the Authority obtained a one-year \$1,700,000 bank credit line for the purpose of buying copra, which is collateralized by a general security agreement over all assets of the Authority and a guarantee from RepMar. Notes drawn are subject to interest at 7.5% per annum and are repaid on various maturity dates but not to exceed 180 days from loan drawdown. On October 6, 2014, the bank credit line was renewed for an additional year at the same terms and conditions. On October 5, 2015, the bank credit line expired and was not renewed by the bank. On June 23, 2016, the amount outstanding of \$1,430,000 was refinanced as a term loan.

On September 24, 2015, the Authority obtained an additional short-term borrowing of \$100,000 primarily for the purpose of funding the purchase of raw copra from producers with interest at 7.5% per annum. On October 30, 2015, the Authority paid the short-term borrowing of \$100,000.

Short-term borrowings drawn down and paid during the years ended September 30, 2016 and 2015 are as follows:

|      | <u>Beginning<br/>Balance</u> | <u>Draws</u>        | <u>Repayments</u>     | <u>Ending<br/>Balance</u> |
|------|------------------------------|---------------------|-----------------------|---------------------------|
| 2016 | \$ <u>1,794,327</u>          | \$ <u>-</u>         | \$ <u>(1,794,327)</u> | \$ <u>-</u>               |
| 2015 | \$ <u>1,000,066</u>          | \$ <u>1,868,000</u> | \$ <u>(1,073,739)</u> | \$ <u>1,794,327</u>       |

**TOBOLAR COPRA PROCESSING AUTHORITY**

Notes to Financial Statements  
September 30, 2016 and 2015

(7) Long-term Debt

Long-term debt at September 30, 2016 and 2015 is as follows:

|  | <u>2016</u>         | <u>2015</u>       |
|--|---------------------|-------------------|
| Term loan with a bank refinanced from a bank credit line in the amount of \$1,430,000, dated June 23, 2016, interest at 8.5% per annum, with principal and interest payable in monthly installments of \$25,500 through June 30, 2022, collateralized by a general security agreement over all assets of the Authority and a guarantee from the Marshall Islands Development Bank.             | \$ 1,253,134        | \$ -              |
| Loan with the Pacific Islands Development Bank (PIDB), 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>268,648</u>      | <u>281,242</u>    |
|  | <u>\$ 1,521,782</u> | <u>\$ 281,242</u> |

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

| <u>Year ending<br/>September 30,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2017                                 | \$ 214,942          | \$ 124,431        | \$ 339,373          |
| 2018                                 | 240,405             | 98,966            | 339,371             |
| 2019                                 | 261,482             | 77,890            | 339,372             |
| 2020                                 | 215,641             | 57,731            | 273,372             |
| 2021                                 | 234,629             | 38,743            | 273,372             |
| 2022-2026                            | 287,174             | 53,647            | 340,821             |
| 2027-2028                            | <u>67,509</u>       | <u>5,311</u>      | <u>72,820</u>       |
|                                      | <u>\$ 1,521,782</u> | <u>\$ 456,719</u> | <u>\$ 1,978,501</u> |

Changes in long-term liabilities for the year ended September 30, 2016, were as follows:

|                | Balance<br>October 1,<br><u>2015</u> | <u>Additions</u>    | <u>Reductions</u>   | Balance<br>September<br><u>30, 2016</u> | Due Within<br><u>One Year</u> |
|----------------|--------------------------------------|---------------------|---------------------|---|-------------------------------|
| Loans payable: |                                      |                     |                     |   |                               |
| Bank loan      | \$ -                                 | \$ 1,430,000        | \$ (176,866)        | \$ 1,253,134                            | \$ 200,864                    |
| PIDB           | <u>281,242</u>                       | <u>-</u>            | <u>(12,594)</u>     | <u>268,648</u>                          | <u>14,078</u>                 |
|                | <u>\$ 281,242</u>                    | <u>\$ 1,430,000</u> | <u>\$ (189,460)</u> | <u>\$ 1,521,782</u>                     | <u>\$ 214,942</u>             |

**TOBOLAR COPRA PROCESSING AUTHORITY**

Notes to Financial Statements  
September 30, 2016 and 2015

(7) Long-term Debt, Continued

Changes in long-term liabilities for the year ended September 30, 2015, were as follows:

|               | Balance<br>October 1,<br><u>2014</u> | <u>Additions</u> | <u>Reductions</u> | Balance<br>September<br><u>30, 2015</u> | Due Within<br><u>One Year</u> |
|---------------|--------------------------------------|------------------|-------------------|---|-------------------------------|
| Loan payable: |                                      |                  |                   |   |                               |
| PIDB          | \$ <u>289,168</u>                    | \$ <u>-</u>      | \$ <u>(7,926)</u> | \$ <u>281,242</u>                       | \$ <u>13,069</u>              |

(8) 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, 2016 and 2015, the operations of the Authority were funded by appropriations of \$3,352,254 and \$1,718,842, respectively, from the Nitijela of RepMar. A summary of RepMar appropriations by funding source received by the Authority for the years ended September 30, 2016 and 2015 is as follows:

|              | <u>2016</u>         | <u>2015</u>         |
|--------------|---------------------|---------------------|
| General Fund | \$ 2,303,890        | \$ 797,600          |
| ROC Taiwan   | <u>1,048,364</u>    | <u>921,242</u>      |
|              | \$ <u>3,352,254</u> | \$ <u>1,718,842</u> |

In addition, the Authority has recorded receivables from RepMar at September 30, 2016 and 2015 of \$92,094 and \$90,670, respectively, relating to miscellaneous services provided by the Authority.

In 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. As at September 30, 2016 and 2015, the outstanding balance amounted to \$75,000.

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 as of September 30, 2016 and 2015, and for the years then ended is as follows:

|   | <u>2016</u>       |                   |
|---|-------------------|-------------------|
|   | <u>Expenses</u>   | <u>Payables</u>   |
| Marshalls Energy Company, Inc.                  | \$ 213,196        | \$ 17,971         |
| Marshall Islands Shipping Corporation           | 324,738           | 237,044           |
| Marshall Islands Social Security Administration | 77,023            | 19,687            |
| RMI Ports Authority                             | 16,388            | -                 |
| Marshall Islands Marine Resources Authority     | -                 | 75,000            |
| RepMar  | 21,072            | -                 |
| Others  | <u>1,272</u>      | <u>5,187</u>      |
|   | \$ <u>653,689</u> | \$ <u>354,889</u> |

**TOBOLAR COPRA PROCESSING AUTHORITY**

Notes to Financial Statements  
September 30, 2016 and 2015

(8) Related Party Transactions, Continued

|   | 2015              |                   |
|---|-------------------|-------------------|
|   | <u>Expenses</u>   | <u>Payables</u>   |
| Marshalls Energy Company, Inc.                  | \$ 192,295        | \$ 23,601         |
| Marshall Islands Shipping Corporation           | 275,768           | 77,664            |
| Marshall Islands Social Security Administration | 51,950            | 17,842            |
| RMI Ports Authority                             | 18,283            | -                 |
| Marshall Islands Marine Resources Authority     | 72                | 75,000            |
| RepMar  | 15,562            | 13,986            |
| Others  | 2,858             | 3,832             |
|   | <u>\$ 556,788</u> | <u>\$ 211,925</u> |

(9) 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.

(10) Significant Customers

Approximately 87% and 96% of total sales were earned from two customers during the years ended September 30, 2016 and 2015, respectively.

(11) Commitments

On June 5, 2013, the Authority entered into a 25-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:

| Year ending<br>September 30, |                   |
|------------------------------|-------------------|
| 2017                         | \$ 13,668         |
| 2018                         | 13,668            |
| 2019                         | 13,668            |
| 2020                         | 13,668            |
| 2021                         | 13,668            |
| 2022 - 2026                  | 68,340            |
| 2027 - 2031                  | 68,340            |
| 2032 - 2036                  | 68,340            |
| 2037 - 2038                  | 13,668            |
|                              | <u>\$ 287,028</u> |

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2016 and 2015

### (12) Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of the Authority as a going concern. During the years ended September 30, 2016 and 2015, the Authority incurred losses from operations of \$2,225,551 and \$2,505,018, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain the Authority as a going concern. Although RepMar has provided funding in the past, the Authority does not have a formal agreement with RepMar to provide funds in the future.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2016, is dependent upon continued operations of the Authority, which, in turn, is dependent upon the Authority's ability to produce and process copra products and the success of future operations. Management believes that the continuation of the Authority's operations is dependent upon the future financial support of RepMar. 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.

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.

**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 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, 2016, 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 June 13, 2017. Our report included an emphasis-of-matter paragraph regarding going concern.

### **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.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-002 and 2016-003, that we consider to be material weaknesses.

## Compliance and Other Matters

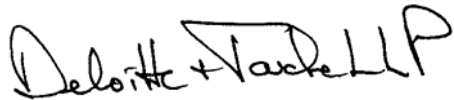
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2016-001.

## 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.

June 13, 2017



## TOBOLAR COPRA PROCESSING AUTHORITY

### Schedule of Findings and Responses Year Ended September 30, 2016

#### Local Noncompliance

#### Finding No. 2016-001

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 items, supporting documentation was inadequate to evidence the procurement process:

| <u>Items Description</u>           | <u>Amount</u> | <u>Comment</u>  |
|------------------------------------|---------------|---|
| Used generator for MV Tobolar boat | \$29,000      | Price quotations from vendors were not available, no competitive bidding process occurred |

In addition, the following credit card transactions were not evidenced by supporting documents such as quotations, receipts and invoices from the selected supplier:

| <u>Items Description</u>         | <u>Amount</u> | <u>Comment</u>          |
|----------------------------------|---------------|-------------------------|
| Credit card for travel in Hawaii | \$4,335       | Travel related expenses |
| Various credit card charges      | \$2,064       | Travel related expenses |

Procurement procedures for the above items 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, 2016

### Local Noncompliance, Continued

#### Finding No. 2016-001, 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 through 2015.

Auditee Response and Corrective Action Plan: Management noted the auditor's comments and recommendations however does not entirely agree with the finding because of the following:

Tobolar has always used the RMI Procurement Code as its guideline when procuring any goods or services. From small purchases to bidding out project and major equipment have been made transparent in all past transactions. Only documentation such as a missing award letter or in various events have to do with price quotations were reflected as need to improve.

The FY2016-001 Audit Finding is regarding the acquisition of the generator which is cited to be not conformed with the Procurement Code. The purchase made on the generator was supposed to follow a bid out process that required public announcement, etc. provided the generator cost more than \$25,000.

No objection to the above indication however under section 128 of the RMI Procurement code when emergency arise and is inevitable allowed for emergency procurement as an alternate option. In this section it stated - 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.

During the time the generator was procured, all government vessels already departed Majuro to cater for the Christmas and New Year field trips. MV Tobolar, who has always been providing supplemental support to the government transport service, was scheduled to depart to cover service required for the central islands however its backup generator was down causing the trip to delay. Due to the urgent need for the vessel to depart immediately, Tobolar has no other solution but to buy the only available generator on islands from Marshall Islands Shipping Corporation that meet the specifications required by MV Vessel.

Management has provided the details and an oral report of the transaction to the Tobolar Board of Directors. The Board approved the sole source in its board meeting on May 31, 2017. Subsequently, the Board approved a board resolution that reflected the board's decision to adopt the RMI Procurement Code and its reaffirmation of its approval of the sole source. The Board Resolution 2017-001 is attached to serve as supplemental response to this finding.

For the credit card transactions specifically the online purchase of airline tickets. The Management always goes on a trip with the Minister, the tendency is we cannot make the process of canvassing, which airline has the lowest price because we always accompany Minister's booked flight. Nevertheless, management shall provide additional justification, whether a written note or other essential supporting documents, to the auditor upon request.

Auditor Response: We reiterate our recommendation that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code. With respect to emergency procurement, the Procurement Code allows for such when there exists a threat to public health, welfare, or safety under emergency conditions.

## TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2016

### Accounts Payables

#### Finding No. 2016-002

Criteria: Accounts payable balances should be reconciled against the subsidiary ledger (SL) and vendor statements. Timely reconciliations of recorded payables and its SL against vendor statements should occur throughout the year.

Condition: As of September 30, 2016, TCPA recorded \$115,926 in unidentified dummy accounts from prior year balances. Of seven payables tested, one reflected a difference in the confirmed outstanding balance but related invoices from prior year were missing. Another supplier balance could not be validated since invoices from prior years were missing.

Cause: The cause of the above condition is due to a lack of monitoring invoices and payments against vendor statements throughout the year and a lack of policies and procedures requiring period account reconciliation.

Effect: The effect of the above condition is possible misstatements of accounts payable and accrued liabilities may not be timely detected. The non-accrual of expenses was corrected through proposed audit adjustments.

Recommendation: We recommend that management establish policies and procedures requiring periodic review and reconciliation of accounts payable minimize the existence of unidentified, dummy accounts and long outstanding payables.

Prior Year Status: The lack of internal control over accounts payable reconciliations was reported as a finding in the audits of the Authority for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: The Management acknowledges the auditor's recommendation and will continue to have a regular reconciliation of accounts payable until the dummies will be eliminated and identified accordingly to its rightful classification.

**TOBOLAR COPRA PROCESSING AUTHORITY**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2016

Cost of Goods Sold

Finding No. 2016-003

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

Condition: Of sixty cost of goods sold items tested, the following variances in copra purchase summary reports were noted:

| No. | <u>Check #</u> | <u>Check Amount</u> | <u>Cash Returned</u> | <u>Unreturned Cash</u> | <u>GL Account</u> |
|-----|----------------|---------------------|----------------------|------------------------|-------------------|
| 1   | 848            | \$ 95,000           | \$ 2,092             | \$ 0                   | N/A               |
| 2   | 8564/7646      | 104,900             | 2,075                | 41                     | Miscellaneous     |
| 3   | 28723          | 100,000             | 901                  | 1,535                  | Miscellaneous     |
| 4   | 881            | 100,000             | 84                   | 1,225                  | AR employee       |
| 5   | 29878          | 35,000              | 276                  | 408                    | AR employee       |
| 6   | 28630          | 25,000              | 506                  | 870                    | Miscellaneous     |
| 7   | 28648          | 15,000              | 9,122                | 710                    | Miscellaenous     |
| 8   | 29763          | 56,616              | -                    | 100                    | Miscellaneous     |
| 10  | 28674          | <u>50,000</u>       | <u>4,226</u>         | <u>364</u>             | AR employee       |
|     |                | <u>\$ 585,516</u>   | <u>\$ 19,282</u>     | <u>\$ 5,253</u>        |                   |

Of the total cash shortages (\$5,253), \$3,256 was recorded as miscellaneous expense and \$1,997 was charged to employee receivables. Cash returned was verified against deposit slips, but some were deposited within an average of 2 to 3 days after receipt. Daily collection reports did not contain signatures evidencing that independent review took place. Also, certain copra purchase reports did not contain signatures evidencing that independent review occurred.

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 and an increased risk of fraud or cash theft.

Recommendation: We recommend management establish policies and procedures requiring that all cash returned be deposited within the next banking day and validated deposit slips together with cash receipts be arranged and be kept in file. In addition, management should implement internal control over unreturned cash/cash shortages and ensure policies are applied throughout the process to minimize risk of fraud. Furthermore, we recommend that the Authority require review of the classification of cost of goods sold.

## TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2016

### Cost of Goods Sold

#### Finding No. 2016-003, Continued

Prior Year Status: The lack of internal control over cost of goods sold was reported as a finding in the audits of the Authority for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: We acknowledge the auditor's recommendation. The management will continue and strictly implement the proper and complete documentation to support the recorded transactions specifically those pertaining to expenses and cost of goods sold to improve the situation.

For the daily cash collection and sales, also the returned cash from the outer islands boat trip, Management will ensure that it will be deposited on the next banking day with validated deposit slips and to be maintained on file together with the required documents such as official receipts and the like. On the cash shortage it has been a practice to let the personnel be accountable for it.

**TOBOLAR COPRA PROCESSING AUTHORITY**

Unresolved Prior Year Findings  
Year Ended September 30, 2016

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