TOBOLAR COPRA PROCESSING AUTHORITY

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(AS RESTATED)

TOBOLAR COPRA PROCESSION AUTHORITY

Years Ended September 30, 2014 and 2013
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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, 2014 and 2013, 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, 2014 and 2013, 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

Restatement

As discussed in Note 12 to the financial statements, the 2013 financial statements have been restated to correct an error. 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 7 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 July 9, 2015, 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.

Deloitte & Touche LLP

July 9, 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, 2014. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position decreased by $929,856 or 62% from $1,496,392, as restated, in 2013 to $566,536 in 2014 due to losses from operations. Operating loss incurred in 2014 is attributed mainly to two (2) factors;

1. Decrease in sales of $541,839 or 15% from previous year, and
2. Increase in provision for bad debts expense of $123,060.

Operating revenues decreased due to significant decline in sales revenue of $541,839 or 15% from 2013 figure of $3,509,449, as restated, to $2,967,610 in 2014. The decrease in volume of copra purchased this year had resulted in lower production that had caused lower sales in crude coconut oil and copra meal compared to previous year. Crude coconut oil sales decreased by $411,645 or 14% from $2,982,182 registered in 2013 to $2,570,537 in 2014. In addition, sales of copra meal decreased by $103,898 or 24% from the $430,025 posted in 2013 to $326,127 in 2014.

On the operating expenses side, general and administrative expenses decreased marginally by $4,241 or 0.5% from 2013 figure of $872,731 to $868,490 in 2014.

Net non-operating revenues increased by $260,061 or 24% from $1,077,791 registered in 2013 to $1,337,852 in 2014 due mainly to the additional funding from operating subsidies to subsidize copra purchases from growers. 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 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 Statement of Net Position is presented below:

	2014	(As restated) 2013	2012
Current and other assets	$ 1,103,675	$ 1,043,471	$ 2,633,890
Capital assets	1,426,470	1,235,487	915,588
Total assets	$ 2,530,145	$ 2,278,958	$ 3,549,478
Current and other liabilities	$ 1,674,441	$ 482,566	$ 225,802
Long-term debt	289,168	300,000	-
Net position	566,536	1,496,392	3,323,676
Total liabilities and net position	$ 2,530,145	$ 2,278,958	$ 3,549,478

As indicated above, total assets increased by $251,187 or 11% from $2,278,958 in 2013 to $2,530,145 in 2014. Current and other assets increased by $60,204 or 6% from 2013 figure of $1,043,471 to $1,103,675 in 2014. In addition, capital assets increased by $190,983 or 15% from $1,235,487 in 2013 to $1,426,470 in 2014 due to the construction cost of our new Refinery Plant in Woja. The effect of these two accounts explains the increase in total assets.

Total liabilities increased tremendously by $1,181,043 or 151% from 2013 figure of $782,566 to $1,963,609 in 2014. Among the major contributors to the increase are the line of credit from Bank of Marshall Islands, the accounts payable from copra purchases and the accruals on unpaid employee vacation pay and interest on bank loans.

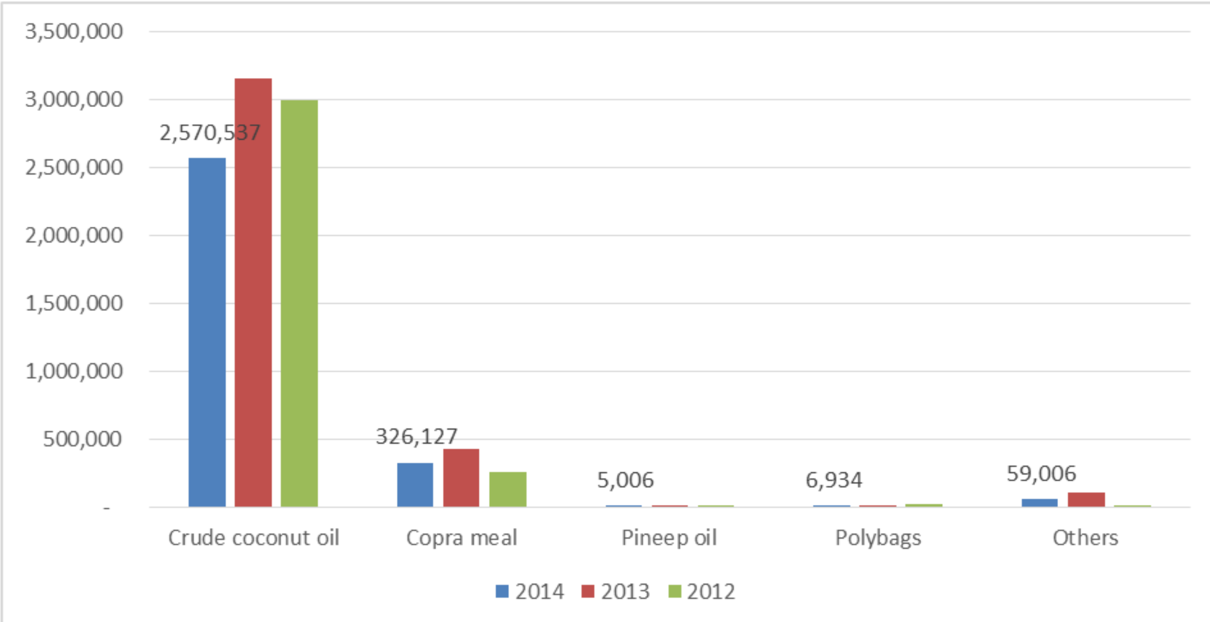
A summary of TCPA's Statement of Revenues, Expenses and Changes in Net Position is presented below:

	2014	(As restated) 2013	2012
Revenues:			
Operating revenues	$ 2,967,610	$ 3,509,449	$ 3,292,813
Non-operating revenues and capital contributions	1,410,400	1,252,544	1,388,802
Total revenues	4,378,010	4,761,993	4,681,615
Expenses:			
Operating expenses	5,235,318	6,476,668	5,537,012
Non-operating expenses	72,548	112,609	16,313
Total expenses	5,307,866	6,589,277	5,553,325
Change in net position	$ (959,856)	$ (1,827,284)	$ (871,710)

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 decreased by $383,983 or 8% from the $4,761,993 registered in 2013 to $4,378,010 in 2014. Such decrease is attributed to lower sales on copra meal and crude coconut oil.

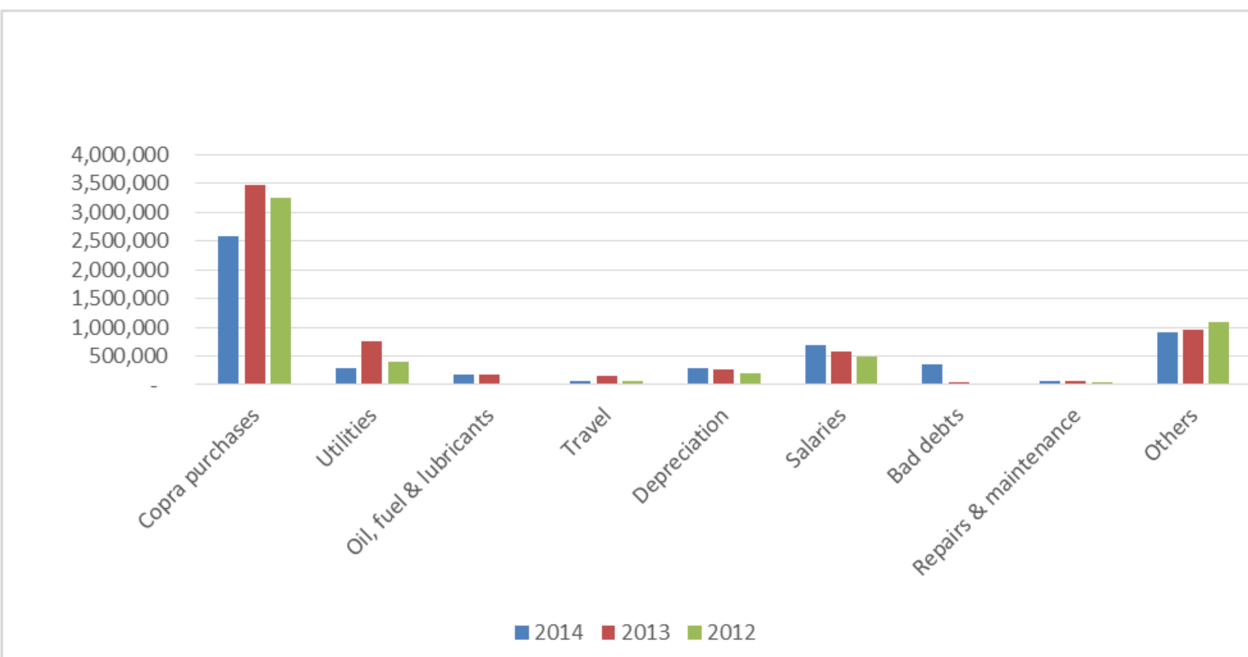
The 2013 financial statements have been restated to correct a misstatement, Please refer to note 12 to the accompanying financial statements for additional information.

The graph below shows the major components of operating revenues for 2014 compared to 2013 and 2012:



On the expenses side, operating expenses decreased by $1,241,350 or 19% from previous year figure of $6,476,668 to $5,235,318 for the current year. The decline is attributed largely to the lower purchases of raw materials (copra) from 7,048 tons in 2013 to 4,778 in 2014. Though TCPA experienced a decline in copra purchases in 2014, the increase in provision for bad debts of $170,093 and increase in salaries of $130,443 had contributed to the decrease in net revenues for 2014.

The graph below shows the major components of operating expenses for 2014 as compared to 2013 and 2012.



Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the Authority's report on the audit of financial statements, which is dated December 10, 2014. That discussion and analysis explains the major factors impacting the 2013 financial statements and can be obtained from the Authority's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets increased by $190,983 or 15% from 2013 figure of $1,235,487 to $1,426,470 in 2014 due primarily to the construction of our new refinery plant in Woja. Other minor additions to the increase includes the acquisition of the service vehicle of the GM, purchase of outboard motor for the MV Tobolar ship, concrete mixer and materials for the construction of the digital weighing scale.

	2014	2013	2012
Capital assets:			
Buildings and leasehold improvements	$ 2,101,777	$ 2,097,433	$ 2,003,891
Equipment	3,032,445	2,765,259	2,285,374
Furniture and fixture	94,890	90,693	90,693
	5,229,112	4,953,385	4,379,958
Less accumulated depreciation	(4,048,262)	(3,749,262)	(3,479,405)
	1,180,850	1,204,123	900,553
Construction in progress	245,620	31,364	15,035
	$ 1,426,470	$ 1,235,487	$ 915,588

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 $1,700,000 in 2014 and $1,500,000 in 2013 for the purpose of funding the purchase of copra from producers. Please refer to note 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 2015.

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, but if price drops to $650 M/T, 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, 2014 and 2013

ASSETS	2014	2013 (As Restated)
Current assets:		
Cash and cash equivalents	$ 156,064	$ 106,965
Receivables:		
Trade	353,607	548,100
Affiliates	62,581	53,446
Employees	15,170	28,750
Advances to suppliers and copra buyers	50,000	-
	481,358	630,296
Allowance for doubtful accounts	(368,024)	(197,931)
	113,334	432,365
Inventories	830,506	496,708
Prepayment and deposits	3,771	7,433
Total current assets	1,103,675	1,043,471
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	245,620	31,364
Capital assets, net of accumulated depreciation	1,180,850	1,204,123
Total noncurrent assets	1,426,470	1,235,487
	$ 2,530,145	$ 2,278,958

LIABILITIES AND NET POSITION	2014	2013 (As Restated)
Liabilities:		
Bank overdraft	$ 72,103	$ 69,764
Short-term borrowings	1,000,066	-
Current portion of long-term debt	12,052	10,284
Accounts payable	320,420	190,610
Payable to affiliates	165,363	192,148
Other accrued liabilities	116,489	30,044
Total current liabilities	1,686,493	492,850
Long-term debt, net of current portion	277,116	289,716
Total liabilities	1,963,609	782,566
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,137,302	935,487
Unrestricted	(570,766)	560,905
Total net position	566,536	1,496,392
	$ 2,530,145	$ 2,278,958

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013 (As Restated)
Sales	$ 2,967,610	$ 3,509,449
Less cost of copra products manufactured and sold	(4,366,828)	(5,603,937)
Gross loss	(1,399,218)	(2,094,488)
General and administrative expenses:		
Salaries and wages	352,994	345,205
Bad debts expense	170,093	47,033
Travel and entertainment	71,295	159,911
Insurance	45,703	39,232
Office supplies	25,217	50,934
Communications	20,467	18,856
Membership dues and subscriptions	18,538	40,427
Repairs and maintenance	11,626	19,992
Professional fees	9,808	10,000
Management fee	9,020	13,200
Transportation	50	56
Miscellaneous	133,679	127,885
Total general and administrative expenses	868,490	872,731
Operating loss	(2,267,708)	(2,967,219)
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,410,400	1,190,400
Interest expense	(72,548)	(112,609)
Total nonoperating revenues (expenses), net	1,337,852	1,077,791
Capital contributions	-	62,144
Change in net position	(929,856)	(1,827,284)
Net position at beginning of year	1,496,392	3,323,676
Net position at end of year	$ 566,536	$ 1,496,392

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 3,172,943	$ 3,218,692
Cash payments to suppliers for goods and services	(4,257,638)	(4,852,786)
Cash payments to employees for services	(705,648)	(686,923)
Net cash used for operating activities	(1,790,343)	(2,321,017)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	1,410,400	1,190,400
Net borrowings on line of credit	1,000,066	-
Net proceeds from bank overdraft facility	2,339	69,764
Interest paid on line of credit	(72,548)	(112,609)
Net cash provided by noncapital financing activities	2,340,257	1,147,555
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	-	300,000
Payment of long term debt	(10,832)	-
Acquisition of capital assets	(489,983)	(527,612)
Net cash used for capital and related financing activities	(500,815)	(227,612)
Net change in cash	49,099	(1,401,074)
Cash and cash equivalents at beginning of year	106,965	1,508,039
Cash and cash equivalents at end of year	$ 156,064	$ 106,965
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (2,267,708)	$ (2,967,219)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	299,000	269,857
Provision for doubtful debts	170,093	47,033
(Increase) decrease in assets:		
Receivables:		
Trade	197,358	(272,501)
Affiliates	(12,000)	2,865
Employees	13,580	(21,121)
Advances to copra suppliers and buyers	(50,000)	12,489
Inventories	(333,798)	420,580
Prepayment and deposits	3,662	-
Increase (decrease) in liabilities:		
Accounts payable	129,810	136,194
Payable to affiliates	(26,785)	58,516
Other accrued liabilities	86,445	(7,710)
Net cash used for operating activities	$ (1,790,343)	$ (2,321,017)
Supplemental disclosure of noncash activities:		
Acquisition of capital assets	$ -	$ (62,144)
Capital contributions	-	62,144
	$ -	$ -

See accompanying notes to financial statements.

(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.

(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, 2014 and 2013, the carrying amount of the Authority's cash and cash equivalents was $156,064 and $106,965, respectively, and the corresponding bank balance was $164,582 and $353,667, respectively. Of the bank balance amount, $59,141 and $253,330, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with $105,441 and $100,337, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2014 and 2013, bank deposits in the amount of $164,582 and $250,000, 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.

(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. 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, 2014 and 2013, an accumulated vacation leave liability of $37,261 and $27,817, respectively, is included within the statements of net position in other accrued liabilities.

(2) Summary of Significant Accounting Policies, Continued

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. The Authority has no items that qualify for reporting in this category.

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 2014, the Authority implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(3) Inventories

Inventories at September 30, 2014 and 2013 consist of the following:

	2014	2013
Copra oil	$ 415,866	$ 160,158
Raw copra	319,075	237,039
Soap and materials	53,833	58,595
Copra cake	41,732	40,665
Carts	-	251
	$ 830,506	$ 496,708

(4) Capital Assets

Capital asset activity for the years ended September 30, 2014 and 2013 is as follows:

	2014			
	October 1, 2013	Additions	Reductions	September 30, 2014
Building and improvements	$ 2,097,433	$ 4,344	$ -	$ 2,101,777
Equipment	2,765,259	267,186	-	3,032,445
Furniture and fixtures	90,693	4,197	-	94,890
	4,953,385	275,727		5,229,112
Less accumulated depreciation	(3,749,262)	(299,000)	-	(4,048,262)
	1,204,123	(23,273)		1,180,850
Construction in progress	31,364	214,256	-	245,620
	$ 1,235,487	$ 190,983	$ -	$ 1,426,470

(4) Capital Assets, Continued

	2013			
	October 1, 2012	Additions	Reductions	September 30, 2013
Building and improvements	$ 2,003,891	$ 93,542	$ -	$ 2,097,433
Equipment	2,285,374	479,885	-	2,765,259
Furniture and fixtures	90,693	-	-	90,693
	4,379,958	573,427	-	4,953,385
Less accumulated depreciation	(3,479,405)	(269,857)	-	(3,749,262)
	900,553	303,570	-	1,204,123
Construction in progress	15,035	60,851	(44,522)	31,364
	$ 915,588	$ 364,421	$ (44,522)	$ 1,235,487

(5) 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. The Authority has a bank credit line amounting to $1,500,000 as of September 30, 2013, 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. 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. This bank credit line is payable on September 30, 2015 with interest at 7.5% per annum.

Short-term borrowings drawn-down and paid during the years ended September 30, 2014 and 2013 are as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
2014	$ -	$ 1,196,000	$ (195,934)	$ 1,000,066
2013	$ -	$ 1,650,000	$ (1,650,000)	$ -

(6) Long-term Debt

Long-term debt at September 30, 2014 and 2013 is as follows:

	2014	2013
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.	$ 289,168	$ 300,000

(6) Long-term Debt, Continued

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

Year ending September 30,	Principal	Interest	Total
2015	$ 12,052	$ 21,320	$ 33,372
2016	12,988	20,384	33,372
2017	13,996	19,376	33,372
2018	15,084	18,288	33,372
2019	16,254	17,118	33,372
2020-2024	102,274	64,586	166,860
2025-2028	116,520	19,202	135,722
	$ 289,168	$ 180,274	$ 469,442

(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, 2014 and 2013, the operations of the Authority were funded by appropriations of $1,410,400 and $1,190,400, respectively, from the Nitijela of RepMar. In addition, the Authority has recorded receivables from RepMar at September 30, 2014 and 2013 of $62,581 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. As at September 30, 2014 and 2013, the outstanding balance amounted to $75,000 and $100,000, respectively.

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:

	2014	
	Expenses	Payables
Marshalls Energy Company, Inc.	$ 280,052	$ 7,695
Marshall Islands Shipping Corporation	256,272	33,478
Marshall Islands Social Security Administration	45,023	36,490
Marshall Islands Marine Resources Authority	-	75,000
RepMar	36,947	11,130
Others	-	1,570
	$ 618,294	$ 165,363

(7) Related Party Transactions, Continued

	2013	
	Expenses	Payables
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
Marshall Islands Marine Resources Authority	-	100,000
RepMar	57,102	6,226
RMI Ports Authority	14,661	-
Others	821	2,487
	$ 788,212	$ 192,148

(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 87% and 84% of total sales were earned from one and two customers during the years ended September 30, 2014 and 2013, respectively.

(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:

Year ending September 30,	
2015	$ 13,668
2016	13,668
2017	13,668
2018	13,668
2019	13,668
2020 - 2024	68,340
2025 - 2029	68,340
2030 - 2034	68,340
2035 - 2038	41,004
	$ 314,364

(11) Contingencies

During the years ended September 30, 2014 and 2013, the Authority incurred losses from operations of $2,267,708 and $2,967,219, respectively. For the years ended September 30, 2014 and 2013, the Authority received cash copra subsidies of $1,410,400 and $1,190,400, 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.

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) Restatement

Subsequent to the issuance of the Authority's 2013 financial statements, the Authority's management determined that sales were overstated by $189,296. As a result of this determination, accounts receivables and the related sales have been restated from the amounts previously reported as follows:

	As Previously Reported	As Restated
At September 30:		
Current assets:		
Trade receivables	$ 737,396	$ 548,100
Net Position:		
Unrestricted	$ 750,201	$ 560,905
Total net position	$ 1,685,688	$ 1,496,392
For the year ended September 30:		
Sales	$ 3,698,745	$ 3,509,449
Gross loss	$ (1,905,192)	$ (2,094,488)
Operating loss	$ (2,777,923)	$ (2,967,219)
Change in net position	$ (1,637,988)	$ (1,827,284)
Net position at the end of year	$ 1,685,688	$ 1,496,392

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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, 2014, 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 July 9, 2015. Our report included an emphasis-of-matter paragraph regarding a restatement for correction of an error.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2014-002 through 2014-006, which 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 2014-001.

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.

Deloitte + Touche LLP

July 9, 2015

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2014

Local Noncompliance

Finding No. 2014-001

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

Items Description	Amount	Comment
Concrete Mixer	$30,330	Written award notice to supplier was not completed
Concrete Mixer, computer set, materials for weighing scale	$25,382	Written award notice to supplier was not completed
Various parts, materials and paints for MV Tobolar	$29,245	Written award notice to supplier was not completed
Parts and paints for MV Tobolar	$38,266	Written award notice to supplier was not completed
2014 Ford Ranger 4x4 for GM	$24,495	Price quotations from vendors were not available
Various parts for Oil Mill	$18,665	Price quotations from vendors were not available

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 should establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Local Noncompliance

Finding No. 2014-001, 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 2013.

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.

Accounts Receivable

Finding No. 2014-002

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

Condition: Of gross receivables of $605,431, 49% or $298,064 are without movement since FY13 or outstanding for more than a year and $276,323 or 46% are aged beyond 90 days. Management did not perform analyses of the allowance for doubtful accounts as of September 30, 2014, which resulted in an audit adjustment of $170,093. In addition, delays in collection of 30 days or more from current customers were noted. Regular reconciliations of customer sub-ledger accounts were not performed during the year. Finally, the Authority did 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 reconciliation.

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 2013.

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.

Compensated Absences Payable

Finding No. 2014-003

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

Condition: At September 30, 2014, the Authority did not accrue vacation leave of $37,260 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 the vacation leave accrual.

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

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.

Prior Year Status: The lack of internal control over the monitoring of sick leave hours and the accrual of vacation leave hours was reported as a finding in the audit of the Authority for fiscal year 2013.

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.

Accounts Payables

Finding No. 2014-004

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

Condition: At September 30, 2014, the accounts payable subsidiary ledger (GL Code 2010) was not reconciled and regular and timely reconciliations of vendor statements were not performed during the year. Further, several unidentified and dummy accounts from prior year balances aggregates $174,324 were noted in the payables. In addition, the Authority did not properly accrue for freight charges as of September 30, 2014 and several invoices for 2014 were not recorded as payables.

Cause: The cause of the above condition is due to 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 a possible misstatement of account payables and accrued liabilities would not be timely detected. 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 to eliminate or minimize the existence of unidentified, dummy accounts and long outstanding payables.

Auditee Response and Corrective Action Plan: We agree with the recommendation that accounts payable balances should be reconciled against subsidiary ledger and vendor invoices. Vendor statements should be obtained at least monthly for reconciliation of balances to ensure agreement with records. Management will evaluate those unidentified and dummy accounts from prior year balances to determine status and make the necessary corrections as needed.

Bank Reconciliation

Finding No. 2014-005

Criteria: Adequate internal controls necessitate that bank reconciliations be independently reviewed and documented.

Conditions:

A. Signatures of the preparer were not evident in bank reconciliation. No approver's signature evidences independent review.

B. In addition, various outstanding checks aggregating $30,694 were not supported by relevant details.

C. A deposit in transit of $10,000 in the operating account was recorded dated 09/18/14 with a description of fund transfer from BOG General account. However, there is no corresponding outstanding check reported in the bank reconciliation of the BOG General Account.

Cause: The cause of the above condition is due to a lack of adequate internal control over bank reconciliations, inadequate documentation, and a lack of review process.

Effect: The effect of the above condition is possible misstatements of the financial statements.

Recommendation: We recommend that management strengthen and improve its internal control policy over review processes over bank reconciliations that would facilitate timely identification of errors.

Auditee Response and Corrective Action Plan: Management will ensure proper documentation of bank reconciliation. The name and signature of the preparer as well as independent review shall be indicated on the report. Furthermore, details of outstanding checks shall be properly identified and provided on the bank reconciliation statements.

Cost of Goods Sold

Finding No. 2014-006

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:

a. Of 75 cost of goods sold tested, the following variances were noted in the copra purchase summary report:

No.	Check #	Check Amount	Paid Purchases per Supporting Tickets	Cash Returned	Unreturned Cash
1	525	$ 30,000	$ 28,523	$ 1,477	$ -
2	537	75,000	73,316	410	1,274
3	28003	50,000	42,142	-	7,858
4	28056	90,000	88,263	1,737	-
5	28061	60,000	57,749	-	2,251
6	28084	45,000	43,988	-	1,012
7	28176	70,000	38,810	30,907	283
8	28130	50,000	40,335	9,665	-
9	28205/ 28207	70,000	59,981	-	10,019
10	562	80,000	79,871	-	129
11	571	25,000	23,023	-	1,977
12	28332	100,000	99,778	-	222
13	28334	70,000	68,308	251	1,441
14	28335	30,000	29,836	83	81
15	28057	60,000	59,232	768	-
16	28258	40,000	32,659	7,244	97
17	28320	50,000	49,555	12	433
		$ 995,000	$ 915,369	$ 52,554	$ 27,077

Cash returned was verified against deposit slips, but some were deposited an average of 2-3 days after receipt. The Authority's practice is to record cash shortages/unreturned cash as miscellaneous expense. Also, the summary of copra purchase report did not contain signatures evidencing that independent review took place.

b. Cash advances of $80,000 were provided to employees for the purchase of copra and were not supported by a summary of copra purchase reports or a series of copra purchase tickets as evidence that purchases occurred. This advance was not liquidated and is unidentified as of September 30, 2014, but was charged to cost of goods sold.

Cost of Goods Sold

Finding No. 2014-006, Continued

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 clear 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 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.

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, 2014

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