

TOBOLAR COPRA PROCESSING AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

TOBOLAR COPRA PROCESSION AUTHORITY

Years Ended September 30, 2017 and 2016
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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, 2017 and 2016, 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, 2017 and 2016, 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.

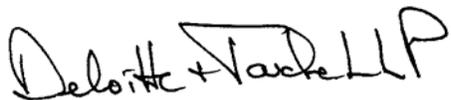
Other Matters

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 May 9, 2018, 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.



May 9, 2018

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2017 and 2016

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, 2017. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's change in net position decreased by \$633,385 or 64% from \$988,671 in 2016 to \$355,286 in 2017. This is attributed mainly to two (2) factors;

1. Increase in cost of goods of \$693,921 or 13%, and
2. Increase in operating expenses of \$333,184 or 38% from previous year

Operating revenues increased by \$768,714 or 20% from \$3,913,772 in 2016 to \$4,682,486 in 2017 but due to the increase in cost of goods sold, the (5) cents increase in the price of copra that was implemented in October 2016 the effect of revenue increase is not noticeable.

On the operating expenses side, general and administrative expenses increased by \$333,184 or 38% from \$887,812 registered in 2016 to \$1,220,996 in 2017. This increase was primarily due to the recognition of bad debts from \$30,366 recorded in 2016 to \$304,422 in 2017.

Non-operating revenues decreased by \$395,036 or 12% from \$3,352,548 posted in 2016 to \$2,957,512 in 2017. Operating subsidies are sourced through the Republic of the Marshall Islands (RepMar) General account.

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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS:			
Current and other assets	\$ 1,541,064	\$ 1,728,056	\$ 1,032,310
Capital assets	<u>1,106,782</u>	<u>1,114,628</u>	<u>1,319,531</u>
Total assets	\$ <u>2,647,846</u>	\$ <u>2,842,684</u>	\$ <u>2,351,841</u>
LIABILITIES AND NET POSITION:			
Current and other liabilities	\$ 422,568	\$ 681,558	\$ 2,419,926
Long-term debt	<u>1,230,648</u>	<u>1,521,782</u>	<u>281,242</u>
Total Liabilities	1,653,216	2,203,340	2,701,168
Net position	<u>994,630</u>	<u>639,344</u>	<u>(349,327)</u>
Total liabilities and net position	\$ <u>2,647,846</u>	\$ <u>2,842,684</u>	\$ <u>2,351,841</u>

As indicated above, total assets decreased by \$194,838 or 7% from \$2,842,684 in 2016 to \$2,647,846 in 2017. Current and other assets decreased by \$186,992 or 11% from 2016 figure of \$1,728,056 to \$1,541,064 in 2017. In addition, Capital Assets decreased only by \$7,846 or 1% from \$1,114,628 in 2016 to \$1,106,782 in 2017 due to the net effect of additions to capital assets of \$249,048 and depreciation of those assets of \$256,894.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2017 and 2016

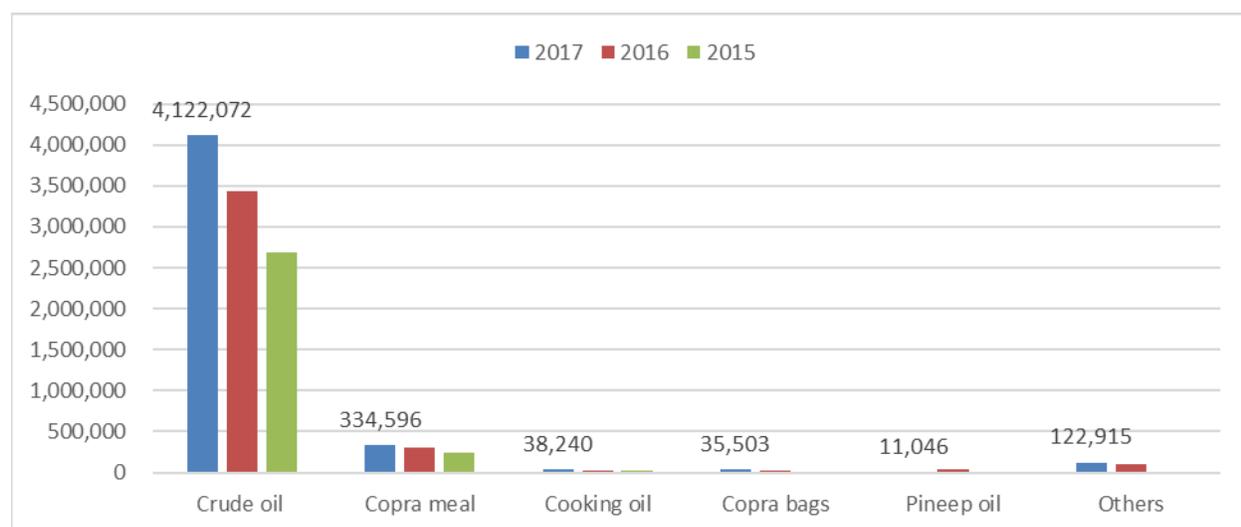
Total liabilities decreased by \$550,124 or 25% from 2016 figure of \$2,203,340 to \$1,653,216 in 2017. This is due to payment of amortization on TCPA's loans at Bank of Marshall Islands and Pacific Islands Development Bank.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Operating revenues	\$ 4,682,486	\$ 3,913,772	\$ 2,978,691
Non-operating revenues and grants	<u>2,957,512</u>	<u>3,352,548</u>	<u>1,720,272</u>
Total revenues	<u>7,639,998</u>	<u>7,266,320</u>	<u>4,698,963</u>
Expenses:			
Operating expenses	7,166,428	6,139,323	5,483,709
Non-operating expenses	<u>118,284</u>	<u>138,326</u>	<u>131,117</u>
Total expenses	<u>7,284,712</u>	<u>6,277,649</u>	<u>5,614,826</u>
Change in net position	<u>\$ 355,286</u>	<u>\$ 988,671</u>	<u>\$ (915,863)</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 \$373,678 or 5% from the \$7,266,320 registered in 2016 to \$7,639,998 in 2017. Such increase is attributed to the increased sales for the year.

The graph below shows the major components of operating revenues for 2017 compared to 2016 and 2015:

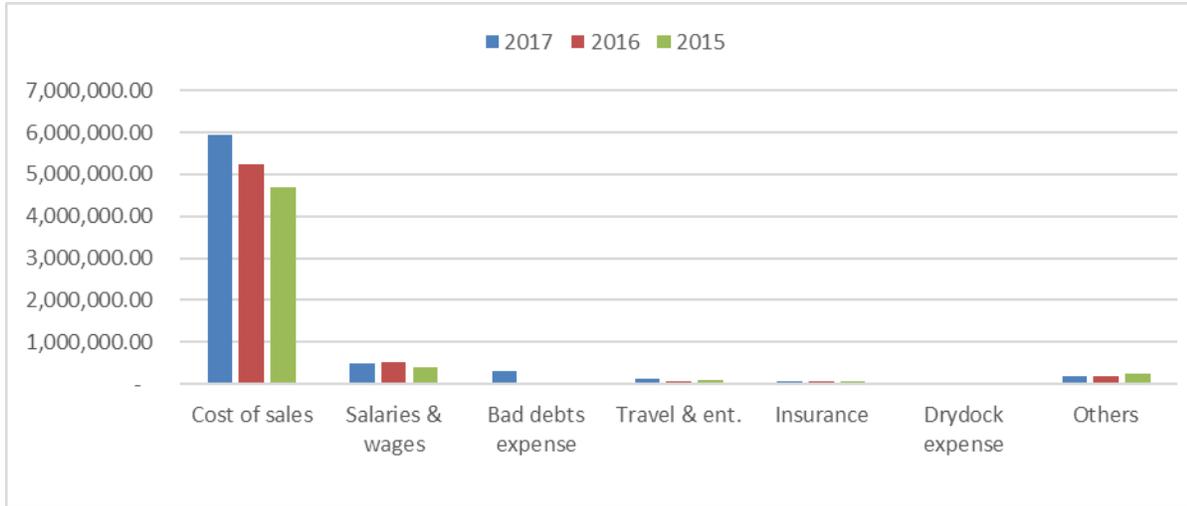


TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2017 and 2016

On the expenses side, operating expenses increased by \$1,027,105 or 17% from previous year figure of \$6,139,323 to \$7,166,428 for the current year. The increase is attributed to cost of sales brought about by the increase in the price of copra that was implemented at the beginning of the fiscal year October of 2016 and the increased provision for Bad debts.

The graph below shows the major components of operating expenses for 2017 as compared to 2016 and 2015.



Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the Authority's report on the audit of financial statements, which is dated June 13, 2017. That discussion and analysis explains the major factors impacting the 2016 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 \$7,846 or 7% from 2016 figure of \$1,114,628 to \$1,106,782 in 2017 on account of depreciation. All construction started were finished on this year.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital assets:			
Buildings and leasehold improvements	\$ 2,554,084	\$ 2,533,738	\$ 2,502,598
Equipment	3,378,655	3,151,561	3,059,194
Furniture and fixture	99,636	98,028	98,028
	<u>6,032,375</u>	<u>5,783,327</u>	<u>5,659,820</u>
Less accumulated depreciation	(4,925,593)	(4,668,699)	(4,366,429)
	<u>1,106,782</u>	<u>1,114,628</u>	<u>1,293,391</u>
Construction in progress	-	-	26,140
	<u>\$ 1,106,782</u>	<u>\$ 1,114,628</u>	<u>\$ 1,319,531</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.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis
September 30, 2017 and 2016

Please refer to note 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 2018.

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, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 870,133	\$ 86,032
Time certificates of deposit	110,848	110,848
Receivables:		
Trade	471,651	508,293
Affiliates	92,726	92,094
Employees	75,054	53,170
Advances to suppliers and copra buyers	12,345	145,060
	651,776	798,617
Allowance for doubtful accounts	(423,391)	(119,007)
	228,385	679,610
Inventories	303,863	798,316
Current portion of prepaid drydocking	22,885	26,915
Prepayment and deposits	4,950	3,450
Total current assets	1,541,064	1,705,171
Noncurrent assets:		
Prepaid drydocking, net of current portion	-	22,885
Capital assets, net of accumulated depreciation	1,106,782	1,114,628
Total noncurrent assets	1,106,782	1,137,513
	\$ 2,647,846	\$ 2,842,684
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Current portion of long-term debt	\$ 469,758	\$ 214,942
Accounts payable	226,540	262,654
Payable to affiliates	124,215	354,889
Other accrued liabilities	71,813	64,015
Total current liabilities	892,326	896,500
Long-term debt, net of current portion	760,890	1,306,840
Total liabilities	1,653,216	2,203,340
Commitments and contingencies		
Net position:		
Net investment in capital assets	851,991	845,980
Unrestricted	142,639	(206,636)
Total net position	994,630	639,344
	\$ 2,647,846	\$ 2,842,684

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Sales	\$ 4,682,486	\$ 3,913,772
Less cost of copra products manufactured and sold	(5,945,432)	(5,251,511)
Gross loss	(1,262,946)	(1,337,739)
General and administrative expenses:		
Salaries and wages	495,617	521,191
Bad debts expense	304,422	30,366
Travel and entertainment	138,949	54,327
Insurance	57,797	52,590
Professional and management fees	42,098	23,661
Taxes and licenses	37,242	21,071
Drydock expense	26,915	26,695
Office supplies	21,612	13,900
Communications	19,386	18,732
Rent expense	15,384	19,420
Repairs and maintenance	2,024	6,787
Membership dues and subscriptions	540	15,954
Miscellaneous	59,010	83,118
Total general and administrative expenses	1,220,996	887,812
Operating loss	(2,483,942)	(2,225,551)
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	2,957,512	3,352,254
Grant	-	294
Interest expense	(118,284)	(138,326)
Total nonoperating revenues (expenses), net	2,839,228	3,214,222
Change in net position	355,286	988,671
Net position at beginning of year	639,344	(349,327)
Net position at end of year	\$ 994,630	\$ 639,344

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 4,696,574	\$ 3,475,880
Cash payments to suppliers for goods and services	(5,301,150)	(4,985,081)
Cash payments to employees for services	(909,358)	(916,099)
Net cash used for operating activities	(1,513,934)	(2,425,300)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	2,957,512	3,352,254
Operating grant received	-	294
Net repayment of bank line of credit	-	(364,327)
Net repayment of bank overdraft facility	-	(23,018)
Principal repayment of long-term debt	(277,277)	(176,866)
Interest paid on long-term debt	(99,723)	(153,818)
Net cash provided by noncapital financing activities	2,580,512	2,634,519
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(13,857)	(12,594)
Interest paid on long-term debt	(19,572)	(17,292)
Acquisition of capital assets	(249,048)	(97,367)
Net cash used for capital and related financing activities	(282,477)	(127,253)
Net change in cash and cash equivalents	784,101	81,966
Cash and cash equivalents at beginning of year	86,032	4,066
Cash and cash equivalents at end of year	\$ 870,133	\$ 86,032
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,483,942)	\$ (2,225,551)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	256,894	302,270
Provision for doubtful debts	304,422	30,366
(Increase) decrease in assets:		
Receivables:		
Trade	36,604	(397,409)
Affiliates	(632)	(1,424)
Employees	(21,884)	(39,059)
Advances to suppliers and copra buyers	132,715	58,361
Inventories	494,453	(277,658)
Prepayment and deposits	25,415	17,307
Increase (decrease) in liabilities:		
Accounts payable	(36,114)	(32,603)
Payable to affiliates	(232,713)	142,964
Other accrued liabilities	10,848	(2,864)
Net cash used for operating activities	\$ (1,513,934)	\$ (2,425,300)
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, 2017 and 2016

(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 (GAAP), 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*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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 these requirements, 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, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in accordance with GAAP 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, 2017 and 2016, the carrying amount of the Authority's cash and cash equivalents and time certificates of deposit was \$980,981 and \$196,880, respectively, and the corresponding bank balance was \$1,039,975 and \$247,078, respectively. Of the bank balance amount, \$493,944 and \$134,989, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$546,031 and \$112,089, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$250,000 and \$134,989, 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, 2017 and 2016

(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, 2017 and 2016, an accumulated vacation leave liability of \$35,424 and \$34,784, 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, 2017 and 2016

(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 2016 financial statements have been reclassified to conform to the 2017 presentation.

New Accounting Standards

During the year ended September 30, 2017, the Authority implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(3) Inventories

Inventories at September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Soap and materials	\$ 201,810	\$ 80,710
Copra cake	46,252	46,368
Copra oil	32,272	37,150
Copra cake	<u>23,529</u>	<u>634,088</u>
	<u>\$ 303,863</u>	<u>\$ 798,316</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2017 and 2016 is as follows:

2017				
	<u>October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2017</u>
Building and improvements	\$ 2,533,738	\$ 20,346	\$ -	\$ 2,554,084
Equipment	3,151,561	227,094	-	3,378,655
Furniture and fixtures	<u>98,028</u>	<u>1,608</u>	<u>-</u>	<u>99,636</u>
	5,783,327	249,048	-	6,032,375
Less accumulated depreciation	<u>(4,668,699)</u>	<u>(256,894)</u>	<u>-</u>	<u>(4,925,593)</u>
	<u>\$ 1,114,628</u>	<u>\$ (7,846)</u>	<u>\$ -</u>	<u>\$ 1,106,782</u>
2016				
	<u>October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 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>

(5) Prepaid Drydocking

In 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, 2017 and 2016, amortized drydock expenses amounted to \$26,915 and \$26,695, respectively. As of September 30, 2017 and 2016, prepaid drydocking amounted to \$22,885 and \$49,800, respectively.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(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. In 2013, the Authority obtained a one-year \$1,700,000 bank credit line for the purpose of buying copra, which was collateralized by a general security agreement over all assets of the Authority and a guarantee from RepMar. Notes drawn were subject to interest at 7.5% per annum and were to be repaid on various maturity dates but not to exceed 180 days from loan drawdown. In 2014, the bank credit line was renewed for an additional year at the same terms and conditions. In 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.

In 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 year ended September 30, 2016 are as follows:

<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
\$ <u>1,794,327</u>	\$ <u>-</u>	\$ <u>(1,794,327)</u>	\$ <u>-</u>

(7) Long-term Debt

Long-term debt at September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</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.	\$ 975,857	\$ 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>254,791</u>	<u>268,648</u>
	<u>\$ 1,230,648</u>	<u>\$ 1,521,782</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(7) Long-term Debt, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 230,130	\$ 36,423	\$ 266,553
2019	214,161	34,083	248,244
2020	199,500	31,565	231,065
2021	234,424	28,852	263,276
2022	186,080	25,930	212,010
2023-2027	128,209	38,653	166,862
2028-2032	<u>38,144</u>	<u>1,524</u>	<u>39,668</u>
	\$ <u>1,230,648</u>	\$ <u>197,030</u>	\$ <u>1,427,678</u>

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2017	Due Within <u>One Year</u>
Loans payable:					
Bank loan	\$ 1,253,134	\$ -	\$ (277,277)	\$ 975,857	\$ 214,967
PIDB	<u>268,648</u>	<u>-</u>	<u>(13,857)</u>	<u>254,791</u>	<u>254,791</u>
	<u>\$ 1,521,782</u>	<u>\$ -</u>	<u>\$ (291,134)</u>	<u>\$ 1,230,648</u>	<u>\$ 469,758</u>

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

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2016	Due Within <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>

On October 25, 2017, the Authority paid in full its outstanding long-term debt with PIDB in the amount of \$254,257.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, the operations of the Authority were funded by appropriations of \$2,957,512 and \$3,352,254, respectively, from the Nitijela of RepMar. A summary of RepMar appropriations by funding source received by the Authority for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
General Fund	\$ 1,992,432	\$ 2,303,890
ROC Taiwan	<u>965,080</u>	<u>1,048,364</u>
	<u>\$ 2,957,512</u>	<u>\$ 3,352,254</u>

In addition, the Authority has recorded receivables from RepMar at September 30, 2017 and 2016 of \$92,726 and \$92,094, 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, 2017 and 2016, the outstanding balance amounted to \$50,000 and \$75,000, 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 as of September 30, 2017 and 2016, and for the years then ended is as follows:

	<u>2017</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 400,438	\$ 34,486
Marshalls Energy Company, Inc.	170,260	-
Marshall Islands Social Security Administration	80,637	21,726
RMI Ports Authority	21,655	-
Marshall Islands Marine Resources Authority	-	50,000
RepMar	37,242	17,334
Others	<u>-</u>	<u>669</u>
	<u>\$ 710,232</u>	<u>\$ 124,215</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(8) Related Party Transactions, Continued

	2016	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 324,738	\$ 237,044
Marshalls Energy Company, Inc.	213,196	17,971
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>

(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 95% and 87% of total sales were earned from one and two customers, respectively, during the years ended September 30, 2017 and 2016, respectively.

(11) Commitments

In 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 <u>September 30,</u>	
2018	\$ 13,668
2019	13,668
2020	13,668
2021	13,668
2022	13,668
2023 - 2027	68,340
2028 - 2032	68,340
2033 - 2037	68,340
2038	<u>10,251</u>
	\$ <u>283,611</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, the Authority incurred losses from operations of \$2,483,942 and \$2,225,551, 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, 2017, 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, 2017, 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 May 9, 2018. 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 that we consider to be material weaknesses as items 2017-002 and 2017-003.

Compliance and Other Matters

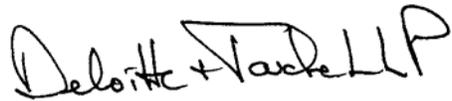
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2017-001.

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 + Touche LLP". The signature is written in a cursive, stylized font.

May 9, 2018

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses Year Ended September 30, 2017

Local Noncompliance

Finding No. 2017-001

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>
Various rear cart equipment	\$76,528	No competitive bidding process occurred
Hyundai 5 ton oil tanker truck	\$69,000	Inadequate supporting documentation to evidence procurement process
Travel expense – Airfare	\$ 6,436	Various quotations were not on file
Travel expense – Airfare	\$ 5,570	Various quotations were not on file
Travel expense – Airfare	\$ 3,480	Various quotations were not on file
Office supplies – Yamaha keyboard	\$ 3,395	Inadequate supporting documentation to evidence procurement process

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, 2017

Local Noncompliance

Finding No. 2017-001, 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 2016.

Auditee Response and Corrective Action Plan:

Tobolar does not agree with the audit finding based on the following:

- a) The acquisition/procurement of the Hyundai 5 ton oil Tanker Truck followed the Repmar required bidding process through public competitive sealed bidding. As a practice in previous bids, the management team acted as preliminary screen and compilation bid committee reviewed and presented the bid overall submission and management recommendation. The Board reviewed and approved to award the bid to the particular vendor.
- b) The Airfares were purchase on island through the only two local agents; Pacific Unique Travel and United on Majuro. It is quite difficult to obtain quotation on the airfare provided there is only one airline servicing between Majuro and Honolulu and Guam. Beyond the two mentioned destinations from Majuro, online booking can be done for additional quotation or even cheaper airfares. This may be an option to consider but then our support to utilize and invest in our local travel agencies will be compromised. Tobolar request for reconsideration of this so call obtain-price-quotation-on-airfare process to avoid losing but utilizing our local businesses.

Auditor's 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, 2017

Accounts Payables

Finding No. 2017-002

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, 2017, the Authority recorded \$82,090 in unidentified dummy accounts from prior year balances and no subsidiary ledger was provided. Of four payables tested, one reflected a difference of \$24,857 in the latest statement of account balance received and could not be further validated since the 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 through 2016.

Auditee Response and Corrective Action Plan: The Management would like to emphasize that the decreased on the payable is an indication of management continued effort to resolve the audit. Unfortunately, due to short in manpower, the particular reconciliation work on the payables was not done on time. With the additional staff hopefully in place within the current fiscal year 2018, it is our objective to remove the finding from next fiscal audit.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Cost of Goods Sold

Finding No. 2017-003

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	28750	\$ 120,000	\$ 355	\$ 293	AR employee
2	922	120,000	127	471	AR employee
3	29942	55,000	17,569	25	AR employee
4	28773	120,000	61,083	760	AR employee
	28793	70,000	24,627	57	AR employee
5	945	40,000	4,984	140	AR employee
6	952	60,000	367	329	AR employee
7	954	<u>62,000</u>	<u>571</u>	<u>265</u>	AR employee
		<u>\$ 647,000</u>	<u>\$ 109,683</u>	<u>\$ 2,340</u>	

Cash shortages of \$2,340 was charged to employee receivables. Tobolar's practice is to deduct the cash shortages to employees' account through salary deduction. However, the related AR employee accounts of \$28,054 has been fully provided with allowance as the balance continue to increase.

Cash returned was verified against deposit slips, but one was deposited 3 days after receipt. Also, two of forty-eight (2/48) JVs and copra purchase reports tested 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, 2017

Cost of Goods Sold

Finding No. 2017-003, 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 through 2016.

Auditee Response and Corrective Action Plan: The Management would like to emphasize that the continued and significant decrease in the overall total of the finding indicated improved results in the internal control efforts. Thus, it is management's objective to implement tighter internal control by closely monitoring the advances for outer island and ensure timely process and deposit of any fund remains from a trip. While management's effort aim to achieve a perfect result it is more realistic to recognize the fact that human error cannot be eliminated

TOBOLAR COPRA PROCESSING AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2017

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