

TOBOLAR COPRA PROCESSING AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

TOBOLAR COPRA PROCESSING AUTHORITY

Years Ended September 30, 2019 and 2018
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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 (TCPA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2019 and 2018, 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 TCPA as of September 30, 2019 and 2018, 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 Matters

Receivable from Affiliates

As discussed in Note 4 to the financial statements, TCPA is currently negotiating with Marshall Islands Shipping Corporation (MISC) to determine the ultimate collectability of certain receivables due from MISC.

Going Concern

The accompanying financial statements have been prepared assuming that TCPA will continue as a going concern. As discussed in Note 12 to the financial statements, TCPA'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.

COVID-19

As discussed in Note 13 to the financial statements, TCPA has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. TCPA is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

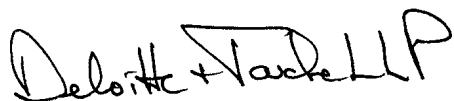
Other Matters

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 August 19, 2020, on our consideration of TCPA'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 solely 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 the effectiveness of TCPA's 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 TCPA's internal control over financial reporting and compliance.



August 19, 2020

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2019 and 2018

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, 2019. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position increased by \$1,345,578 from a net position deficit of \$15,974 in 2018 to a positive net position of \$1,329,604 in 2019 due to increased copra subsidies received from the Republic of the Marshall Islands (RepMar) Government. The \$700,000 loan that was obtained in 2018 from the Marshall Islands Development Bank (MIDB) to augment funding for buying copra was paid by RepMar last October 31, 2018 is recognized as a non-cash RepMar copra subsidy in 2019.

TCPA is still in a dire financial crisis in terms of cash flows due to the continued drop in the world market price for coconut oil (CNO), which has significantly affected TCPA's 2019 revenue compared to 2018.

On the operating expense side, such increased by \$1,475,416 or 17% from \$8,510,227 in 2018 to \$9,985,643 in 2019. This increase was due to the increased production of raw copra from growers who were paid 50 cents per pound, effective December 2017.

Nonoperating revenues increased by \$4,493,164 or 100% from \$4,474,387 in 2018 to \$8,967,551 in 2019. Such increase is attributed to the increase in RepMar's copra subsidy granted to TCPA in 2019, which allowed TCPA to maintain the buying price of raw copra from growers at 50 cents per pound. Copra subsidies are sourced through RepMar's General Fund and from the Republic of China (ROC) Taiwan.

FINANCIAL ANALYSIS

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of TCPA's financial condition. TCPA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition. A summary of TCPA's Statements of Net Position at September 30, 2019 compared with 2018 and 2017 is presented below:

Summary Statements of Net Position As of September 30

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Assets:					
Current and other assets	\$ 2,304,301	\$ 1,345,401	\$ 958,900	71.3%	\$ 1,541,064
Capital assets	<u>680,823</u>	<u>958,090</u>	<u>(277,267)</u>	(28.9)%	<u>1,106,782</u>
Total assets	<u>2,985,124</u>	<u>2,303,491</u>	<u>681,633</u>	29.6%	<u>2,647,846</u>
Liabilities:					
Current and other liabilities	887,154	1,390,501	(503,347)	(36.2)%	422,568
Long-term debt	<u>768,366</u>	<u>928,964</u>	<u>(160,598)</u>	(17.3)%	<u>1,230,648</u>
Total liabilities	<u>1,655,520</u>	<u>2,319,465</u>	<u>(663,945)</u>	(28.6)%	<u>1,653,216</u>
Net position:					
Net investment in capital assets	991,500	1,189,209	(197,709)	(16.6)%	851,991
Restricted	-	25,169	(25,169)	(100.0)%	-
Unrestricted	<u>338,104</u>	<u>(1,230,352)</u>	<u>1,568,456</u>	(127.5)%	<u>142,639</u>
Total net position	<u>\$ 1,329,604</u>	<u>\$ (15,974)</u>	<u>\$ 1,345,578</u>	(8423.6)%	<u>\$ 994,630</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2019 and 2018

As indicated above, total assets increased by \$681,633 or 30% from \$2,303,491 in 2018 to \$2,985,124 in 2019. Current and other assets increased by \$958,900 or 71% from \$1,345,401 in 2018 to \$2,304,301 in 2019. This increase is attributable to an increase in inventory, which is primarily due to raw copra on hand at year end, and receivables from affiliates, which is primarily due to receivables due from the Marshall Islands Shipping Corporation (MISC). In addition, capital assets decreased by \$277,267 or 29% from \$958,090 in 2018 to \$680,823 in 2019, which is primarily due to depreciation and transfer of boat (MV Tobolar) to MISC.

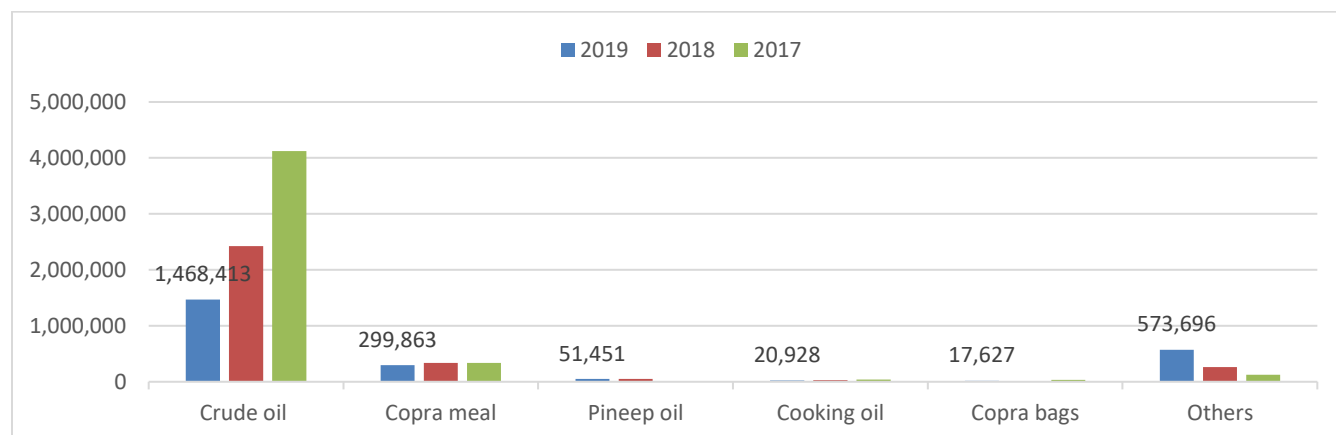
Total liabilities decreased by \$663,945 or 29% from \$2,319,465 in 2018 to \$1,655,520 in 2019. Among the major contributors to this decrease is the repayment in full by RepMar on behalf of TCPA of the \$700,000 MIDB loan.

A summary of TCPA's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2019 compared with 2018 and 2017 is presented below:

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

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Operating:					
Operating revenues	\$ 2,431,978	\$ 3,113,273	\$ (681,295)	(21.9)%	\$ 4,682,486
Operating expenses	<u>9,985,643</u>	<u>8,510,227</u>	<u>1,475,416</u>	17.3%	<u>7,166,428</u>
Operating loss	<u>(7,553,665)</u>	<u>(5,396,954)</u>	<u>(2,156,711)</u>	40.0%	<u>(2,483,942)</u>
Nonoperating:					
Nonoperating revenues	8,967,551	4,474,387	4,493,164	100.4%	2,957,512
Nonoperating expenses	<u>68,308</u>	<u>88,037</u>	<u>(19,729)</u>	(22.4)%	<u>118,284</u>
	<u>8,899,243</u>	<u>4,386,350</u>	<u>4,512,893</u>	102.9%	<u>2,839,228</u>
Change in net position	<u>\$ 1,345,578</u>	<u>\$ (1,010,604)</u>	<u>\$ 2,356,182</u>	(233.1)%	<u>\$ 355,286</u>

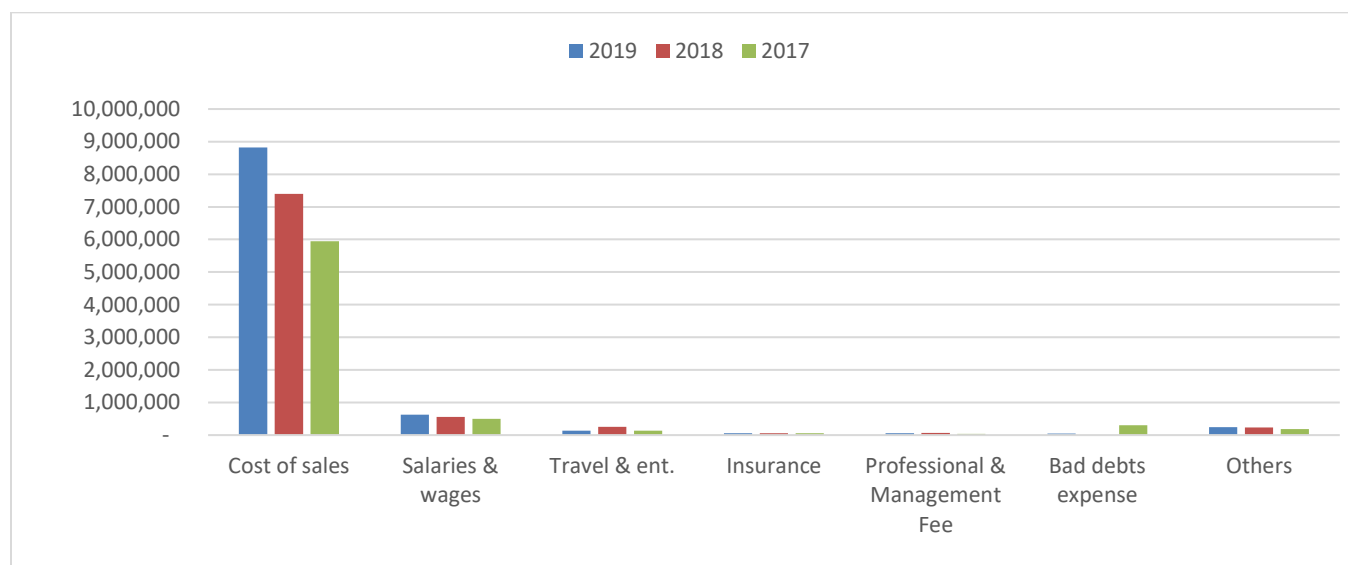
The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that affect net position. As indicated above, TCPA's operating losses increased by \$2,156,711 or 40% from \$5,396,954 in 2018 to \$7,553,665 in 2019. This increase was due to a decrease in TCPA sales by \$681,295 or 22% from \$3,113,273 in 2018 to \$2,431,978 in 2019, which was the direct result of the continuous drop in the CNO price on the world market. TCPA's operating losses are financed annually by copra subsidies received from RepMar. RepMar copra subsidies increased by \$4,493,164 or 100% from \$4,474,387 in 2018 to \$8,967,551 in 2019. The graph below shows the major components of operating revenues for 2019 compared to 2018 and 2017:



TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2019 and 2018

On the expense side, operating expenses increased by \$1,475,416 or 17% from \$8,510,227 in 2018 to \$9,985,643 in 2019. This increase is attributable to the increased purchase and production of raw copra from growers who were paid 50 cents per pound, effective December 2017. The graph below shows the major components of operating expenses for 2019 as compared to 2018 and 2017:



Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in TCPA's report on the audit of financial statements, which is dated May 2, 2019. That discussion and analysis explains the major factors impacting the 2018 financial statements and can be obtained from TCPA's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$277,267 or 29% from \$958,090 in 2018 to \$680,823 in 2019. The decrease is due primarily to the transfer of the MV Tobolar to MISC in February 2019.

A summary of TCPA's capital assets at September 30, 2019 compared with 2018 and 2017 is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Building and leasehold	\$ 2,554,084	\$ 2,554,084	\$ -	0.0%	\$ 2,554,084
Equipment	3,080,712	3,411,301	(330,589)	(9.7)%	3,378,655
Furnitures and fixtures	100,986	100,986	-	0.0%	99,636
	5,735,782	6,066,371	(330,589)	(5.4)%	6,032,375
Accumulated depreciation	(5,054,959)	(5,108,281)	53,322	(1.0)%	(4,925,593)
	<u>\$ 680,823</u>	<u>\$ 958,090</u>	<u>\$ (277,267)</u>	(28.9)%	<u>\$ 1,106,782</u>

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

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2019 and 2018

A summary of TCPA's debt (short-term and long-term) at September 30, 2019 compared with 2018 and 2017 is presented below:

	2019	2018	\$ Change 2019-2018	% Change 2019-2018	2017
Short-term:					
MIDB loan	\$ -	\$ 700,000	\$ (700,000)	(100.0)%	\$ -
Long-term:					
Bank loan	768,366	928,964	(160,598)	(17.3)%	975,857
PIDB loan	-	-	-		254,791
	<u>768,366</u>	<u>928,964</u>	<u>(160,598)</u>	(17.3)%	<u>1,230,648</u>
	<u>\$ 768,366</u>	<u>\$ 1,628,964</u>	<u>\$ (860,598)</u>	(52.8)%	<u>\$ 1,230,648</u>

In 2013, TCPA obtained a \$300,000 loan from the Pacific Islands Development Bank (PIDB) for the purpose of financing the construction of the Woja refinery plant. This loan was paid in full in 2018. In 2016, TCPA obtained a \$1,430,000 term loan from a bank for the purpose of refinancing a \$1,700,000 bank credit line originally obtained for the purpose of funding the purchase of raw copra from growers. This loan matures in 2022. In 2018, TCPA obtained a \$700,000 loan from MIDB for the purpose of funding the purchase of raw copra from growers. This loan was paid in full in 2019.

Please refer to notes 6 and 7 of the accompanying financial statements for additional information regarding TCPA's debt.

ECONOMIC FACTOR'S AND NEXT YEAR'S RATES

The following factors were considered in preparing TCPA's budget for fiscal year 2020.

1. Expected to dominate the domestic market from the diversified product like VCO, soap, cooking oil and beauty oil to cover up the unforeseen consistency of the CNO price in the world market.
2. Additional revenue will be expected from outer island consigned merchandise and Rear cart projects.
3. An increase in production is expected for the value added products and activated carbon to restore in operation by our refinery new projects.
4. REPMAR will maintain the \$8,000,000 copra subsidy to help stabilize the price of copra.
5. A contingency plan is being set that if the crude oil price drops to \$500 M/T, copra price needs to be reduced by about \$0.45. 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 TCPA's customers and other interested parties with an overview of TCPA'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 TCPA's General Manager at P.O. Box G, Majuro MH 96960.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Net Position
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 228,165	\$ 51,426
Time certificates of deposit	<u>122,202</u>	<u>118,633</u>
Receivables:		
Trade	460,169	355,399
Affiliates	598,428	91,339
Employees	38,234	38,637
Advances to suppliers and copra buyers	<u>35,132</u>	<u>18,629</u>
	1,131,963	504,004
Allowance for doubtful accounts	<u>(368,088)</u>	<u>(373,274)</u>
	<u>763,875</u>	<u>130,730</u>
Inventories	861,598	348,418
Current portion of prepaid drydocking	-	152,375
Prepayment and deposits	<u>17,784</u>	<u>7,950</u>
Total current assets	<u>1,993,624</u>	<u>809,532</u>
Noncurrent assets:		
Prepaid drydocking, net of current portion	-	304,750
Deposits for capital asset acquisitions	310,677	231,119
Capital assets, net of accumulated depreciation	<u>680,823</u>	<u>958,090</u>
Total noncurrent assets	<u>991,500</u>	<u>1,493,959</u>
	\$ <u>2,985,124</u>	\$ <u>2,303,491</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Short-term borrowings	\$ -	\$ 700,000
Current portion of long-term debt	278,780	236,538
Accounts payable	260,859	252,371
Payable to affiliates	353,477	300,610
Advance from customer	197,918	56,363
Other accrued liabilities	<u>74,900</u>	<u>81,157</u>
Total current liabilities	<u>1,165,934</u>	<u>1,627,039</u>
Long-term debt, net of current portion	<u>489,586</u>	<u>692,426</u>
Total liabilities	<u>1,655,520</u>	<u>2,319,465</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	991,500	1,189,209
Restricted	-	25,169
Unrestricted	<u>338,104</u>	<u>(1,230,352)</u>
Total net position	<u>1,329,604</u>	<u>(15,974)</u>
	\$ <u>2,985,124</u>	\$ <u>2,303,491</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Sales	\$ 2,431,978	\$ 3,113,273
Recovery of (provision for) doubtful accounts	(48,088)	50,117
Net sales	2,383,890	3,163,390
Less cost of copra products manufactured and sold	(8,819,117)	(7,394,684)
Gross loss	(6,435,227)	(4,231,294)
General and administrative expenses:		
Salaries and wages	625,584	561,614
Travel and entertainment	132,074	256,148
Insurance	57,014	53,700
Professional and management fees	56,099	62,762
Membership dues	43,619	-
Meals and refreshments	30,811	27,579
Office supplies	29,068	21,928
Automobile expense	28,540	23,934
Taxes and licenses	25,460	14,490
Communications	24,867	20,074
Rent expense	16,398	15,028
Bank charges	8,267	20,814
Repairs and maintenance	8,048	4,875
Advertising	7,516	6,231
Freight	6,349	-
Donations	1,091	43,563
Drydock expense	-	22,885
Miscellaneous	17,633	10,035
Total general and administrative expenses	1,118,438	1,165,660
Operating loss	(7,553,665)	(5,396,954)
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	8,967,551	4,474,387
Interest expense	(68,308)	(88,037)
Total nonoperating revenues (expenses), net	8,899,243	4,386,350
Change in net position	1,345,578	(1,010,604)
Net position at beginning of year	(15,974)	994,630
Net position at end of year	\$ 1,329,604	\$ (15,974)

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 2,496,873	\$ 3,323,692
Cash payments to suppliers for goods and services	(9,168,925)	(7,648,953)
Cash payments to employees for services	(1,103,864)	(1,005,947)
Net cash used for operating activities	<u>(7,775,916)</u>	<u>(5,331,208)</u>
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	8,267,551	4,474,387
Proceeds from short-term borrowings	-	700,000
Principal repayment of long-term debt	(160,598)	(46,893)
Interest paid on long-term debt	(72,441)	(94,197)
Net cash provided by noncapital financing activities	<u>8,034,512</u>	<u>5,033,297</u>
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	-	(254,791)
Interest paid on long-term debt	-	(890)
Acquisition of capital assets	(81,857)	(265,115)
Net cash used for capital and related financing activities	<u>(81,857)</u>	<u>(520,796)</u>
Net change in cash and cash equivalents	176,739	(818,707)
Cash and cash equivalents at beginning of year	51,426	870,133
Cash and cash equivalents at end of year	<u>\$ 228,165</u>	<u>\$ 51,426</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (7,553,665)	\$ (5,396,954)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	148,621	182,688
Provision for (recovery of) doubtful accounts	48,088	(50,117)
(Increase) decrease in assets:		
Receivables:		
Trade	(158,044)	116,252
Affiliates	80,981	1,387
Employees	403	36,417
Advances to suppliers and copra buyers	(16,503)	(6,284)
Inventories	(513,180)	(44,555)
Prepayment and deposits	(9,834)	(437,240)
Increase (decrease) in liabilities:		
Accounts payable	8,488	25,831
Advances from customer	141,555	56,363
Payable to affiliates	52,867	176,395
Other accrued liabilities	(5,693)	8,609
Net cash used for operating activities	<u>\$ (7,775,916)</u>	<u>\$ (5,331,208)</u>
Noncash investing, capital, and financing activities:		
Repayment of short-term borrowings	\$ (700,000)	\$ -
Copra subsidies from RepMar	700,000	-
	<u>\$ -</u>	<u>\$ -</u>
Prepaid drydocking	\$ 467,125	\$ -
Capital assets	322,888	-
Accumulated depreciation	(201,943)	-
Receivables from affiliates	(588,070)	-
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization

Tobolar Copra Processing Authority (TCPA), 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). TCPA was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. TCPA is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). TCPA's principal lines of business are copra oil, copra cake, soap, and refined oil 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 and refined oil products are sold primarily to customers in the Marshall Islands. Raw copra is purchased at a price set by the RepMar Cabinet. Effective December 1, 2017, the purchase price of copra was increased by the RepMar Cabinet from 30 cents to 50 cents per pound.

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

TCPA'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 TCPA 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.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require TCPA to maintain such permanently. As of September 30, 2019 and 2018, TCPA does not have nonexpendable restricted net position.
- Restricted: Expendable net position whose use by TCPA is subject to externally imposed stipulations that can be fulfilled by actions of TCPA pursuant to those stipulations or that expire with the passage of time. As of September 30, 2018, TCPA has expendable restricted net position of \$25,169 for a virgin coconut oil (VCO) project.
- 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is TCPA's policy to use unrestricted resources first, then restricted resources as they are needed.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(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 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.

Revenue Recognition

TCPA's revenues are derived primarily from the production and sale of copra and copra related products. Capital grants, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating TCPA are reported as operating expenses. Interest income or federal program revenues are the primary components of non-operating expenses and revenues.

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, TCPA'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. TCPA 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, 2019 and 2018, the carrying amount of TCPA's cash and cash equivalents and time certificates of deposit was \$350,367 and \$170,059, respectively, and the corresponding bank balance was \$397,344 and \$191,291, respectively. Of the bank balance amount, \$148,063 and \$40,859, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$249,281 and \$150,432, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$148,063 and \$191,291, respectively, were FDIC insured. TCPA 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 uncollectible 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. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Inventories

Inventories consist of carts, raw copra, copra oil, copra cake, soap and refined oil products, and materials. Carts, raw copra and materials are valued at the lower of cost (first-in, first-out method) or market value. Copra oil, copra cake, and soap and refined oil products 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. TCPA has no items that qualify for reporting in this category.

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. TCPA 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, 2019 and 2018, an accumulated vacation leave liability of \$31,904 and \$42,851, respectively, is included in the statements of net position within other accrued liabilities.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

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, TCPA is specifically exempt from this tax as TCPA is a government-owned copra processing corporation.

New Accounting Standards

During the year ended September 30, 2019, TCPA implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these standards did not have a material effect on the accompanying financial statements. However, the implementation of GASB Statement No. 88 did result in additional required disclosures surrounding debt. See Note 7.

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 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.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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.

(3) Inventories

Inventories at September 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Raw copra	\$ 361,518	\$ 22,401
Copra oil	300,891	215,163
Materials	116,170	90,960
Soap and refined oil products	43,506	15,795
Copra cake	<u>39,513</u>	<u>4,099</u>
	<u>\$ 861,598</u>	<u>\$ 348,418</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(4) Capital Assets

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	2019			
	October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2019</u>
Building and improvements	\$ 2,554,084	\$ -	\$ -	\$ 2,554,084
Equipment	3,411,301	2,299	(332,888)	3,080,712
Furniture and fixtures	<u>100,986</u>	<u>-</u>	<u>-</u>	<u>100,986</u>
	6,066,371	2,299	(332,888)	5,735,782
Less accumulated depreciation	<u>(5,108,281)</u>	<u>(148,621)</u>	<u>201,943</u>	<u>(5,054,959)</u>
	<u>\$ 958,090</u>	<u>\$ (146,322)</u>	<u>\$ (130,945)</u>	<u>\$ 680,823</u>
	2018			
	October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	September 30, <u>2018</u>
Building and improvements	\$ 2,554,084	\$ -	\$ -	\$ 2,554,084
Equipment	3,378,655	32,646	-	3,411,301
Furniture and fixtures	<u>99,636</u>	<u>1,350</u>	<u>-</u>	<u>100,986</u>
	6,032,375	33,996	-	6,066,371
Less accumulated depreciation	<u>(4,925,593)</u>	<u>(182,688)</u>	<u>-</u>	<u>(5,108,281)</u>
	<u>\$ 1,106,782</u>	<u>\$ (148,692)</u>	<u>\$ -</u>	<u>\$ 958,090</u>

On November 14, 2018, the Cabinet of RepMar authorized and approved the transfer of MV Tobolar at a cost of \$332,888, net of accumulated depreciation of \$201,943, and crew from TCPA to Marshall Islands Shipping Corporation (MISC). On February 17, 2019, this transfer was effectuated resulting in a receivable of \$588,070 due from MISC, which remains uncollected. TCPA is currently negotiating with RepMar and MISC for a final determination insofar as collection of this amount. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

During the years ended September 30, 2019 and 2018, TCPA paid \$79,558 and \$231,119, respectively, to a vendor for purchases of equipment. This equipment has not been received as of September 30, 2019.

(5) Prepaid Drydocking

In 2015, TCPA incurred drydock costs of \$72,857 for the MV Tobolar in Fiji, which is to be amortized over 3 years. During the year ended September 30, 2018, TCPA incurred additional drydock costs of \$457,125 for the MV Tobolar in Solomon Islands. During the year ended September 30, 2018, amortized drydock expense amounted to \$22,885. As of September 30, 2018, prepaid dry-docking amounted to \$457,125, which was derecognized during the year ended September 30, 2019 upon the transfer of MV Tobolar to MISC (see Note 4).

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(5) Prepaid Drydocking, Continued

An analysis of the change in prepaid drydocking costs during the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 457,125	\$ 22,885
Drydock costs incurred	-	457,125
Drydock costs derecognized	(457,125)	-
Amortized drydock expense	<u>-</u>	<u>(22,885)</u>
Ending balance	\$ <u>-</u>	\$ <u>457,125</u>
Disclosed as follows:		
Current	\$ -	\$ 152,375
Noncurrent	<u>-</u>	<u>304,750</u>
	\$ <u>-</u>	\$ <u>457,125</u>

(6) Short-term Borrowings

In the normal course of operations, TCPA obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. On August 22, 2018, TCPA obtained an interest free short-term advance from the Marshall Islands Development Bank (MIDB) in the amount of \$700,000, payable in full on October 31, 2018. In the event that payment is not made in full, interest shall be payable at 6% per annum. On November 2, 2018, this loan was paid in full.

Changes in short-term borrowings for the years ended September 30, 2019 and 2018 were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
September 30, 2019:				
Bank loan	\$ <u>700,000</u>	\$ -	\$ (700,000)	\$ -
September 30, 2018:				
Bank loan	\$ -	\$ <u>700,000</u>	\$ -	\$ <u>700,000</u>

(7) Long-term Debt

Long-term debt at September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Term loan with a bank refinanced from a bank credit line in the amount of \$1,430,000, 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 TCPA and a guarantee from the Marshall Islands Development Bank.	\$ <u>768,366</u>	\$ <u>928,964</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(7) Long-term Debt, Continued

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 278,780	\$ 54,023	\$ 332,803
2021	301,571	29,929	331,500
2022	<u>188,015</u>	<u>5,088</u>	<u>193,103</u>
	<u>\$ 768,366</u>	<u>\$ 89,040</u>	<u>\$ 857,406</u>

Debt Covenants

The Loan Agreement, dated June 23, 2016, sets forth covenants to ensure payment of debt service. The primary requirements of the agreement is summarized below:

Events of default with finance related consequences - the Loan Agreement specifies a number of Events of Default and related Remedies.

Acceleration - Upon the occurrence of an Event of Default and is continuing, the bank may, without notice or demand, declare all unpaid principal of and all interest accrued on the loan to be immediately due and payable and, upon such declaration, all such principal and interest shall become immediately due and payable.

Changes in long-term liabilities for the years ended September 30, 2019 and 2018, were as follows:

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2019</u>	Due Within <u>One Year</u>
Loans payable:					
Bank loan	\$ <u>928,964</u>	\$ _____ -	\$ <u>(160,598)</u>	\$ <u>768,366</u>	\$ <u>278,780</u>
	Balance October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2018</u>	Due Within <u>One Year</u>
Loans payable:					
Bank loan	\$ 975,857	\$ -	\$ (46,893)	\$ 928,964	\$ 236,538
PIDB	<u>254,791</u>	_____ -	<u>(254,791)</u>	_____ -	_____ -
	<u>\$ 1,230,648</u>	\$ _____ -	\$ <u>(301,684)</u>	\$ <u>928,964</u>	\$ <u>236,538</u>

(8) Related Party Transactions

TCPA 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), the Marshall Islands Development Bank (MIDB), and the Marshall Islands Shipping Corporation (MISC).

During the years ended September 30, 2019 and 2018, TCPA received cash operating subsidies from RepMar of \$8,267,551 and \$4,474,387, respectively, as well as non-cash operating subsidies of \$700,000 and \$0, respectively. In 2019, non-cash operating subsidies represent payments made by RepMar on behalf of TCPA for debt settlement of a short-term loan payable to MIDB.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(8) Related Party Transactions, Continued

A summary of RepMar appropriations by funding source received by TCPA for the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
General Fund - Copra Subsidy	\$ 7,033,151	\$ 3,490,819
ROC Taiwan - Copra Subsidy	1,934,400	933,568
ROC Taiwan - VCO Project	<u>-</u>	<u>50,000</u>
	<u>\$ 8,967,551</u>	<u>\$ 4,474,387</u>

During the year ended September 30, 2019, Cabinet Minute C.M. 244 (2018) authorized and approved the transfer of MV Tobolar and crew to MISC. Receivables from MISC at September 30, 2019 relating to this transfer amounted to \$588,070. In addition, TCPA has recorded receivables from RepMar at September 30, 2019 and 2018 of \$4,782 and \$86,339, respectively, relating to miscellaneous services provided by TCPA. Receivables from other affiliates at September 30, 2019 and 2018 amounted to \$5,576 and \$5,000, respectively.

In 2013, MIMRA advanced funds to TCPA in the amount of \$100,000 for the purpose of assisting TCPA in funding the purchase of copra. The advance is uncollateralized and non-interest bearing and is due and payable by TCPA from the proceeds of oil sales. As at September 30, 2019 and 2018, the outstanding balance amounted to \$50,000.

TCPA 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, 2019 and 2018, and for the years then ended is as follows:

	<u>2019</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 526,515	\$ 2,572
Marshall's Energy Company, Inc.	157,766	249,735
Marshall Islands Social Security Administration	100,810	24,474
RMI Ports Authority	14,704	-
RepMar	25,460	50,029
Marshall Islands Marine Resources Authority	-	25,624
Others	<u>-</u>	<u>1,043</u>
	<u>\$ 825,255</u>	<u>\$ 353,477</u>
	<u>2018</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 405,795	\$ 159,980
Marshall's Energy Company, Inc.	122,909	48,603
Marshall Islands Social Security Administration	95,535	22,407
RMI Ports Authority	17,803	-
RepMar	14,490	18,489
Marshall Islands Marine Resources Authority	-	50,000
Others	<u>-</u>	<u>1,131</u>
	<u>\$ 656,532</u>	<u>\$ 300,610</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(9) Risk Management

TCPA 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. TCPA 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 61% and 78% of total sales was earned from one customer during the years ended September 30, 2019 and 2018, respectively.

(11) Commitments

In 2013, TCPA entered into a 25-year ground lease agreement for a portion of Wojale Weto expiring on June 5, 2038. Total future minimum lease payments for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	
2020	\$ 13,668
2021	13,668
2022	13,668
2023	13,668
2024	13,668
2025 - 2029	68,340
2030 - 2034	68,340
2035 - 2038	<u>50,116</u>
	<u>\$ 255,136</u>

(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 TCPA as a going concern. During the years ended September 30, 2019 and 2018, TCPA incurred losses from operations of \$7,553,665 and \$5,396,954, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain TCPA as a going concern. Although RepMar has provided funding in the past, TCPA does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of TCPA's operations is dependent upon the financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2019, is dependent upon continued operations of TCPA, which, in turn, is dependent upon TCPA's ability to produce and process copra products and the success of future operations. Management believes that the continuation of TCPA'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 TCPA 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 TCPA 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.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(13) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of August 19, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. TCPA has determined that should the pandemic reach the Marshall Islands, it may negatively impact TCPA's business, results of operations, and financial position and TCPA would become dependent upon the financial support of RepMar. However, the effect of the pandemic to RepMar is also uncertain and future available funding to component units may be limited. Therefore, while TCPA expects this matter to negatively impact its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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 (TCPA), which comprise the statement of net position as of September 30, 2019, 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 August 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TCPA'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 TCPA's internal control. Accordingly, we do not express an opinion on the effectiveness of TCPA'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.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-02, which we consider to be material weaknesses.

Compliance and Other Matters

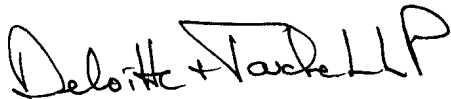
As part of obtaining reasonable assurance about whether TCPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 2019-01.

TCPA's Responses to Findings

TCPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. T CPA'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 T CPA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering T CPA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Stark LLP". The signature is written in a cursive, flowing style.

August 19, 2020

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2019

Local Noncompliance

Finding No. 2019-001

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 125 - Competitive Sealed Bidding
 - a. An invitation for Bids shall be issued and shall include a purchase description and all contractual terms and conditions applicable to the procurement.
 - b. An Invitation for Bids shall be issued and shall include purchase description, and all contractual terms and conditions applicable to the procurement.
 - c. Adequate public notice of the Invitation for Bids shall be given a reasonable time prior to the date set forth therein for the opening of bids, in accordance with regulations promulgated by the Policy Office. Such notice may include publication in a newspaper of general circulation for a reasonable time prior to bid opening.
- (c) 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.
- (d) 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>Remarks</u>
Payment for rear cart project supplies	\$ 72,361	Supplies & Materials*
Purchase of pet bottles	\$ 27,460	Supplies & Materials**
21600pcs jute bags	\$ 27,000	Suppliers – Copra Bags***
MV Tobolar Gen Set Repair	\$ 25,520	Repairs and Maintenance****
Professional fees	\$ 6,349	Professional fees*****

**PO was prepared subsequently after receiving invoices from selected supplier. No competitive bidding documents and no RFP was available for estimate.*
*** PO was dated after invoice date. No competitive bidding documents, no price quotations and no RFP was available for estimate.*
****No competitive bidding documents were available for estimate.*
***** No PO. No competitive bidding documents were available for estimate.*
****** No RFP was available for estimate.*

Required procurement procedures for the above items do not appear to have been followed.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Local Noncompliance, Continued

Finding No. 2019-001, Continued

The following advances and capital asset acquisitions from the same local vendor appear to be inconsistent with requirements of RepMar’s Procurement Code:

- a. The following advances were without adequate procurement documentation:

<u>PO Date</u>	<u>PO #</u>	<u>Check #</u>	<u>Check Amount</u>	<u>Item Description</u>
01/22/19	78088	29455	\$ 20,558	Purchase of Jute bags
07/30/19	78027	29658	7,683	Purchase of rear cart materials
08/20/19	78069	29655	<u>16,017</u>	Purchase of pet bottles
			<u>\$ 44,258</u>	

For PO #78088 for the purchase of 44,000 lbs. of Jute bags totaling \$39,940, a copy of the vendor invoice and vendor price quotations of two other bidders were not on file. This purchase was partially paid by check # 29455 for \$20,588; however, based on further examination of the summary of price quotations, we noted two suppliers with lower price quotations of \$31,732 and \$33,446. The supporting procurement documentation did not evidence vendor selection. Furthermore, the purchase exceeded the \$25,000 threshold, which requires formal competitive sealed bidding.

PO #s 78027 and 78069 were prepared after receiving copies of invoices of \$9,542 and \$19,922, respectively, from the vendor. Supporting documentation was inadequate to evidence the procurement process. These purchases were partially paid by check #s 29655 and 29658 in the amounts of \$16,017 and \$7,683, respectively. It appears that insufficient price quotations were obtained to support informal competitive bidding processes.

- b. PO # 77925 dated 05/03/2019 and invoice # 003 dated 08/1/2019 for \$26,601 was processed with various price quotations and price comparison sheets indicating the selected vendor as the lowest bidder; however, based on further examination of the summary of price quotations, we noted that one of the non-selected quotations, dated 11/29/2018, had expired. It appears that insufficient price quotations were obtained to support informal competitive bidding processes. Furthermore, the purchase exceeded the \$25,000 threshold, which requires formal competitive sealed bidding.
- c. A \$234,987 contract for a 60HP Boiler and related equipment was awarded on 07/31/18. The procurement process indicated that only one bidder submitted a conforming bid; however, the competitive sealed bidding process was supported by a Marshall Islands Journal newspaper advertisement run for two weeks. No other effort was evident to obtain interested bidders from off-island through direct solicitation from boiler manufacturer companies or by advertising in more widely circulated trade magazines.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Local Noncompliance, Continued

Finding No. 2019-001, Continued

Advance payments paid against this contract were as follows:

<u>Check Date</u>	<u>Check #</u>	<u>Amount</u>
09/19/19	29662	\$ 16,000
01/22/19	29429	15,000
10/17/18	29330	28,000
09/20/18	29306	50,000
08/28/18	29282	30,000
08/14/18	29237	30,000
03/16/18	53010	<u>4,985</u>
		\$ <u>173,985</u>

The purchased items were not received as of September 30, 2019.

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 potential 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.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audits of TCPA for fiscal years 2011 through 2018.

Auditee Response and Corrective Action Plan: Management acknowledges the auditor's comments and recommendations. The management reviewed and revised the standard operating procedure to improve and strengthen policy on procurement procedures on goods and services with complete supporting documents specially on re-ordering of supplies, also reestablished documentation, and internal control department.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Cost of Goods Sold

Finding No. 2019-002

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 31 copra advance liquidations tested, 12 indicated cash shortages and overpayments to growers. Cash shortages and overpayments of \$2,706 were charged to the employee suspense receivable account. TCPA's practice is to recoup cash shortages through salary deductions; however, the related employee suspense receivable account (A/C # 1350) of \$18,126 is offset with a corresponding allowance for uncollectible accounts.

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 TCPA require review of the classification of cost of goods sold.

Prior Year Status: The lack of internal control over cost of goods sold was reported as a finding in the audits of TCPA for fiscal years 2014 through 2018.

Auditee Response and Corrective Action Plan: The Management has a continuous effort implementing tighter internal control by closely monitoring every trip, also the management is giving continuous trainings to all custodians to make their report and monitor their cash on hand while still onboard.

TOBOLAR COPRA PROCESSING AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2019

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