

TOBOLAR COPRA PROCESSING AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

TOBOLAR COPRA PROCESSION AUTHORITY

Years Ended September 30, 2015 and 2014
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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, 2015 and 2014, 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, 2015 and 2014, 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 and deficient net position 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.

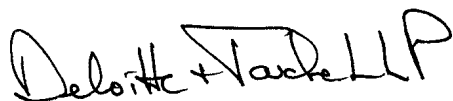
Other Matters

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 31, 2016, 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 31, 2016

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2015 and 2014

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, 2015. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position decreased by \$915,863 or 162% from \$566,536 in 2014 to a net deficit position of \$349,327 in 2015 due to losses from operations. Losses incurred in 2015 are attributed mainly to two (2) factors:

1. Increase in cost of goods of \$332,691 or 8%, and
2. Increase in non-operating expense of \$58,569 or 81% from the previous year.

Gross loss increased due to significant increase in cost of goods sold. This is mainly due to a two (2) cent increase in the price of copra that was implemented in April 2015. TCPA experienced an improvement in crude oil sales for 2015, but the minimal increase was offset by a decrease in copra meal orders that resulted in reduced revenue compared to previous year.

On the operating expense side, general and administrative expenses decreased by \$84,300 or 10% from \$868,490 in 2014 to \$784,190 in 2015. This decrease was primarily due to the absence of recognition of a provision for bad debts in the current year compared to \$170,093 recognized in the prior year.

Net non-operating revenues increased by \$251,303 or 19% from \$1,337,852 in 2014 to \$1,589,155 in 2015. Such increase is attributed to the \$150,000 copra subsidy increase granted to TCPA in the 3rd quarter and the regular additional subsidy received in the 4th quarter of 2015. Operating subsidies are sourced through the Republic of the Marshall Islands (RepMar) General Fund and from ROC Taiwan.

FINANCIAL ANALYSIS

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 1,032,310	\$ 1,103,675	\$ 1,043,471
Capital assets	1,319,531	1,426,470	1,235,487
Total assets	<u>\$ 2,351,841</u>	<u>\$ 2,530,145</u>	<u>\$ 2,278,958</u>
Current and other liabilities	\$ 2,419,926	\$ 1,674,441	\$ 482,566
Long-term debt	281,242	289,168	300,000
Total liabilities	<u>2,701,168</u>	<u>1,963,609</u>	<u>782,566</u>
Net position	<u>(349,327)</u>	<u>566,536</u>	<u>1,496,392</u>
Total liabilities and net position	<u>\$ 2,351,841</u>	<u>\$ 2,530,145</u>	<u>\$ 2,278,958</u>

As indicated above, total assets decreased by \$178,304 or 7% from \$2,530,145 in 2014 to \$2,351,841 in 2015. Current and other assets decreased by \$71,365 or 6% from \$1,103,675 in 2014 to \$1,032,310 in 2015. In addition, capital assets decreased by \$106,939 or 7% from \$1,426,470 in 2014 to \$1,319,531 in 2015 due to depreciation.

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2015 and 2014

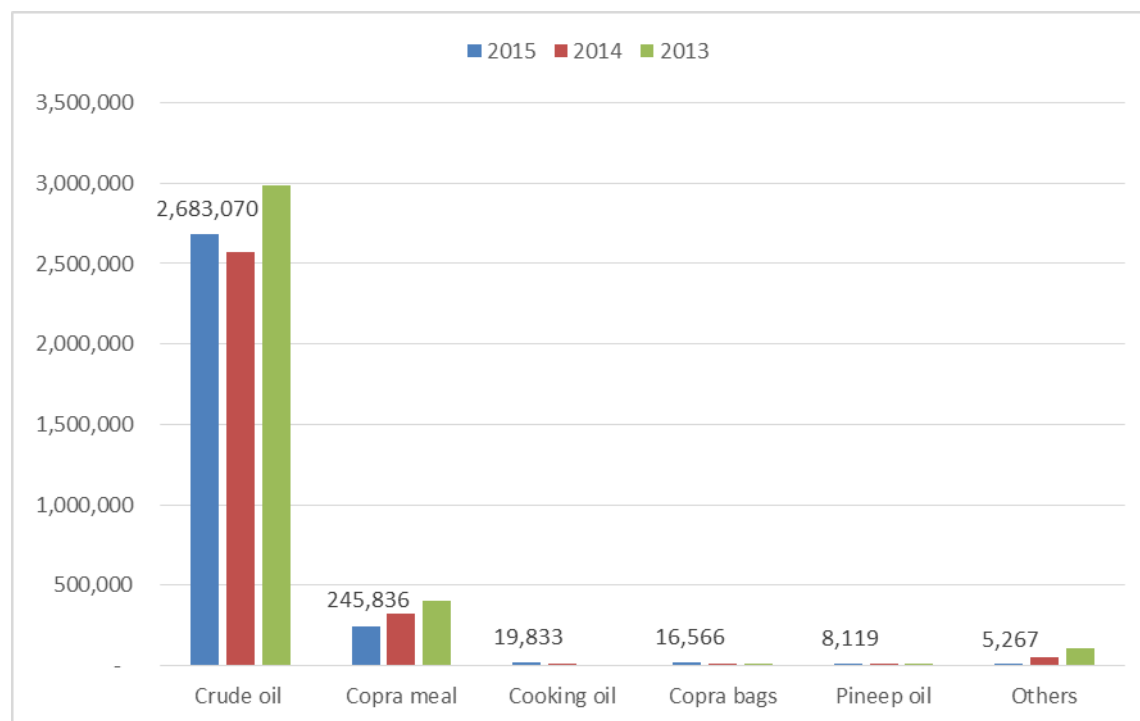
Total liabilities increased by \$737,559 or 38% from \$1,963,609 in 2014 to \$2,701,168 in 2015. Among the major contributors to the increase are the bank line of credit and short-term borrowings from Bank of Marshall Islands, unearned revenue from grants and accrued interest on bank loans.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Operating revenues	\$ 2,978,691	\$ 2,967,610	\$ 3,509,449
Non-operating revenues and grants	1,720,272	1,410,400	1,252,544
Total revenues	4,698,963	4,378,010	4,761,993
Expenses:			
Operating expenses	5,483,709	5,235,318	6,476,668
Non-operating expenses	131,117	72,548	112,609
Total expenses	5,614,826	5,307,866	6,589,277
Change in net position	\$ (915,863)	\$ (929,856)	\$ (1,827,284)

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 \$320,953 or 7% from the \$4,378,010 in 2014 to \$4,698,963 in 2015. Such increase is attributed to the additional subsidy received for the year.

The graph below shows the major components of operating revenues for 2015 compared to 2014 and 2013:

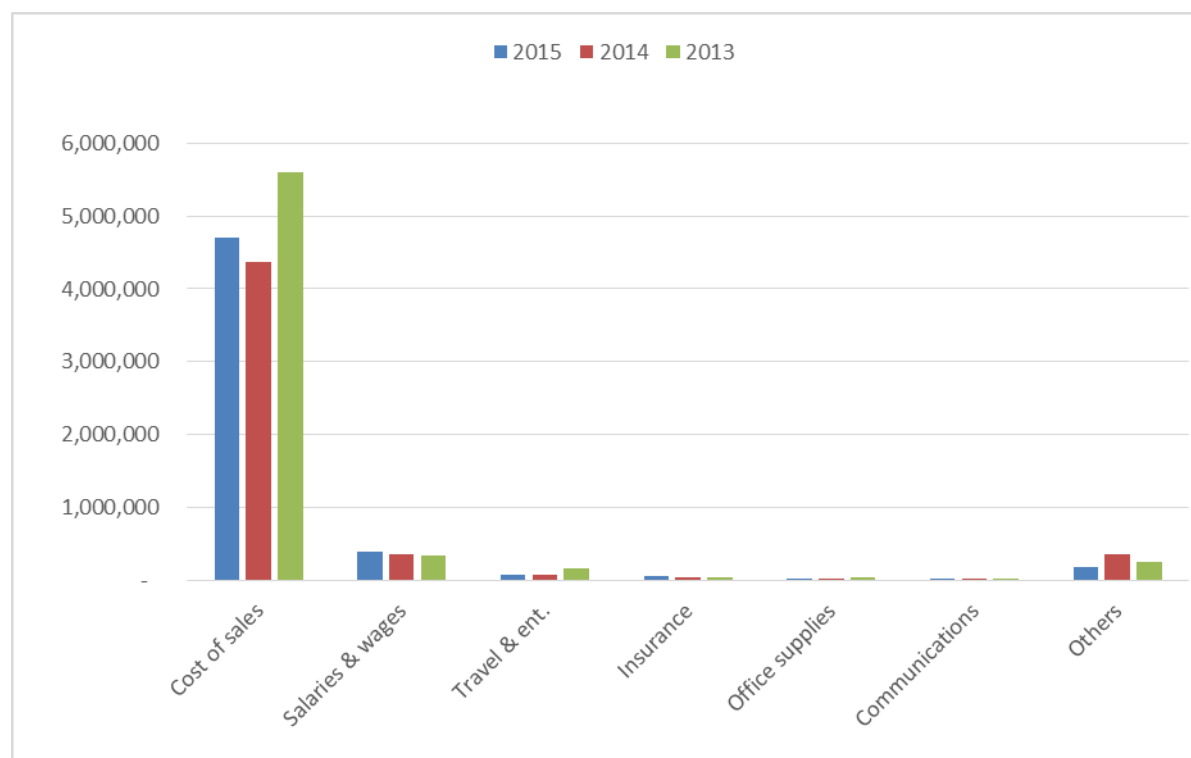


TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2015 and 2014

On the expense side, operating expenses increased by \$248,391 or 5% from \$5,235,318 in 2014 to \$5,483,709 in 2015. The increase is attributed to cost of sales brought about by the increase in the price of copra that was implemented since April 2015.

The graph below shows the major components of operating expenses for 2015 as compared to 2014 and 2013.



Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Authority's report on the audit of financial statements, which is dated July 9, 2015. That discussion and analysis explains the major factors impacting the 2014 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 \$106,939 or 7% from \$1,426,470 in 2014 to \$1,319,531 in 2015 on account of depreciation. The decrease in construction in progress is attributed to the completion of our Woja refinery plant that was reclassified to buildings in May 2015.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets:			
Buildings and leasehold improvements	\$ 2,502,598	\$ 2,101,777	\$ 2,097,433
Equipment	3,059,194	3,032,445	2,765,259
Furniture and fixture	98,028	94,890	90,693
	<u>5,659,820</u>	<u>5,229,112</u>	<u>4,953,385</u>
Less accumulated depreciation	(4,366,429)	(4,048,262)	(3,749,262)
	<u>1,293,391</u>	<u>1,180,850</u>	<u>1,204,123</u>
Construction in progress	26,140	245,620	31,364
	<u>\$ 1,319,531</u>	<u>\$ 1,426,470</u>	<u>\$ 1,235,487</u>

TOBOLAR COPRA PROCESSING PLANT, INC.

Management's Discussion and Analysis September 30, 2015 and 2014

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

During 2013, TCPA obtained a loan from the Pacific Islands Development Bank of \$300,000 for the purpose of financing certain capital expenditures. In addition, TCPA utilized a bank credit line of \$1,700,000 in 2015 and 2014 for the purpose of funding the purchase of copra from producers. 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 2016.

1. A rise in revenue is expected from the diversified product like VCO, bio fuel, soap, cooking oil and bottled oil to cover up the unforeseen consistency of the CNO price in the world market.
2. Additional revenue will be expected from other diversified products including income from shipping/freight from our Tobolar ships, profit from outer island sales of merchandise and savings in buying fee and stevedoring from use of own vessel.
3. An increase in production is expected for cooking oil and bio fuel to be contributed by our new refinery projects.
4. REPMAR will maintain the \$1,850,000 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, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 4,066	\$ 50,783
Time certificate of deposit	106,584	105,281
Receivables:		
Trade	390,267	353,607
Affiliates	90,670	62,581
Employees	14,111	15,170
Advances to suppliers and copra buyers	203,421	50,000
	698,469	481,358
Allowance for doubtful accounts	(368,024)	(368,024)
	330,445	113,334
Inventories	520,658	830,506
Current portion of prepaid drydocking	22,869	-
Prepayment and deposits	1,950	3,771
Total current assets	<u>986,572</u>	<u>1,103,675</u>
Noncurrent assets:		
Prepaid drydocking, net of current portion	45,738	-
Capital assets:		
Nondepreciable capital assets	26,140	245,620
Capital assets, net of accumulated depreciation	1,293,391	1,180,850
Total noncurrent assets	<u>1,365,269</u>	<u>1,426,470</u>
	<u>\$ 2,351,841</u>	<u>\$ 2,530,145</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Bank overdraft	\$ 23,018	\$ 72,103
Short-term borrowings	1,794,327	1,000,066
Current portion of long-term debt	13,069	12,052
Accounts payable	295,257	320,420
Payable to affiliates	211,925	165,363
Other accrued liabilities	95,399	116,489
Total current liabilities	2,432,995	1,686,493
Long-term debt, net of current portion	268,173	277,116
Total liabilities	<u>2,701,168</u>	<u>1,963,609</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,038,289	1,137,302
Unrestricted	(1,387,616)	(570,766)
Total net position	<u>(349,327)</u>	<u>566,536</u>
	<u>\$ 2,351,841</u>	<u>\$ 2,530,145</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Sales	\$ 2,978,691	\$ 2,967,610
Less cost of copra products manufactured and sold	<u>(4,699,519)</u>	<u>(4,366,828)</u>
Gross loss	<u>(1,720,828)</u>	<u>(1,399,218)</u>
General and administrative expenses:		
Salaries and wages	401,418	352,994
Travel and entertainment	85,710	71,295
Insurance	57,389	45,703
Office supplies	30,908	25,217
Communications	22,392	20,467
Repairs and maintenance	21,078	11,626
Membership dues and subscriptions	16,163	18,538
Professional fees	15,767	9,808
Management fee	11,250	9,020
Drydock expense	4,250	-
Transportation	13	50
Bad debts expense	-	170,093
Miscellaneous	<u>117,852</u>	<u>133,679</u>
Total general and administrative expenses	<u>784,190</u>	<u>868,490</u>
Operating loss	<u>(2,505,018)</u>	<u>(2,267,708)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	1,718,842	1,410,400
Grant	1,430	-
Interest expense	<u>(131,117)</u>	<u>(72,548)</u>
Total nonoperating revenues (expenses), net	<u>1,589,155</u>	<u>1,337,852</u>
Change in net position	<u>(915,863)</u>	<u>(929,856)</u>
Net position at beginning of year	<u>566,536</u>	<u>1,496,392</u>
Net position at end of year	<u><u>\$ (349,327)</u></u>	<u><u>\$ 566,536</u></u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 2,915,001	\$ 3,166,548
Cash payments to suppliers for goods and services	(4,278,137)	(4,246,307)
Cash payments to employees for services	(806,613)	(736,847)
Net cash used for operating activities	(2,169,749)	(1,816,606)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	1,718,842	1,410,400
Net borrowings on line of credit	794,261	1,000,066
Operating grant received	1,430	-
Net proceeds from (payment of) bank overdraft facility	(49,085)	2,339
Interest paid on line of credit	(97,816)	(28,689)
Net cash provided by noncapital financing activities	2,367,632	2,384,116
Cash flows from capital and related financing activities:		
Principal payment of long term debt	(7,926)	(10,832)
Interest paid on long-term debt	(25,446)	(22,540)
Acquisition of capital assets	(211,228)	(489,983)
Net cash used for capital and related financing activities	(244,600)	(523,355)
Net change in cash	(46,717)	44,155
Cash and cash equivalents at beginning of year	50,783	6,628
Cash and cash equivalents at end of year	\$ 4,066	\$ 50,783
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (2,505,018)	\$ (2,267,708)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	318,167	299,000
Provision for doubtful debts	-	170,093
(Increase) decrease in assets:		
Receivables:		
Trade	(36,660)	194,493
Affiliates	(28,089)	(9,135)
Employees	1,059	13,580
Advances to copra suppliers and buyers	(153,421)	(50,000)
Inventories	309,848	(333,798)
Prepayment and deposits	(66,786)	3,662
Increase (decrease) in liabilities:		
Accounts payable	(25,163)	129,810
Payable to affiliates	46,562	(26,785)
Other accrued liabilities	(30,248)	60,182
Net cash used for operating activities	\$ (2,169,749)	\$ (1,816,606)

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

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

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

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

- Net investment in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(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, deferred outflows of resources, 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.

Estimates

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

Taxes

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

Cash and Cash Equivalents 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, 2015 and 2014, the carrying amount of the Authority's cash and cash equivalents was \$110,650 and \$156,064, respectively, and the corresponding bank balance was \$114,287 and \$164,582, respectively. Of the bank balance amount, \$7,615 and \$59,141, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$106,672 and \$105,441, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2015 and 2014, bank deposits in the amount of \$7,615 and \$59,141, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Receivables

All receivables are due from companies and farmers in Australia and Vietnam and copra buyers and others, including employees and affiliates, within the Republic of the Marshall Islands. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expense. Bad debts are written-off against the reserve on the specific identification method.

Inventories

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

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 2 to 3 years. Any remaining carrying amount of the cost of the previous inspection is de-recognized. 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 cost that equals or exceed \$1,500 and an estimated life of more than one year shall be capitalized. Such assets are stated at cost. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

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

Deferred Outflows of Resources

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2015 and 2014, an accumulated vacation leave liability of \$39,389 and \$37,261, respectively, is included within the statements of net position in other accrued liabilities.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

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

Operating and Non-operating Revenues and Expenses

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

Reclassifications

Certain balances in the 2014 presentation have been reclassified to conform to the 2015 presentation.

New Accounting Standards

During the year ended September 30, 2015, the Authority implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the Authority.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 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. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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

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 of the Authority.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(3) Inventories

Inventories at September 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Raw copra	\$ 318,886	\$ 319,075
Copra oil	124,418	415,866
Soap and materials	41,478	53,833
Copra cake	<u>35,876</u>	<u>41,732</u>
	<u>\$ 520,658</u>	<u>\$ 830,506</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2015 and 2014 is as follows:

2015				
	<u>October 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2015</u>
Building and improvements	\$ 2,101,777	\$ 400,821	\$ -	\$ 2,502,598
Equipment	3,032,445	26,749	-	3,059,194
Furniture and fixtures	<u>94,890</u>	<u>3,138</u>	<u>-</u>	<u>98,028</u>
	5,229,112	430,708	-	5,659,820
Less accumulated depreciation	<u>(4,048,262)</u>	<u>(318,167)</u>	<u>-</u>	<u>(4,366,429)</u>
	1,180,850	112,541	-	1,293,391
Construction in progress	<u>245,620</u>	<u>178,928</u>	<u>(398,408)</u>	<u>26,140</u>
	<u>\$ 1,426,470</u>	<u>\$ 291,469</u>	<u>\$ (398,408)</u>	<u>\$ 1,319,531</u>
2014				
	<u>October 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2014</u>
Building and improvements	\$ 2,097,433	\$ 4,344	\$ -	\$ 2,101,777
Equipment	2,765,259	267,186	-	3,032,445
Furniture and fixtures	<u>90,693</u>	<u>4,197</u>	<u>-</u>	<u>94,890</u>
	4,953,385	275,727	-	5,229,112
Less accumulated depreciation	<u>(3,749,262)</u>	<u>(299,000)</u>	<u>-</u>	<u>(4,048,262)</u>
	1,204,123	(23,273)	-	1,180,850
Construction in progress	<u>31,364</u>	<u>214,256</u>	<u>-</u>	<u>245,620</u>
	<u>\$ 1,235,487</u>	<u>\$ 190,983</u>	<u>\$ -</u>	<u>\$ 1,426,470</u>

(5) Prepaid Drydocking

During the year ended September 30, 2015, the Authority incurred dry-dock expenditures of \$72,857 for the MV Tobolar ship in Fiji, which is to be amortized for 3 years. In 2015, amortized dry-dock expense amounted to \$4,250. As of September 30, 2015, prepaid dry-docking amounted to \$68,607.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(6) Short-term Debt

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

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

Short-term borrowings drawn-down and paid during the years ended September 30, 2015 and 2014 are as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
2015	\$ <u>1,000,066</u>	\$ <u>1,868,000</u>	\$ <u>(1,073,739)</u>	\$ <u>1,794,327</u>
2014	\$ <u>-</u>	\$ <u>1,196,000</u>	\$ <u>(195,934)</u>	\$ <u>1,000,066</u>

(7) Long-term Debt

Long-term debt at September 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Loan with Pacific Islands Development Bank, an investee of RepMar, dated August 15, 2013, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$2,781 through October 15, 2028, collateralized by a general security agreement over certain assets of the Authority and a guarantee from RepMar. Loan proceeds of \$300,000 were used to fund capital expenditures.	\$ <u>281,242</u>	\$ <u>289,168</u>

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>
2016	\$ 13,069	\$ 20,303	\$ 33,372
2017	14,077	19,295	33,372
2018	15,163	18,209	33,372
2019	16,331	17,041	33,372
2020	17,590	15,782	33,372
2021-2025	85,010	48,480	133,490
2026-2028	<u>120,002</u>	<u>19,088</u>	<u>139,090</u>
	\$ <u>281,242</u>	\$ <u>158,198</u>	\$ <u>439,440</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(7) Long-term Debt, Continued

During the years ended September 30, 2015 and 2014, the following changes occurred in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
2015	\$ <u>289,168</u>	\$ <u>-</u>	\$ <u>(7,926)</u>	\$ <u>281,242</u>
2014	\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>(10,832)</u>	\$ <u>289,168</u>

(8) Related Party Transactions

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

During the years ended September 30, 2015 and 2014, the operations of the Authority were funded by appropriations of \$1,718,842 and \$1,410,400, respectively, from the Nitijela of RepMar. In addition, the Authority has recorded receivables from RepMar at September 30, 2015 and 2014 of \$90,670 and \$62,581, 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, 2015 and 2014, the outstanding balance amounted to \$75,000 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 is as follows:

	2015	
	<u>Expenses</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 192,295	\$ 23,601
Marshall Islands Shipping Corporation	275,768	77,664
Marshall Islands Social Security Administration	51,950	17,842
RMI Ports Authority	18,283	-
Marshall Islands Marine Resources Authority	72	75,000
RepMar	15,562	13,986
Others	<u>2,858</u>	<u>3,832</u>
	<u>\$ 559,788</u>	<u>\$ 211,925</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(8) Related Party Transactions, Continued

	2014	
	<u>Expenses</u>	<u>Payables</u>
Marshalls Energy Company, Inc.	\$ 280,052	\$ 7,695
Marshall Islands Shipping Corporation	256,272	33,478
Marshall Islands Social Security Administration	45,023	36,490
RMI Ports Authority	16,165	-
Marshall Islands Marine Resources Authority	-	75,000
RepMar	36,947	11,130
Others	-	1,570
	<u>\$ 634,459</u>	<u>\$ 165,363</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 96% and 87% of total sales were earned from two customers during the years ended September 30, 2015 and 2014, respectively.

(11) Commitments

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

Year ending September 30,	
2016	\$ 13,668
2017	13,668
2018	13,668
2019	13,668
2020	13,668
2021 - 2025	68,340
2026 - 2030	68,340
2031 - 2035	68,340
2036 - 2038	27,336
	<u>\$ 300,696</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, the Authority incurred losses from operations of \$2,505,018 and \$2,267,708, respectively, and used a substantial amount of working capital in its operations resulting in a working capital deficiency of \$1,446,423 at September 30, 2015. Furthermore, at September 30, 2015, total liabilities exceeded total assets by \$349,327. 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, 2015, 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tobolar Copra Processing Authority (the Authority), which comprise the statement of net position as of September 30, 2015, 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 31, 2016. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-002 through 2015-004 to be material weaknesses.

Compliance and Other Matters

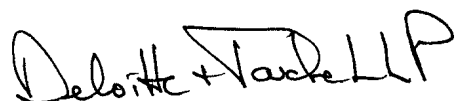
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2015-001.

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 31, 2016

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2015

Local Noncompliance

Finding No. 2015-001

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

<u>Items Description</u>	<u>Amount</u>	<u>Comment</u>
Repair of Tobolar ship, dry docking at Fiji	\$18,948	Price quotations from vendors were not available
Hyundai H-100 Flat Bed Truck	\$23,500	Invoice from selected supplier was not available
Electrical materials for Woja Refinery	\$21,629	Price quotations from vendors were not available
200 pcs metalplast roofing	\$11,250	Price quotations from vendors were not available
Mix concrete cement for weighing scale project	\$3,000	Price quotations from vendors were not available
Fuel for Tobolar ship from Fiji	\$17,314	Price quotations from vendors were not available
Purchase of boat from General Manager	\$9,500	Price quotations from vendors were not available

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

<u>Items Description</u>	<u>Amount</u>	<u>Note</u>
Various credit card charges on Tobolar dry docking to Fiji	\$6,565	Drydock cost
Various expenses on repair of boat to Fiji	\$3,928	Drydock cost
Credit card charges related to materials purchased in Fiji for repair	\$6,318	Drydock cost
Various credit card charges for June and July on dry docking to Fiji	\$3,165	Recorded as travel expense

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, 2015

Local Noncompliance

Finding No. 2015-001

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 with 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 the Authority for fiscal years 2011 through 2014.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Accounts Receivable

Finding No. 2015-002

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

Condition: Of gross receivables of \$561,908, 66% or \$373,073 are aged beyond 90 days. In addition, delays in collection of 30 days or more from current customers were noted. Regular reconciliations of customer sub-ledger accounts were not performed during the year. As of September 30, 2015, the Authority recorded an allowance for uncollectible accounts of \$368,024.

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

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

Recommendation: We recommend that management require periodic review and reconciliation of accounts receivable. In addition, we recommend that collection procedures be implemented, on-going status meetings organized and collection targets established.

Prior Year Status: The lack of internal control over monitoring of accounts receivable was reported as a finding in the audits of the Authority for fiscal years 2008 through 2014.

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

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

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Accounts Payables

Finding No. 2015-003

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, 2015, TCPA recorded \$20,014 in unidentified dummy accounts from prior year balances. Of ten payables tested, two suppliers with long outstanding balances and no subsequent payment were reversed and credited to other income. Two reflected partial subsequent payments, but could not otherwise validated since invoices from prior years were missing.

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

Effect: The effect of the above condition is a possible misstatement of account payables and accrued liabilities would not be timely detected. Non-accrual of expenses was corrected through proposed audit adjustments.

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

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

Auditee Response and Corrective Action Plan: Management intends to adopt a policy to regularly reconcile its accounts payable balances against subsidiary ledger and vendor statements. This is to ensure correctness of balances that is useful in scheduling payments and monitoring unpaid balances.

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Cost of Goods Sold

Finding No. 2015-004

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 75 cost of goods sold tested, the following variances were noted in copra purchase summary reports:

No.	<u>Check #</u>	<u>Check Amount</u>	<u>Paid Purchases per Supporting Tickets</u>	<u>Cash Returned</u>	<u>Unreturned Cash</u>
1	28638	\$ 45,000	\$ 785	\$ 39,879	\$ 4,336
2	28414	40,000	28,721	10,888	391
3	28417	40,000	25,001	14,767	232
4	28413	100,000	53,458	46,515	27
5	28416	100,000	99,767	158	75
6	797	100,000	56,516	40,893	2,592
7	28452/ 28461	50,000	49,558	7	435
8	810	50,000	42,568	7,328	103
9	812	100,000	91,663	8,117	221
10	923	<u>45,000</u>	<u>44,434</u>	<u>172</u>	<u>394</u>
		<u>\$ 670,000</u>	<u>\$ 492,471</u>	<u>\$ 168,724</u>	<u>\$ 8,805</u>

The Authority's practice is to record cash shortages/unreturned cash as a miscellaneous expense. Also, certain copra purchase reports did not contain signatures evidencing that independent review occurred.

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

Effect: The effect of the above condition is a possible misstatement of cost of goods sold and an increased risk of fraud or cash theft.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Cost of Goods Sold

Finding No. 2015-004, Continued

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

Auditee Response and Corrective Action Plan: We agree with the auditors' comments and recommendations. Management will ensure that proper and complete documentation be maintained to support recorded transactions specifically those pertaining to expenses and cost of goods sold. We will secure each of the concerned personnel their conformance on the outer island trip reports to ensure correctness of data reported. Management will ensure that cash returned from outer island boat trip operations are deposited on the next banking day with validated deposit slips and require such documents together with the official receipts be properly maintained on file. On cash shortages, it has been a practice to let personnel be accountable for it.

TOBOLAR COPRA PROCESSING AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2015

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