

**TOBOLAR COPRA PROCESSING AUTHORITY**

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

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

## **TOBOLAR COPRA PROCESSING AUTHORITY**

Years Ended September 30, 2018 and 2017  
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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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter******Going Concern***

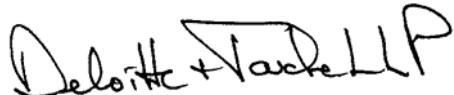
The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, the Authority's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's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

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2019, 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 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 the Authority'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 the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is fluid and cursive, with "Deloitte" on the left and "& Touche LLP" on the right, separated by a small ampersand.

May 2, 2019

## TOBOLAR COPRA PROCESSING AUTHORITY

### Management's Discussion and Analysis September 30, 2018 and 2017

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, 2018. Please read it in conjunction with the financial statements which follow this section.

#### **FINANCIAL HIGHLIGHTS**

TCPA's net position decreased by \$1,010,604 or 102% from \$994,630 in 2017 to a net deficiency of \$15,974 in 2018 due to losses from operations. Losses incurred in 2018 is attributed mainly to two (2) factors:

1. Increase in cost of copra products sold of \$1,449,252 or 24%;
2. Low price of CNO in the world market

TCPA's losses incurred in 2018 are mainly due to the twenty (20) cent increase in the purchase price of copra from growers that was implemented in December 2017. We achieved an improvement in our value added products sales for 2018, but due to the drop of CNO price in the world market affect significantly the revenue compared to previous year.

On the operating expenses side, general and administrative expenses increased by \$249,086 or 27% from \$916,574 registered in 2017 to \$1,165,660 in 2018. There was no provision for bad debts for the year compared to the \$304,422 recorded last year.

Net non-operating revenues increased by \$1,547,122 or 54% from \$2,839,228 posted in 2017 to \$4,386,350 in 2018. Such increase is attributed to the \$1,466,875 copra price increase subsidy granted to Tobolar on the 3<sup>rd</sup> quarter and in the 4<sup>th</sup> quarter of the year on top of the regular subsidy given for the Fiscal year 2018. Operating subsidies are sourced through the Republic of the Marshall Islands (RepMar) General account and from ROC Taiwan.

#### **FINANCIAL ANALYSIS**

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 1,345,401	\$ 1,541,064	\$ 1,728,056
Capital assets	<u>958,090</u>	<u>1,106,782</u>	<u>1,114,628</u>
Total assets	<u>\$ 2,303,491</u>	<u>\$ 2,647,846</u>	<u>\$ 2,842,684</u>
Current and other liabilities	\$ 1,390,501	\$ 422,568	\$ 681,558
Long-term debt	928,964	1,230,648	1,521,782
Net position	<u>(15,974)</u>	<u>994,630</u>	<u>639,344</u>
Total liabilities and net position	<u>\$ 2,303,491</u>	<u>\$ 2,647,846</u>	<u>\$ 2,842,684</u>

As indicated above, total assets decreased by \$344,355 or 13% from \$2,647,846 in 2017 to \$2,303,491 in 2018. Current and other assets decreased by \$195,663 or 13% from \$1,541,064 in 2017 to \$1,345,401 in 2018. In addition, capital assets decreased by \$148,692 or 13% from \$1,106,782 in 2017 to \$958,090 in 2018 due to depreciation.

## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2018 and 2017

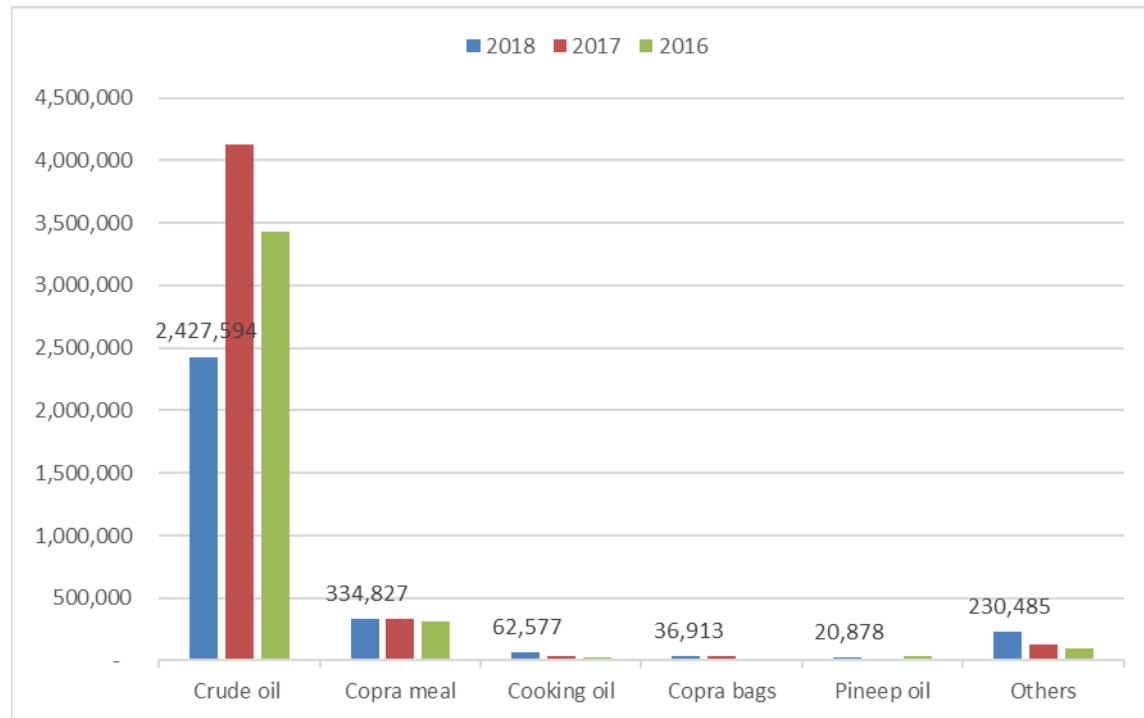
Total liabilities increased tremendously by \$666,249 or 40% from \$1,653,216 in 2017 to \$2,319,465 in 2018. Among the major contributors to the increase are the \$700,000 short-term loan availment from the Marshall Islands Development Bank, Advances from Customer and payable to affiliates.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>			
Operating revenues	\$ 3,113,273	\$ 4,682,486	\$ 3,913,772
Non-operating revenues and grants	<u>4,474,387</u>	<u>2,957,512</u>	<u>3,352,548</u>
<b>Total revenues</b>	<b><u>7,587,660</u></b>	<b><u>7,639,998</u></b>	<b><u>7,266,320</u></b>
<b>Expenses:</b>			
Operating expenses	8,510,227	7,166,428	6,139,323
Non-operating expenses	<u>88,037</u>	<u>118,284</u>	<u>138,326</u>
<b>Total expenses</b>	<b><u>8,598,264</u></b>	<b><u>7,284,712</u></b>	<b><u>6,277,649</u></b>
<b>Change in net position</b>	<b><u>\$ (1,010,604)</u></b>	<b><u>\$ 355,286</u></b>	<b><u>\$ 988,671</u></b>

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 changes in figure is not noticeable because of the increase in subsidy by \$1,466,875 or 50% received for the year covers up the drop of operating revenue by \$1,569,213 or 34% from the \$4,682,486 registered in 2017 to \$3,113,273 in 2018.

The graph below shows the major components of operating revenues for 2018 compared to 2017 and 2016:

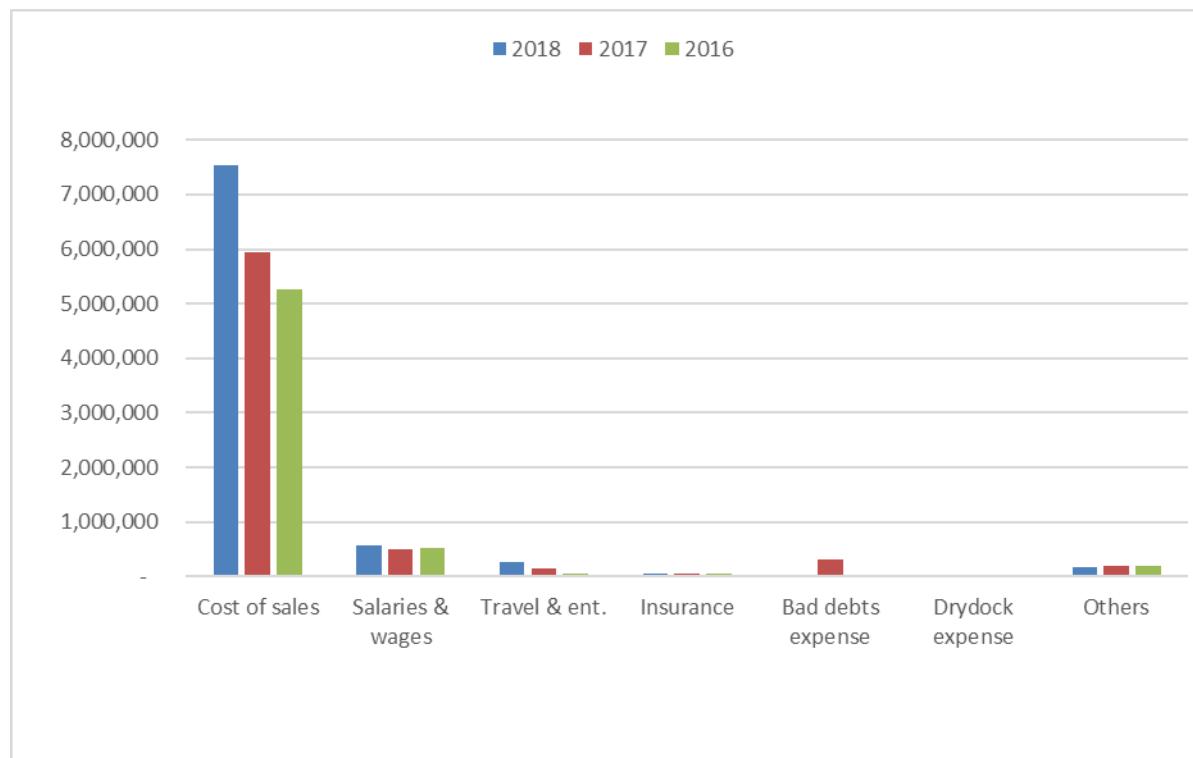


## TOBOLAR COPRA PROCESSING PLANT, INC.

### Management's Discussion and Analysis September 30, 2018 and 2017

On the expenses side, operating expenses increased by \$1,343,799 or 20% from previous year figure of \$7,166,428 to \$8,510,227 for the current year. The increase is attributed to cost of sales brought about by the increase in the price of copra that was implemented December of 2017.

The graph below shows the major components of operating expenses for 2018 as compared to 2017 and 2016.



Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the Authority's report on the audit of financial statements, which is dated May 9, 2018. That discussion and analysis explains the major factors impacting the 2017 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 \$148,693 or 13% from \$1,106,783 in 2017 to \$958,090 in 2018 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 of 2018.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital assets:			
Buildings and leasehold improvements	\$ 2,554,084	\$ 2,554,084	\$ 2,533,738
Equipment	3,411,301	3,378,655	3,151,561
Furniture and fixture	100,986	99,636	98,028
	<u>6,066,371</u>	<u>6,032,375</u>	<u>5,783,327</u>
Less accumulated depreciation	(5,108,281)	(4,925,593)	(4,668,699)
	<u>\$ 958,090</u>	<u>\$ 1,106,782</u>	<u>\$ 1,114,628</u>

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

## **TOBOLAR COPRA PROCESSING PLANT, INC.**

### Management's Discussion and Analysis September 30, 2018 and 2017

TCPA obtained a loan from Marshall Islands Development Bank of \$700,000 for the purpose of funding the purchase of copra from producers. Please refer to note 6 and 7 of the accompanying financial statements for additional information regarding TCPA's debt.

#### **ECONOMIC FACTOR'S AND NEXT YEAR'S RATES**

The following factors were considered in preparing TCPA's budget for fiscal year 2019.

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. The establishment of Outer Island warehouse development project.
4. An increase in production is expected for the value added products and activated carbon to restore in operation by our refinery new projects.
5. REPMAR will maintain the \$6,000,000 copra subsidy to help stabilize the price of copra.
6. 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 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, 2018 and 2017

	2018	2017
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 51,426	\$ 870,133
Time certificates of deposit	<u>118,633</u>	<u>110,848</u>
Receivables:		
Trade	355,399	471,651
Affiliates	91,339	92,726
Employees	38,637	75,054
Advances to suppliers and copra buyers	<u>18,629</u>	<u>12,345</u>
Allowance for doubtful accounts	504,004	651,776
	<u>(373,274)</u>	<u>(423,391)</u>
	<u>130,730</u>	<u>228,385</u>
Inventories	348,418	303,863
Current portion of prepaid drydocking	152,375	22,885
Prepayment and deposits	7,950	4,950
Total current assets	<u>809,532</u>	<u>1,541,064</u>
Noncurrent assets:		
Prepaid drydocking, net of current portion	304,750	-
Deposits for capital asset acquisitions	231,119	-
Capital assets, net of accumulated depreciation	<u>958,090</u>	<u>1,106,782</u>
Total noncurrent assets	<u>1,493,959</u>	<u>1,106,782</u>
	<u>\$ 2,303,491</u>	<u>\$ 2,647,846</u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
Liabilities:		
Short-term borrowings	\$ 700,000	-
Current portion of long-term debt	236,538	469,758
Accounts payable	252,371	226,540
Payable to affiliates	300,610	124,215
Advance from customer	56,363	-
Other accrued liabilities	<u>81,157</u>	<u>71,813</u>
Total current liabilities	<u>1,627,039</u>	<u>892,326</u>
Long-term debt, net of current portion	<u>692,426</u>	<u>760,890</u>
Total liabilities	<u>2,319,465</u>	<u>1,653,216</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,189,209	851,991
Restricted	25,169	-
Unrestricted	<u>(1,230,352)</u>	<u>142,639</u>
Total net position	<u>(15,974)</u>	<u>994,630</u>
	<u>\$ 2,303,491</u>	<u>\$ 2,647,846</u>

See accompanying notes to financial statements.

## TOBOLAR COPRA PROCESSING AUTHORITY

### Statements of Revenues, Expenses, and Changes in Net Position Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Sales	\$ 3,113,273	\$ 4,682,486
Reversal of (provision for) doubtful account	50,117	(304,422)
Net sales	<u>3,163,390</u>	<u>4,378,064</u>
Less cost of copra products manufactured and sold	(7,394,684)	(5,945,432)
Gross loss	<u>(4,231,294)</u>	<u>(1,567,368)</u>
General and administrative expenses:		
Salaries and wages	561,614	495,617
Travel and entertainment	256,148	138,949
Professional and management fees	62,762	42,098
Insurance	53,700	57,797
Donations	43,563	6,153
Meals and refreshments	27,579	21,756
Automobile expense	23,934	7,835
Drydock expense	22,885	26,915
Bank charges	20,814	3,781
Communications	20,074	19,386
Office supplies	21,928	21,612
Rent expense	15,028	15,384
Taxes and licenses	14,490	37,242
Advertising	6,231	7,559
Repairs and maintenance	4,875	2,024
Miscellaneous	10,035	12,466
Total general and administrative expenses	<u>1,165,660</u>	<u>916,574</u>
Operating loss	<u>(5,396,954)</u>	<u>(2,483,942)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	4,474,387	2,957,512
Interest expense	(88,037)	(118,284)
Total nonoperating revenues (expenses), net	<u>4,386,350</u>	<u>2,839,228</u>
Change in net position	(1,010,604)	355,286
Net position at beginning of year	<u>994,630</u>	<u>639,344</u>
Net position at end of year	<u>\$ (15,974)</u>	<u>\$ 994,630</u>

See accompanying notes to financial statements.

## TOBOLAR COPRA PROCESSING AUTHORITY

### Statements of Cash Flows Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 3,323,692	\$ 4,696,574
Cash payments to suppliers for goods and services	(7,648,953)	(5,301,150)
Cash payments to employees for services	<u>(1,005,947)</u>	<u>(909,358)</u>
Net cash used for operating activities	<u>(5,331,208)</u>	<u>(1,513,934)</u>
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	4,474,387	2,957,512
Proceeds from short-term borrowings	700,000	-
Principal repayment of long-term debt	(46,893)	(277,277)
Interest paid on long-term debt	<u>(94,197)</u>	<u>(99,723)</u>
Net cash provided by noncapital financing activities	<u>5,033,297</u>	<u>2,580,512</u>
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(254,791)	(13,857)
Interest paid on long-term debt	(890)	(19,572)
Acquisition of capital assets	<u>(265,115)</u>	<u>(249,048)</u>
Net cash used for capital and related financing activities	<u>(520,796)</u>	<u>(282,477)</u>
Net change in cash and cash equivalents	(818,707)	784,101
Cash and cash equivalents at beginning of year	870,133	86,032
Cash and cash equivalents at end of year	<u>\$ 51,426</u>	<u>\$ 870,133</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (5,396,954)	\$ (2,483,942)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	182,688	256,894
Provision for (reversal of) doubtful debts	(50,117)	304,422
(Increase) decrease in assets:		
Receivables:		
Trade	116,252	36,604
Affiliates	1,387	(632)
Employees	36,417	(21,884)
Advances to suppliers and copra buyers	(6,284)	132,715
Inventories	(44,555)	494,453
Prepayment and deposits	(437,240)	25,415
Increase (decrease) in liabilities:		
Accounts payable	25,831	(36,114)
Advances from customer	56,363	-
Payable to affiliates	176,395	(232,713)
Other accrued liabilities	8,609	10,848
Net cash used for operating activities	<u>\$ (5,331,208)</u>	<u>\$ (1,513,934)</u>

See accompanying notes to financial statements.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (1) Organization

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

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

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

### (2) Summary of Significant Accounting Policies

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

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and 34*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted net position - nonexpendable net position subject to externally imposed stipulations that require the Authority to maintain such permanently. As of September 30, 2018 and 2017, the Authority does not have nonexpendable restricted net position. Expendable net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. As of September 30, 2018, the Authority 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.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (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.

#### 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, 2018 and 2017, the carrying amount of the Authority's cash and cash equivalents and time certificates of deposit was \$170,059 and \$980,981, respectively, and the corresponding bank balance was \$191,291 and \$1,039,975, respectively. Of the bank balance amount, \$40,859 and \$493,944, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$150,432 and \$546,031, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$191,291 and \$250,000, respectively, were FDIC insured. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

#### 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).

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

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

#### Deferred Dry Dock Expenditures

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

#### Property, Plant and Equipment

Property, plant and equipment with costs that equal or exceed \$1,500 and have an estimated life of more than one year shall be capitalized. Such assets are stated at cost. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

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

#### Deferred Outflows of Resources

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

#### Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2018 and 2017, an accumulated vacation leave liability of \$42,851 and \$35,424, respectively, is included in the statements of net position within other accrued liabilities.

#### Deferred Inflows of Resources

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

#### Operating and Nonoperating Revenues and Expenses

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

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

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

#### Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Taxes

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

#### Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no impact on operating loss, net position or cash flows as previously reported.

#### New Accounting Standards

During the year ended September 30, 2018, the Authority implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

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

#### New Accounting Standards, Continued

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

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

In 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 April 2018, GASB issued 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 provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In 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, 2018 and 2017

### (3) Inventories

Inventories at September 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Copra oil	\$ 215,163	\$ 32,272
Soap and materials	106,755	201,810
Raw copra	22,401	23,529
Copra cake	<u>4,099</u>	<u>46,252</u>
	<u>\$ 348,418</u>	<u>\$ 303,863</u>

### (4) Capital Assets

Capital asset activity for the years ended September 30, 2018 and 2017 is as follows:

	2018		
	October 1, <u>2017</u>	Additions	Reductions
Building and improvements	\$ 2,554,084	\$ -	\$ -
Equipment	3,378,655	32,646	-
Furniture and fixtures	<u>99,636</u>	<u>1,350</u>	<u>-</u>
	<u>6,032,375</u>	<u>33,996</u>	<u>-</u>
Less accumulated depreciation	<u>(4,925,593)</u>	<u>(182,688)</u>	<u>-</u>
	<u>\$ 1,106,782</u>	<u>\$ (148,692)</u>	<u>\$ -</u>
			<u>\$ 958,090</u>
	2017		
	October 1, <u>2016</u>	Additions	Reductions
Building and improvements	\$ 2,533,738	\$ 20,346	\$ -
Equipment	3,151,561	227,094	-
Furniture and fixtures	<u>98,028</u>	<u>1,608</u>	<u>-</u>
	<u>5,783,327</u>	<u>249,048</u>	<u>-</u>
Less accumulated depreciation	<u>(4,668,699)</u>	<u>(256,894)</u>	<u>-</u>
	<u>\$ 1,114,628</u>	<u>\$ (7,846)</u>	<u>\$ -</u>
			<u>\$ 1,106,782</u>

During the year ended September 30, 2018, the Authority paid \$231,119 to a vendor for purchases of various equipment. These equipment have not been received as of September 30, 2018.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (5) Prepaid Drydocking

In 2015, the Authority incurred drydock expenses of \$72,857 for the MV Tobolar ship in Fiji, which is to be amortized over 3 years. During the year ended September 30, 2018, the Authority incurred additional drydock expenses of \$457,125 for the MV Tobolar ship in Solomon Islands. During the years ended September 30, 2018 and 2017, amortized drydock expenses amounted to \$22,885 and \$26,915, respectively. As of September 30, 2018 and 2017, prepaid drydocking amounted to \$457,125 and \$22,885, respectively.

An analysis of the change in prepaid drydocking costs during the years ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 22,885	\$ 49,800
Drydock costs incurred	457,125	-
Amortized drydock expense	<u>(22,885)</u>	<u>(26,915)</u>
Ending balance	<u>\$ 457,125</u>	<u>\$ 22,885</u>
Disclosed as follows:		
Current	\$ 152,375	\$ 22,885
Noncurrent	<u>304,750</u>	<u>-</u>
	<u>\$ 457,125</u>	<u>\$ 22,885</u>

### (6) Short-term Borrowings

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 August 22, 2018, the Authority 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.

Short-term borrowings drawn down during the year ended September 30, 2018 were as follows:

<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
\$ _____ -	\$ <u>700,000</u>	\$ _____ -	\$ <u>700,000</u>

# **TOBOLAR COPRA PROCESSING AUTHORITY**

## Notes to Financial Statements September 30, 2018 and 2017

## (7) Long-term Debt

Long-term debt at September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Term loan with a bank refinanced from a bank credit line in the amount of \$1,430,000, dated June 23, 2016, interest at 8.5% per annum, with principal and interest payable in monthly installments of \$25,500 through June 30, 2022, collateralized by a general security agreement over all assets of the Authority and a guarantee from the Marshall Islands Development Bank.	\$ 928,964	\$ 975,857
Loan with the Pacific Islands Development Bank (PIDB), dated August 15, 2013, interest at 7.5% per annum, with principal and interest payable in monthly installments of \$2,781 through October 15, 2028, collateralized by a general security agreement over certain assets of the Authority and a guarantee from RepMar. Loan proceeds of \$300,000 were used to fund capital expenditures. On October 25, 2017, the Authority paid in full its outstanding long-term debt with PIDB in the amount of \$254,791.	-	254,791
	<u>\$ 928,964</u>	<u>\$ 1,230,648</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>
2019	\$ 236,538	\$ 69,462	\$ 306,000
2020	257,298	48,702	306,000
2021	252,291	26,209	278,500
2022	<u>182,837</u>	<u>6,484</u>	<u>189,321</u>
	<b>\$ 928,964</b>	<b>\$ 150,857</b>	<b>\$ 1,079,821</b>

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

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

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (7) Long-term Debt, Continued

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

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

During the years ended September 30, 2018 and 2017, the operations of the Authority were funded by appropriations of \$4,474,387 and \$2,957,512, respectively, from the Nitijela of RepMar. A summary of RepMar appropriations by funding source received by the Authority for the years ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
General Fund - Copra Subsidy	\$ 3,490,819	\$ 1,992,432
ROC Taiwan - Copra Subsidy	933,568	965,080
ROC Taiwan - VCO Project	<u>50,000</u>	<u>-</u>
	<u><u>\$ 4,474,387</u></u>	<u><u>\$ 2,957,512</u></u>

In addition, the Authority has recorded receivables from RepMar at September 30, 2018 and 2017 of \$86,339 and \$92,726, respectively, relating to miscellaneous services provided by the Authority. Receivables from other affiliates at September 30, 2018 and 2019 amounted to \$5,000 and \$0, respectively.

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, 2018 and 2017, the outstanding balance amounted to \$50,000.

The Authority utilizes services from its affiliates at the same rates charged to third parties and at substantially more favorable terms than those afforded to third parties.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (8) Related Party Transactions, Continued

A summary of additional related party transactions as of September 30, 2018 and 2017, and for the years then ended is as follows:

	<u>2018</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 405,795	\$ 159,980
Marshalls 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>
	<u>2017</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 400,438	\$ 34,486
Marshalls Energy Company, Inc.	170,260	-
Marshall Islands Social Security Administration	80,637	21,726
RMI Ports Authority	21,655	-
RepMar	37,242	17,334
Marshall Islands Marine Resources Authority	-	50,000
Others	<u>-</u>	<u>669</u>
	<u>\$ 710,232</u>	<u>\$ 124,215</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 78% and 95% of total sales was earned from one customer during the years ended September 30, 2018 and 2017, respectively.

## TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements  
September 30, 2018 and 2017

### (11) Commitments

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

<u>Year ending September 30,</u>	
2019	\$ 13,668
2020	13,668
2021	13,668
2022	13,668
2023	13,668
2024 - 2028	68,340
2029 - 2033	68,340
2034 - 2038	<u>64,923</u>
	<u>\$ 269,943</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 the Authority as a going concern. During the years ended September 30, 2018 and 2017, the Authority incurred losses from operations of \$5,396,954 and \$2,483,942, respectively, and used substantial amount of working capital in its operations resulting in a working capital deficiency of \$817,507 at September 30, 2018. Furthermore, at September 30, 2018, total liabilities exceeded total assets by \$15,974. 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, 2018, 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.

### (13) Subsequent Event

On November 14, 2018, the RepMar Cabinet approved the transfer of MV Tobolar, ship personnel and their respective salaries to the Marshall Islands Shipping Corporation.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Tobolar Copra Processing Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tobolar Copra Processing Authority (the Authority), which comprise the statement of net position as of September 30, 2018, 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 2, 2019. Our report included an emphasis-of-matter paragraph regarding going concern.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses as items 2018-002 and 2018-003.

**Compliance and Other Matters**

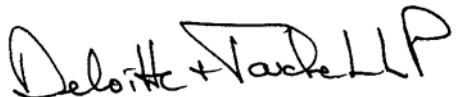
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2018-001.

## **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 fluid and cursive, with "Deloitte" on the first line and "& Touche LLP" on the second line.

May 2, 2019

## **TOBOLAR COPRA PROCESSING AUTHORITY**

### Schedule of Findings and Responses Year Ended September 30, 2018

#### Local Noncompliance

##### Finding No. 2018-001

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 includea 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:

<b><u>Items Description</u></b>	<b><u>Amount</u></b>	<b><u>Comment</u></b>
Various travel expenses	\$20,120	Travel expense
Credit card charges	4,694	Travel expense
Office supplies	1,095	Office supplies
Travel expense – accomodation	9,311	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, 2018

### Local Noncompliance, Continued

#### Finding No. 2018-001, 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. Three Purchase Orders (PO) were prepared on the same date for equipment purchases. Details are as follows:

<u>PO Date</u>	<u>PO #</u>	<u>Check #</u>	<u>Check Amount</u>	<u>Item Description</u>
01/16/18	77377	29052	\$ 9,298	75HP motor
01/16/18	77378	29057	19,939	Motor starters
		52946	4,979	
01/16/18	77379	29067	17,459	Various HP motors
			\$ 51,675	

These POs appear to represent purchases artificially divided so as to constitute small purchases and avoid the \$25,000 threshold that requires formal competitive bidding procedures. Vendor invoices for PO #'s 77377 and 77379 were not on file. Furthermore, items purchased on PO #'s 77377 and 77379 have not been received as at September 30, 2018.

- b. For PO # 77484 dated 04/09/18, for the purchase of four circuit breakers totaling \$24,792, a copy of vendor invoices and vendor price quotations were not on file. These items have been paid on Check #'s 29181 and 53926; however, no receiving report was on file.
- c. Four POs were prepared after receiving copies of vendor invoices from the same vendor noting supporting documentation was inadequate to evidence the procurement process. Details are as follow:

<u>PO Date</u>	<u>PO #</u>	<u>Check #</u>	<u>Check Amount</u>	<u>Invoice Date</u>	
02/05/18	77403	29074	\$ 19,918	01/22/18	50HP motor
04/18/18	77496	29159	19,896	04/12/18	Caterpillar engine
		53590	4,974		
04/24/18	77509	29164	7,489	04/18/18	Caterpillar parts
		53589	1,872		
05/22/18	77540	1010	\$ 19,743	03/02/18	40HP motor
			\$ 73,892		

PO # 77403 (dated 02/05/18) for \$24,897 was processed as the lowest bidder with various price quotations and a price comparison sheet, however, further examination indicated an additional price quotation on file for \$23,240 that was not included in the selection process. In addition, no receiving reports were on file for PO #'s 77496 and 77509. Furthermore, items purchased from PO #'s 77403 and 77540 have not been received as at September 30, 2018.

- d. PO # 77445 (dated 03/07/18) for \$40,020 for the purchase of copra bags was processed with various price quotations and a price comparison sheet; however, further examination indicated that the two non-selected quotations were eight months old (dated 06/07/17 and 06/22/17) with unit price quotations of \$0.98 and \$1.28 whereas the selected vendor price quotation was \$1.46. Thus, it appears the procurement process was sole sourced. In addition, no receiving report was on file.

## **TOBOLAR COPRA PROCESSING AUTHORITY**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

### Local Noncompliance, Continued

#### Finding No. 2018-001, Continued

e. 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 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. Advance payments made against this contract were as follows:

<u>Check Date</u>	<u>Check nos.</u>	<u>Amount</u>
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>\$114,985</u>

The purchase item have not been received as of September 30, 2018.

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 the Authority for fiscal years 2011 through 2017.

Auditee Response and Corrective Action Plan: Management acknowledges the auditor's comments and recommendations and management would like to emphasize also that there is a continuous effort to improve and strengthen procurement procedures on goods and services with complete supporting documents.

## **TOBOLAR COPRA PROCESSING AUTHORITY**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

### Accounts Payables

#### Finding No. 2018-002

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

Condition: As of September 30, 2018, the Authority recorded \$82,090 in unidentified accounts from prior year balances and no subsidiary ledger was provided and could not be further validated since invoices from prior years were missing. This resulted in an audit adjustment of \$56,956.

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

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

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

Prior Year Status: The lack of internal control over accounts payable reconciliations was reported as a finding in the audits of the Authority for fiscal years 2014 through 2017.

Auditee Response and Corrective Action Plan: The Management acknowledges the auditor's recommendation and will continuously do the reconciliation of accounts payables from previous years.

## **TOBOLAR COPRA PROCESSING AUTHORITY**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

### Cost of Goods Sold

#### Finding No. 2018-003

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

Condition: Of thirty one liquidation of copra advances tested, twelve have cash shortages and overpayment made to vendors. Cash shortages, advances, cash given to residents and overpayments of \$14,385 were charged to employee receivables and to an account receivable suspense account. Tobolar's practice is to deduct the cash shortages in the employee account through salary deductions. However, the related AR employee accounts of \$38,637 has been fully provided with an allowance as the balance continues to increase.

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

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

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

Prior Year Status: The lack of internal control over cost of goods sold was reported as a finding in the audits of the Authority for fiscal years 2014 through 2017.

Auditee Response and Corrective Action Plan: The Management has a continuous effort implementing tighter internal control by closely monitoring every trip report that could lead to misstatement of goods and could increase risk of fraud.

**TOBOLAR COPRA PROCESSING AUTHORITY**

Unresolved Prior Year Findings  
Year Ended September 30, 2018

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