

TOBOLAR COPRA PROCESSING AUTHORITY

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

TOBOLAR COPRA PROCESSING AUTHORITY

Years Ended September 30, 2020 and 2019
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III. FINANCIAL STATEMENTS	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
IV. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	22
Schedule of Findings and Responses	24
Unresolved Prior Year Findings	27

INDEPENDENT AUDITORS' REPORT

Board of Directors
Tobolar Copra Processing Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Tobolar Copra Processing Authority (TCPA), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCPA as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Going Concern

The accompanying financial statements have been prepared assuming that TCPA will continue as a going concern. As discussed in Note 11 to the financial statements, TCPA's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 11 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

COVID-19

As discussed in Note 12 to the financial statements, TCPA has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. TCPA is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

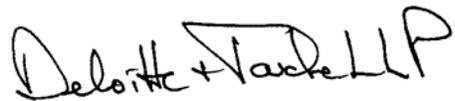
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021, on our consideration of TCPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TCPA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TCPA's internal control over financial reporting and compliance.



November 23, 2021

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2020 and 2019

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, 2020. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position increased by \$776,902 or 58% from \$1,329,604 in 2019 to \$2,106,506 in 2020 due to favorable price of CNO on the world market.

Operating loss for 2020 decreased by \$646,794 or 9% from \$7,553,665 in 2019 to \$6,906,871 in 2020. This decrease was due to an increase in operating revenues of \$311,083 or 13% from \$2,431,978 in 2019 to \$2,743,061 in 2020 together with a decrease in operating expenses of \$335,711 or 3% from \$9,985,643 in 2019 to \$9,649,932 in 2020. The increase in 2020 operating revenues was due primarily to favorable prices of CNO on the world market. The decrease in operating expenses for 2020 was primarily due to a decrease in COGS as a result of a reduction in copra purchases from growers from 7,584MT in 2019 to 7,504MT in 2020.

Net non-operating revenues decreased by \$1,215,470 or 14% from \$8,899,243 in 2019 to \$7,683,773 in 2020. The decrease is the result of a reduction in copra subsidies received from RepMar in 2020 of \$8,326,938 compared to \$8,967,551 in 2019 together with the recognition of a \$588,070 bad debt expense associated with a receivable due from Marshall Islands Shipping Corporation that remains uncollected.

FINANCIAL ANALYSIS

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of TCPA's financial condition. TCPA's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition. A summary of TCPA's Statements of Net Position at September 30, 2020 compared with 2019 and 2018 is presented below:

Summary Statements of Net Position As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Current and other assets	\$ 2,711,290	\$ 2,304,301	\$ 406,989	17.7%	\$ 1,345,401
Capital assets	<u>723,657</u>	<u>680,823</u>	<u>42,834</u>	6.3%	<u>958,090</u>
Total assets	<u>3,434,947</u>	<u>2,985,124</u>	<u>449,823</u>	15.1%	<u>2,303,491</u>
Liabilities:					
Current and other liabilities	841,576	887,154	(45,578)	(5.1)%	1,390,501
Long-term debt	<u>486,865</u>	<u>768,366</u>	<u>(281,501)</u>	(36.6)%	<u>928,964</u>
Total liabilities	<u>1,328,441</u>	<u>1,655,520</u>	<u>(327,079)</u>	(19.8)%	<u>2,319,465</u>
Net position:					
Net investment in capital assets	989,060	991,500	(2,440)	(0.2)%	1,189,209
Restricted	-	-	-		25,169
Unrestricted	<u>1,117,446</u>	<u>338,104</u>	<u>779,342</u>	230.5%	<u>(1,230,352)</u>
Total net position	<u>\$ 2,106,506</u>	<u>\$ 1,329,604</u>	<u>\$ 776,902</u>	58.4%	<u>\$ (15,974)</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2020 and 2019

As indicated above, total assets increased by \$449,823 or 15% from \$2,985,124 in 2019 to \$3,434,947 in 2020. Current and other assets increased by \$406,989 or 18% from \$2,304,301 in 2019 to \$2,711,290 in 2020. This increase is attributable primarily to an increase of \$326,866 in inventory on hand at the end of 2020. In addition, capital assets increased by \$42,834 or 6% from \$680,823 in 2019 to \$723,657 in 2020, which is primarily due to acquisition of trucks for Copra Stevedoring and GM's service truck.

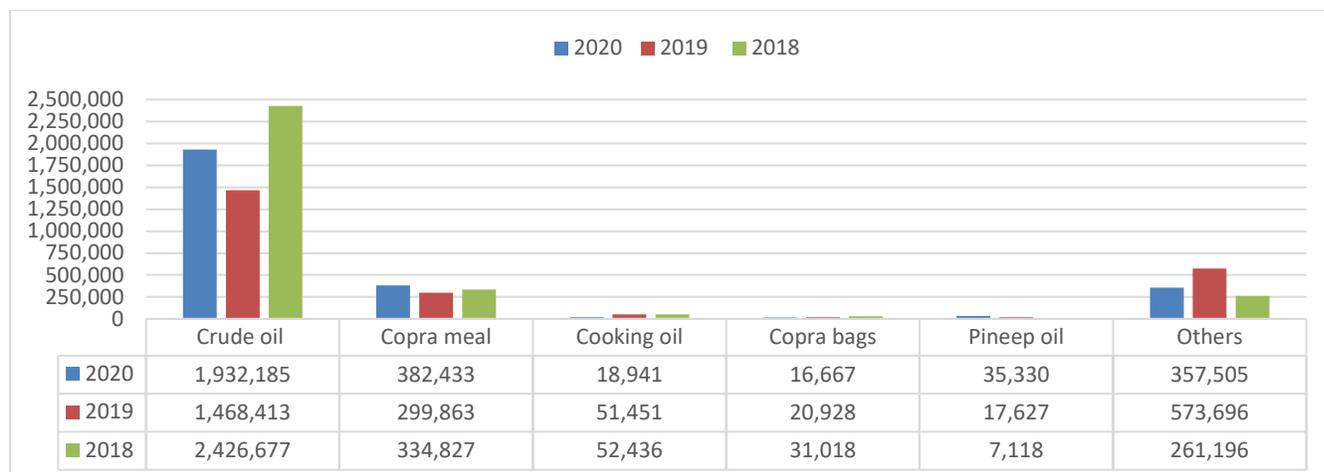
Total liabilities decreased by \$327,079 or 20% from \$1,655,520 in 2019 to \$1,328,441 in 2020. Among the major contributors to the decrease is the repayment of long-term debt from BOMI.

A summary of TCPA's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

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

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	\$ 2,743,061	\$ 2,431,978	\$ 311,083	12.8%	\$ 3,113,273
Operating expenses	<u>9,649,932</u>	<u>9,985,643</u>	<u>(335,711)</u>	(3.4)%	<u>8,510,227</u>
Operating loss	<u>(6,906,871)</u>	<u>(7,553,665)</u>	<u>646,794</u>	(8.6)%	<u>(5,396,954)</u>
Nonoperating:					
Nonoperating revenues	8,326,938	8,967,551	(640,613)	(7.1)%	4,474,387
Nonoperating expenses	<u>643,165</u>	<u>68,308</u>	<u>574,857</u>	841.6%	<u>88,037</u>
	<u>7,683,773</u>	<u>8,899,243</u>	<u>(1,215,470)</u>	(13.7)%	<u>4,386,350</u>
Change in net position	<u>\$ 776,902</u>	<u>\$ 1,345,578</u>	<u>\$ (568,676)</u>	(42.3)%	<u>\$ (1,010,604)</u>

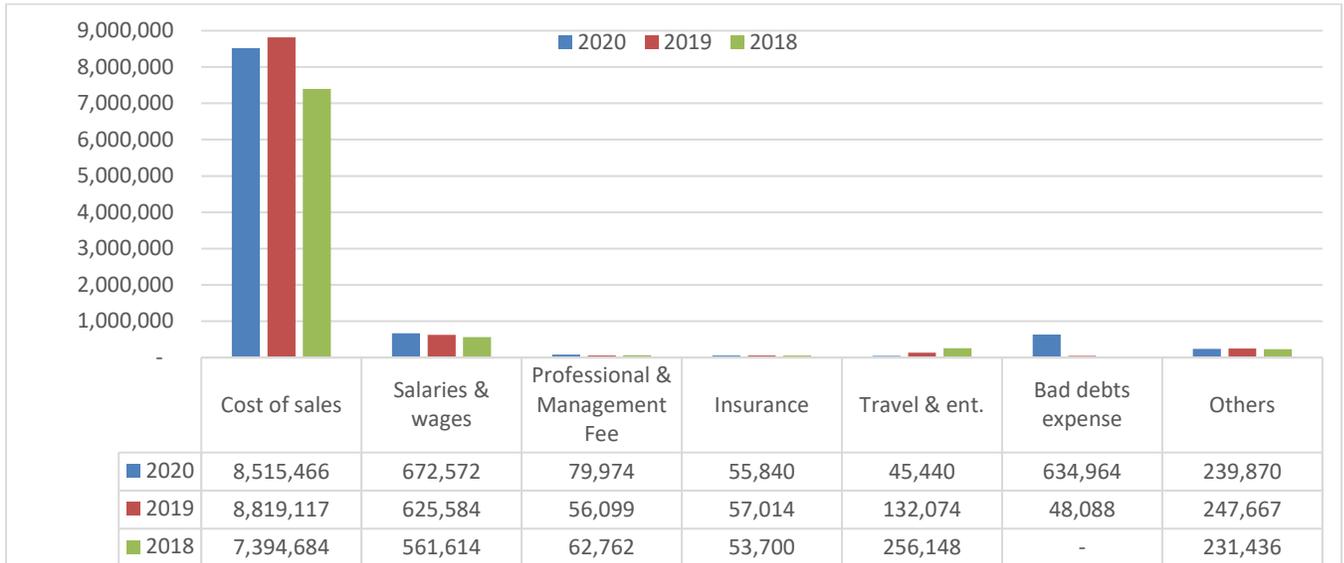
The Statement of Revenues, Expenses, and Changes in Net Position identifies the various revenue and expense items that affect net position. As indicated above, TCPA's operating losses decreased by \$646,794 or 9% from \$7,553,665 in 2019 to \$6,908,871 in 2020. This decrease was due to an increase in copra sales by \$311,083 or 13% from \$2,431,978 in 2019 to \$2,743,061 in 2020 which was a direct result of the continuous increase in the CNO price on the world market. TCPA's operating losses are financed annually by copra subsidies received from RepMar. RepMar copra subsidies decreased by \$640,613 or 7% from \$8,967,551 in 2019 to \$8,326,938 in 2020. The graph below shows the major components of operating revenues for 2020 compared to 2019 and 2018:



TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2020 and 2019

On the expense side, operating expenses decreased by \$335,711 or 3% from \$9,985,643 in 2019 to \$9,649,932 in 2020. The decrease is due to the reduction in COGS as a result of a reduction in copra purchases from growers of 80MT from 7,584MT in 2019 to 7,504MT in 2020. The graph below shows the major components of operating expenses for 2020 as compared to 2019 and 2018.



Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in the Authority's report on the audit of financial statements, which is dated August 19, 2020. That discussion and analysis explains the major factors impacting the 2019 financial statements and can be obtained from the Authority's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets increased by \$42,834 or 6% from \$680,823 in 2019 to \$723,657 in 2020. The increase is due primarily to the acquisition of 2 trucks to expedite copra offloading, the transporting of copra from dock to copra warehouse, and service truck for the new General Manager.

A summary of TCPA's capital assets at September 30, 2020 compared with 2019 and 2018 is presented below:

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Building and leasehold	\$ 2,554,084	\$ 2,554,084	\$ -	0.0%	\$ 2,554,084
Equipment	3,224,370	3,080,712	143,658	4.7%	3,411,301
Furnitures and fixtures	102,586	100,986	1,600	1.6%	100,986
	5,881,040	5,735,782	145,258	2.5%	6,066,371
Accumulated depreciation	(5,166,457)	(5,054,959)	(111,498)	2.2%	(5,108,281)
	714,583	680,823	33,760	5.0%	958,090
Construction work in progress	9,074	-	9,074		-
	<u>\$ 723,657</u>	<u>\$ 680,823</u>	<u>\$ 42,834</u>	6.3%	<u>\$ 958,090</u>

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

TOBOLAR COPRA PROCESSING AUTHORITY

Management's Discussion and Analysis September 30, 2020 and 2019

A summary of TCPA's debt (short-term and long-term) at September 30, 2020 compared with 2019 and 2018 is presented below:

	<u>2020</u>	<u>2019</u>	\$ Change <u>2020-2019</u>	% Change <u>2020-2019</u>	<u>2018</u>
Short-term:					
MIDB loan	\$ -	\$ -	\$ -		\$ 700,000
Long-term:					
Bank loan	<u>486,865</u>	<u>768,366</u>	<u>(281,501)</u>	(36.6)%	<u>928,964</u>
	<u>\$ 486,865</u>	<u>\$ 768,366</u>	<u>\$ (281,501)</u>	(36.6)%	<u>\$ 1,628,964</u>

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

Please refer to note 5 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 2021.

1. Expected to dominate the domestic market from the diversified product like VCO, soap, cooking oil, beauty oil, drinking water and farming to cover up the unforeseen consistency of the CNO price in the world market.
2. Additional revenue will be expected from outer island consigned merchandise and Rear cart projects.
3. An increase in production is expected for the value-added products and activated carbon to restore in operation by our refinery new projects.
4. REPMAR will maintain the \$8,000,000 copra subsidy to help stabilize the price of copra.
5. A contingency plan is being set that if the crude oil price drops to \$500 M/T, copra price needs to be reduced by about \$0.45. We expect that the government subsidy will help offset whatever loss anticipated for the said decrease in price.

Effective November 20, 2020, the purchase price of copra was increased by the RepMar Cabinet from 50 cents to 60 cents per pound.

The Marshall Islands is currently not being directly impacted by the current COVID-19 pandemic being experienced elsewhere worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. No community transmission has been identified and, as such, TCPA have been able to continue operations as usual subject to the continued support from RepMar. In the event that community transmission occurs, we expect TCPA to feel the impact of such through potential shutdown of TCPA's operations and continued reliance on RepMar for operational subsidies.

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 269,158	\$ 228,165
Time certificates of deposit	<u>125,867</u>	<u>122,202</u>
Receivables:		
Trade	525,045	460,169
Affiliates	733,080	598,428
Employees	34,763	38,234
Advances to suppliers and copra buyers	<u>560,473</u>	<u>35,132</u>
	1,853,361	1,131,963
Allowance for doubtful accounts	<u>(1,003,052)</u>	<u>(368,088)</u>
	<u>850,309</u>	<u>763,875</u>
Inventories	1,188,464	861,598
Prepayment and deposits	<u>12,089</u>	<u>17,784</u>
Total current assets	<u>2,445,887</u>	<u>1,993,624</u>
Noncurrent assets:		
Deposits for capital asset acquisitions	265,403	310,677
Nondepreciable capital assets	9,074	-
Capital assets, net of accumulated depreciation	<u>714,583</u>	<u>680,823</u>
Total noncurrent assets	<u>989,060</u>	<u>991,500</u>
	<u>\$ 3,434,947</u>	<u>\$ 2,985,124</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Current portion of long-term debt	\$ 286,849	\$ 278,780
Accounts payable	329,045	260,859
Payable to affiliates	463,030	353,477
Advance from customer	400	197,918
Other accrued liabilities	<u>49,101</u>	<u>74,900</u>
Total current liabilities	1,128,425	1,165,934
Long-term debt, net of current portion	<u>200,016</u>	<u>489,586</u>
Total liabilities	<u>1,328,441</u>	<u>1,655,520</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	989,060	991,500
Unrestricted	<u>1,117,446</u>	<u>338,104</u>
Total net position	<u>2,106,506</u>	<u>1,329,604</u>
	<u>\$ 3,434,947</u>	<u>\$ 2,985,124</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Sales	\$ 2,743,061	\$ 2,431,978
Provision for doubtful accounts	(46,894)	(48,088)
Net sales	2,696,167	2,383,890
Less cost of copra products manufactured and sold	<u>(8,515,466)</u>	<u>(8,819,117)</u>
Gross loss	<u>(5,819,299)</u>	<u>(6,435,227)</u>
General and administrative expenses:		
Salaries and wages	672,572	625,584
Professional and management fees	79,974	56,099
Insurance	55,840	57,014
Automobile expense	44,396	28,540
Membership dues	40,362	43,619
Travel and entertainment	39,316	132,074
Office supplies	32,511	29,068
Meals and refreshments	28,361	30,811
Rent expense	21,607	16,398
Communications	19,985	24,867
Taxes and licenses	13,457	25,460
Bank charges	10,562	8,267
Advertising	10,057	7,516
Repairs and maintenance	9,953	8,048
Donations	1,519	1,091
Freight	509	6,349
Miscellaneous	<u>6,591</u>	<u>17,633</u>
Total general and administrative expenses	<u>1,087,572</u>	<u>1,118,438</u>
Operating loss	<u>(6,906,871)</u>	<u>(7,553,665)</u>
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	8,326,938	8,967,551
Bad debts expense	(588,070)	-
Loss on disposal of capital assets	(6,124)	-
Interest expense	<u>(48,971)</u>	<u>(68,308)</u>
Total nonoperating revenues (expenses), net	<u>7,683,773</u>	<u>8,899,243</u>
Change in net position	776,902	1,345,578
Net position at beginning of year	<u>1,329,604</u>	<u>(15,974)</u>
Net position at end of year	<u>\$ 2,106,506</u>	<u>\$ 1,329,604</u>

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 2,355,610	\$ 2,496,873
Cash payments to suppliers for goods and services	(9,016,358)	(9,168,925)
Cash payments to employees for services	(1,153,600)	(1,103,864)
Net cash used for operating activities	(7,814,348)	(7,775,916)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	8,326,938	8,267,551
Principal repayment of long-term debt	(281,501)	(160,598)
Interest paid on long-term debt	(56,543)	(72,441)
Net cash provided by noncapital financing activities	7,988,894	8,034,512
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(133,553)	(81,857)
Net change in cash and cash equivalents	40,993	176,739
Cash and cash equivalents at beginning of year	228,165	51,426
Cash and cash equivalents at end of year	\$ 269,158	\$ 228,165
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (6,906,871)	\$ (7,553,665)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	123,745	148,621
Provision for doubtful accounts	46,894	48,088
(Increase) decrease in assets:		
Receivables:		
Trade	(64,876)	(158,044)
Affiliates	(134,652)	80,981
Employees	9,595	403
Advances to suppliers and copra buyers	(525,341)	(16,503)
Inventories	(326,866)	(513,180)
Prepayment and deposits	5,695	(9,834)
Increase (decrease) in liabilities:		
Accounts payable	68,186	8,488
Advances from customer	(197,518)	141,555
Payable to affiliates	109,553	52,867
Other accrued liabilities	(21,892)	(5,693)
Net cash used for operating activities	\$ (7,814,348)	\$ (7,775,916)
Noncash investing, capital, and financing activities:		
Repayment of short-term borrowings	\$ -	\$ (700,000)
Copra subsidies from RepMar	-	700,000
	\$ -	\$ -
Prepaid drydocking	\$ -	\$ 457,125
Capital assets	-	332,888
Accumulated depreciation	-	(201,943)
Receivables from affiliates	-	(588,070)
	\$ -	\$ -

See accompanying notes to financial statements.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization

Tobolar Copra Processing Authority (TCPA), formerly the Tobolar Copra Processing Plant, Inc., was granted a corporate charter on August 13, 1977, under the laws of the Trust Territory of the Pacific Islands, as subsequently adopted by the Republic of the Marshall Islands (RepMar). TCPA was established for the primary purpose of engaging in the production and processing of copra products on Majuro Atoll. TCPA is funded, in part, through operational appropriations from the Nitijela (the RepMar Legislature). TCPA's principal lines of business are copra oil, copra cake, soap, and refined oil products. The principal market for the copra oil and copra cake are companies and farmers located in Australia, Vietnam and the United States. Sales are based on the world market price at the time of sale for the respective products. Soap and refined oil products are sold primarily to customers in the Marshall Islands. Raw copra is purchased at a price set by the RepMar Cabinet. Effective December 1, 2017, the purchase price of copra was increased by the RepMar Cabinet from 30 cents to 50 cents per pound. (See Note 13)

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

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

(2) Summary of Significant Accounting Policies

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

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

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

- Net investment in capital assets: capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted: net position whose use by TCPA is subject to externally imposed stipulations that can be fulfilled by actions of TCPA pursuant to those stipulations or that expire with the passage of time. TCPA has no restricted net position at September 30, 2020 and 2019.
- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Revenue Recognition

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

Cash and Cash Equivalents and Time Certificates of Deposit

Custodial credit risk is the risk that in the event of a bank failure, TCPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. TCPA does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash and cash equivalents is defined as cash on hand and cash held in demand deposits as well as time certificates of deposit with a maturity date within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statements of net position. As of September 30, 2020 and 2019, the carrying amount of TCPA's cash and cash equivalents and time certificates of deposit was \$395,025 and \$350,367, respectively, and the corresponding bank balance was \$504,544 and \$397,344, respectively. Of the bank balance amount, \$332,570 and \$148,063, respectively, is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with \$171,974 and \$249,281, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$250,000 and \$148,063, respectively, were FDIC insured. TCPA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Inventories

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

Deferred Dry Dock Expenditures

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

Property, Plant and Equipment

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

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2020 and 2019, an accumulated vacation leave liability of \$37,776 and \$31,904, respectively, is included in the statements of net position within other accrued liabilities.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year ending September 30, 2022.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(3) Inventories

Inventories at September 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Copra oil	\$ 570,563	\$ 300,891
Raw copra	434,622	361,518
Materials	157,076	116,170
Soap and refined oil products	7,882	43,506
Copra cake	<u>18,321</u>	<u>39,513</u>
	<u>\$ 1,188,464</u>	<u>\$ 861,598</u>

(4) Capital Assets

Capital asset activity for the years ended September 30, 2020 and 2019 is as follows:

2020				
	October 1, <u>2019</u>	Additions	Reductions	September 30, <u>2020</u>
Building and improvements	\$ 2,554,084	\$ -	\$ -	\$ 2,554,084
Equipment	3,080,712	168,153	(24,495)	3,224,370
Furniture and fixtures	<u>100,986</u>	<u>1,600</u>	<u>-</u>	<u>102,586</u>
	5,735,782	169,753	(24,495)	5,881,040
Less accumulated depreciation	<u>(5,054,959)</u>	<u>(123,745)</u>	<u>12,247</u>	<u>(5,166,457)</u>
	680,823	46,008	(12,248)	714,583
Construction work in progress	<u>-</u>	<u>9,074</u>	<u>-</u>	<u>9,074</u>
	<u>\$ 680,823</u>	<u>\$ 55,082</u>	<u>\$ (12,248)</u>	<u>\$ 723,657</u>
2019				
	October 1, <u>2018</u>	Additions	Reductions	September 30, <u>2019</u>
Building and improvements	\$ 2,554,084	\$ -	\$ -	\$ 2,554,084
Equipment	3,411,301	2,299	(332,888)	3,080,712
Furniture and fixtures	<u>100,986</u>	<u>-</u>	<u>-</u>	<u>100,986</u>
	6,066,371	2,299	(332,888)	5,735,782
Less accumulated depreciation	<u>(5,108,281)</u>	<u>(148,621)</u>	<u>201,943</u>	<u>(5,054,959)</u>
	<u>\$ 958,090</u>	<u>\$ (146,322)</u>	<u>\$ (130,945)</u>	<u>\$ 680,823</u>

On November 14, 2018, the Cabinet of RepMar authorized and approved the transfer of MV Tobolar at a cost of \$332,888, net of accumulated depreciation of \$201,943, from TCPA to Marshall Islands Shipping Corporation (MISC). On February 17, 2019, this transfer was effectuated resulting in a receivable of \$588,070 due from MISC, which remains uncollected. TCPA is currently negotiating with RepMar and MISC for a final determination insofar as collection of this amount. As of September 30, 2020, a corresponding allowance for doubtful debts has been established with respect to the receivable from MISC.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(5) Long-term Debt

Long-term debt at September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Term loan with a bank refinanced from a bank credit line in the amount of \$1,430,000, interest at 8.5% per annum, with principal and interest payable in monthly installments of \$25,500 through June 30, 2022, collateralized by a general security agreement over all assets of TCPA and a guarantee from the Marshall Islands Development Bank.	\$ <u>486,865</u>	\$ <u>768,366</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>
2021	\$ 286,849	\$ 33,157	\$ 320,006
2022	<u>200,016</u>	<u>5,750</u>	<u>205,766</u>
	<u>\$ 486,865</u>	<u>\$ 38,907</u>	<u>\$ 525,772</u>

Debt Covenants

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

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

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

Changes in long-term liabilities for the years ended September 30, 2020 and 2019, were as follows:

	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2020	Due Within <u>One Year</u>
Loans payable:					
Bank loan	\$ <u>768,366</u>	\$ _____ -	\$ <u>(281,501)</u>	\$ <u>486,865</u>	\$ <u>286,849</u>
	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2019	Due Within <u>One Year</u>
Loans payable:					
Bank loan	\$ <u>928,964</u>	\$ _____ -	\$ <u>(160,598)</u>	\$ <u>768,366</u>	\$ <u>278,780</u>

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(6) Related Party Transactions

TCPA is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Marine Resources Authority (MIMRA), the Marshall Islands Development Bank (MIDB), and the Marshall Islands Shipping Corporation (MISC).

In the normal course of operations, TCPA obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. In 2018, TCPA obtained an interest free short-term advance from MIDB in the amount of \$700,000, payable in full on October 31, 2018. On November 2, 2018, this loan was paid in full by RepMar.

During the years ended September 30, 2020 and 2019, TCPA received cash operating subsidies from RepMar of \$8,326,938 and \$8,267,551, respectively. During the year ended September 30, 2019, TCPA received non-cash operating subsidies of \$700,000, which represented payments made by RepMar on behalf of TCPA for debt settlement of a short-term loan payable to MIDB. A summary of RepMar appropriations by funding source received by TCPA for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
General Fund - Copra Subsidy	\$ 8,093,917	\$ 7,033,151
ROC Taiwan - Copra Subsidy	<u>233,021</u>	<u>1,934,400</u>
	<u>\$ 8,326,938</u>	<u>\$ 8,967,551</u>

During the year ended September 30, 2019, Cabinet Minute C.M. 244 (2018) authorized and approved the transfer of MV Tobolar and crew to MISC. The receivable from MISC at September 30, 2020 and 2019 relating to this transfer amounted to \$588,070. A summary of receivables from affiliates as of September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Marshall Islands Shipping Corporation	\$ 692,199	\$ 588,070
RepMar	37,841	4,782
Other	<u>3,040</u>	<u>5,576</u>
	<u>\$ 733,080</u>	<u>\$ 598,428</u>

As of September 30, 2020, a corresponding allowance for doubtful debts of \$588,070 has been established with respect to the receivable from MISC.

In 2013, MIMRA advanced funds to TCPA in the amount of \$100,000 for the purpose of assisting TCPA in funding the purchase of copra. The advance is uncollateralized and non-interest bearing and is due and payable by TCPA from the proceeds of oil sales. As at September 30, 2020 and 2019, the outstanding balance amounted to \$50,000.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(6) Related Party Transactions, Continued

A summary of additional related party transactions as of September 30, 2020 and 2019, and for the years then ended is as follows:

	2020	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 585,407	\$ 290,913
Marshalls Energy Company, Inc.	35,938	6,377
Marshall Islands Social Security Administration	136,906	66,585
RMI Ports Authority	14,704	-
RepMar	20,939	30,379
Marshall Islands Marine Resources Authority	13,457	50,029
Others	-	18,747
	<u>\$ 807,351</u>	<u>\$ 463,030</u>
	2019	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 526,515	\$ 249,735
Marshalls Energy Company, Inc.	157,766	2,572
Marshall Islands Social Security Administration	100,810	24,474
RMI Ports Authority	14,704	-
RepMar	25,460	25,624
Marshall Islands Marine Resources Authority	-	50,029
Others	-	1,043
	<u>\$ 825,255</u>	<u>\$ 353,477</u>

(7) Risk Management

TCPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. TCPA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(8) Significant Customers

Approximately 70% and 61% of total sales was earned from one customer during the years ended September 30, 2020 and 2019, respectively.

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(9) Commitments

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

<u>Year ending</u> <u>September 30,</u>	
2021	\$ 13,668
2022	13,668
2023	13,668
2024	13,668
2025	13,668
2026 - 2030	68,340
2031 - 2035	68,340
2036 - 2038	<u>36,448</u>
	<u>\$ 241,468</u>

(10) Retirement Plan

TCPA's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors. The Plan is a contributory plan in which TCPA contributes 8% of a participant's annual salary while a minimum of 4 % of the participant's annual salary will be contributed by the employees. Participation is optional. TCPA's Plan administrator includes the General Manager of TCPA and certain members of management. Employer contributions to the Plan during the years ended September 30, 2020 and 2019 were \$30,534 and \$22,251, respectively. Management is of the opinion that the plan does not represent an asset or liability of TCPA. At September 30, 2020 and 2019, plan assets were \$84,602 and \$37,765, respectively.

(11) Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of TCPA as a going concern. During the years ended September 30, 2020 and 2019, TCPA incurred losses from operations of \$6,906,871 and \$7,553,665, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding in order to maintain TCPA as a going concern. Although RepMar has provided funding in the past, TCPA does not have a formal agreement with RepMar to provide funds in the future. Management believes that the continuation of TCPA's operations is dependent upon the financial support of RepMar, deferment in payment of certain liabilities, and/or significant improvements in operations.

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position at September 30, 2020, is dependent upon continued operations of TCPA, which, in turn, is dependent upon TCPA's ability to produce and process copra products and the success of future operations. Management believes that the continuation of TCPA's operations is dependent upon the future financial support of RepMar. In the event that copra subsidies from RepMar are reduced or eliminated, the Board and management of TCPA will take appropriate action to initiate a reduction in purchase price of copra. For the year ending September 30, 2021, RepMar has appropriated \$7,403,941 to fund TCPA operations, including \$1,403,941 to fund the increase in purchase price of copra. (See Note 13)

TOBOLAR COPRA PROCESSING AUTHORITY

Notes to Financial Statements
September 30, 2020 and 2019

(11) Contingencies, Continued

The real property on which the copra processing plant and related facilities are located is leased by the Marshall Islands Development Authority from RepMar. No provision has yet been made for the sublease to TCPA of the real property on which the processing plant is located. No rental payments for the use of the real property or warehouses are anticipated.

(12) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of November 23, 2021, no community transmission has been identified. TCPA has determined that should community transmission occur within the Marshall Islands, it may negatively impact the TCPA's business, results of operations, financial position and TCPA may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units maybe limited. Therefore, while TCPA expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot reasonably be estimated at this time.

(13) Subsequent Event

Effective November 20, 2020, the purchase price of copra was increased by the RepMar Cabinet from 50 cents to 60 cents per pound.

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

Board of Directors
Tobolar Copra Processing Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tobolar Copra Processing Authority (TCPA), which comprise the statement of net position as of September 30, 2020, 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 November 23, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-02, which we consider to be material weaknesses.

Compliance and Other Matters

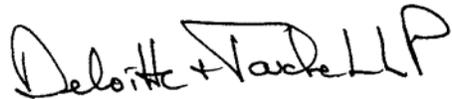
As part of obtaining reasonable assurance about whether TCPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 2020-01.

TCPA's Responses to Findings

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

A handwritten signature in black ink that reads "Deloitte + Tuckers LLP". The signature is written in a cursive, slightly stylized font.

November 23, 2021

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2020

Local Noncompliance

Finding No. 2020-001

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 125 - Competitive Sealed Bidding
 - a. An invitation for Bids shall be issued and shall include a purchase description and all contractual terms and conditions applicable to the procurement.
 - b. An Invitation for Bids shall be issued and shall include purchase description, and all contractual terms and conditions applicable to the procurement.
 - c. Adequate public notice of the Invitation for Bids shall be given a reasonable time prior to the date set forth therein for the opening of bids, in accordance with regulations promulgated by the Policy Office. Such notice may include publication in a newspaper of general circulation for a reasonable time prior to bid opening.
- (c) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (d) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions of goods and services provide full and open competition and compliance with this provision should be appropriately documented in the procurement files. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Items Description</u>	<u>Amount</u>	<u>Remarks</u>
21600pcs jute bags	\$ 27,000	Suppliers – Copra Bags*
21000pcs jute bags	\$ 26,250	Suppliers – Copra Bags**
Engine change for Mill Truck	\$ 1,600	Automobile expense***

* Expired non-selected vendor quotations. No competitive bidding documents were available to support the estimate;

** No competitive bidding documents were available to support the estimate.

*** No PO. No RFP was available to support the estimate.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Local Noncompliance, Continued

Finding No. 2020-001, Continued

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to support compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audits of TCPA for fiscal years 2011 through 2019.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Cost of Goods Sold

Finding No. 2020-002

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

Condition: Of 24 copra advance liquidations tested, 7 indicated cash shortages and overpayments to growers. Cash shortages and overpayments of \$1,164 were charged to the employee suspense receivable account. TCPA's practice is to recoup cash shortages through salary deductions; however, the related employee suspense receivable account (A/C # 1350) of \$14,062 is offset with a corresponding allowance for uncollectible accounts.

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

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

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

Prior Year Status: The lack of internal control over cost of goods sold was reported as a finding in the audits of TCPA for fiscal years 2014 through 2019.

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

TOBOLAR COPRA PROCESSING AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2020

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