

*Financial Statements, Required Supplementary
Information, and Report on Internal Control and
Compliance*

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2022
with Report of Independent Auditors*



Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information, and
Report on Internal Control and Compliance

Year ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
Tobolar Copra Processing Authority:

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Tobolar Copra Processing Authority (TCPA), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise TCPA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of TCPA as of September 30, 2022, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TCPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Dependency on the Republic of the Marshall Islands

As discussed in Note 10 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 10 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TCPA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TCPA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TCPA's ability to continue as a going concern for a reasonable period of time.

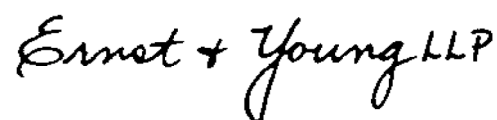
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 December 13, 2024, 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.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

December 13, 2024

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis

Year ended September 30, 2022

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, 2022. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position increased by \$785,701 or 44% from \$1,783,816 in 2021 to \$2,569,517 due to favorable price of CNO on the world market and an increase in RepMar copra subsidies by \$457,733 or 6.8%. Operating revenues increased by \$750,098 or 16.4% from \$4,564,199 in 2021 to \$5,314,297 in 2022 and Net non-operating revenues increased by \$474,542 or 7.1% from \$6,722,338 in 2021 to \$7,196,880 in 2022. On the operating expenses side, such increased by \$116,249 or 1% from \$11,609,227 in 2021 to \$11,725,476 in 2022. This increase was due to the increased production of raw copra from growers.

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 Statement of Net Position is presented below:

Summary Statements of Net Position
As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Assets:					
Current and other assets	\$ 2,603,589	\$ 1,988,143	\$ 615,446	31.0%	\$ 2,445,887
Capital assets	<u>963,867</u>	<u>892,946</u>	<u>70,921</u>	7.9%	<u>989,060</u>
Total assets	<u>3,567,456</u>	<u>2,881,089</u>	<u>686,367</u>	23.8%	<u>3,434,947</u>
Liabilities:					
Current and other liabilities	<u>997,939</u>	<u>1,097,273</u>	<u>(99,334)</u>	(9.1)%	<u>1,328,441</u>
Net position:					
Net investment in capital assets	874,720	892,946	(18,226)	(2.0)%	989,060
Unrestricted	<u>1,694,797</u>	<u>890,870</u>	<u>803,927</u>	90.2%	<u>1,117,446</u>
Total net position	<u>\$ 2,569,517</u>	<u>\$ 1,783,816</u>	<u>\$ 785,701</u>	44.0%	<u>\$ 2,106,506</u>

Tobolar Copra Processing Authority
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS, CONTINUED

As indicated above, total assets increased by \$686,367 or 23.8% from \$2,881,089 in 2021 to \$3,567,456 in 2022. Current and other assets increased by \$615,446 or 31% from \$1,988,143 in 2021 to \$2,603,589 in 2022. This increase is attributable to the copra inventory available for processing inside the copra warehouse. In addition, capital assets increased by \$70,921 or 7.9% from \$892,946 in 2021 to \$963,867 in 2022, which is primarily due to acquisition of transportation equipment and laboratory tools.

Total liabilities decreased by \$99,334 or 9.1% from \$1,097,273 in 2021 to \$997,939 in 2022. Amongst the major contributors to the decrease in liabilities is the decrease in payables to affiliates of \$96,561.

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

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

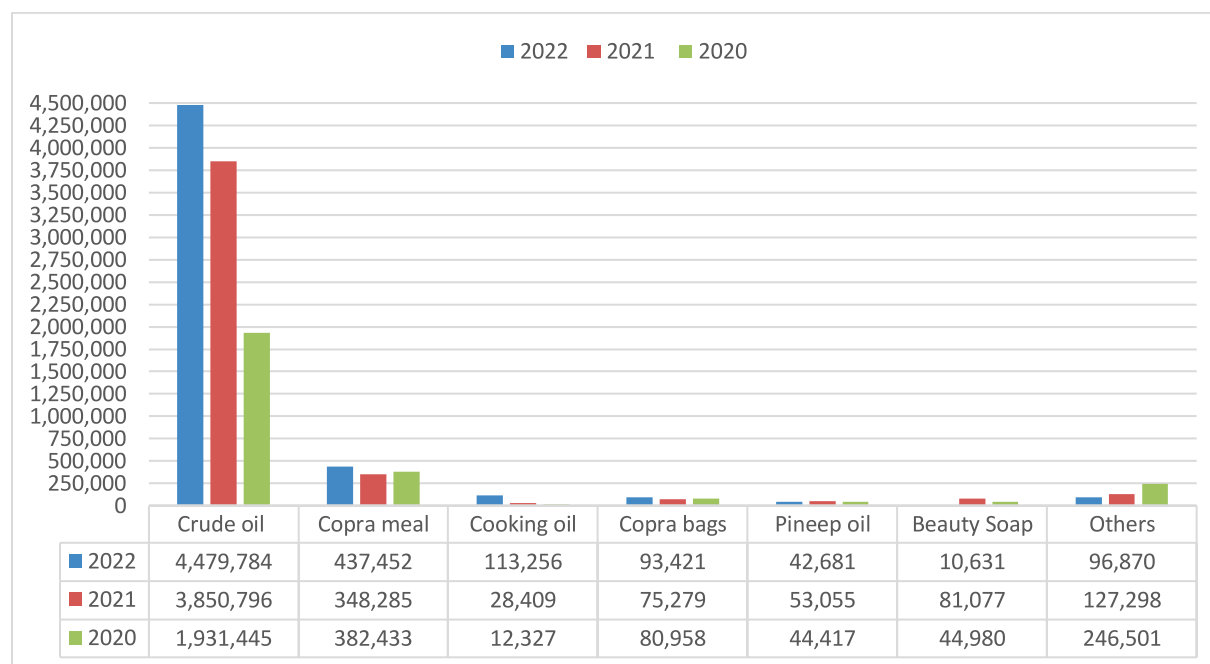
	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating:					
Operating revenues	\$ 5,314,297	\$ 4,564,199	\$ 750,098	16.4%	\$ 2,743,061
Operating expenses	<u>11,725,476</u>	<u>11,609,227</u>	<u>116,249</u>	1.0%	<u>9,649,932</u>
Operating loss	<u>(6,411,179)</u>	<u>(7,045,028)</u>	<u>633,849</u>	(9.0)%	<u>(6,906,871)</u>
Nonoperating:					
Nonoperating revenues	7,209,733	6,752,000	457,733	6.8%	8,326,938
Nonoperating expenses	<u>12,853</u>	<u>29,662</u>	<u>(16,809)</u>	(56.7)%	<u>643,165</u>
	<u>7,196,880</u>	<u>6,722,338</u>	<u>474,542</u>	7.1%	<u>7,683,773</u>
Change in net position	<u>\$ 785,701</u>	<u>\$ (322,690)</u>	<u>\$ 1,108,391</u>	(343.5)%	<u>\$ 776,902</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 \$633,849 or 9% from \$7,045,028 in 2021 to \$6,411,179 in 2022. This decrease was due to an increase in operating revenues by \$750,098 or 16.4% from \$4,564,199 in 2021 to \$5,314,297 in 2022, which was a direct result of the increase in the CNO price on the world market. TCPA's operating losses are financed annually by RepMar copra subsidies. RepMar copra subsidies increased by \$457,733 or 6.8% from \$6,752,000 in 2021 to \$7,209,733 in 2022. The graph below shows the major components of operating revenues for 2022 compared to 2021 and 2020:

Tobolar Copra Processing Authority
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS, CONTINUED



On the expenses side, operating expenses increased by \$116,249 or 1% from \$11,609,227 in 2021 to \$11,725,476 in 2022. The increase is due to the increase of COGS. Copra purchases from growers, which increased from 6,439 tons in 2021 to 7,580 tons in 2022. The graph below shows the major components of operating expenses for 2022 as compared to 2021 and 2020.



Tobolar Copra Processing Authority
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Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS, CONTINUED

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in TCPA's report on the audit of financial statements, which is dated November 14, 2022. That discussion and analysis explains the major factors impacting the 2021 financial statements and can be obtained from TCPA's General Manager via the contact information below.

CAPITAL ASSETS AND DEBT

Net capital assets decreased by \$71,492 (or 8.2%) from \$873,203 in 2021 to \$801,711 in 2022. Capital asset acquisitions in 2022 of \$93,443 were offset by depreciation of \$160,135.

A summary of TCPA's capital assets is presented below:

Summary Schedules of Capital Assets
As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Building and leasehold	\$ 1,987,071	\$ 2,572,810	\$ (585,739)	(22.8)%	\$ 2,554,084
Equipment	2,949,688	3,535,958	(586,270)	(16.6)%	3,224,370
Furniture and fixtures	23,132	106,965	(83,833)	(78.4)%	102,586
	4,959,891	6,215,733	(1,255,842)	(20.2)%	5,881,040
Accumulated depreciation	(4,158,180)	(5,342,530)	1,184,350	(22.2)%	(5,166,457)
	<u>\$ 801,711</u>	<u>\$ 873,203</u>	<u>\$ (71,492)</u>	<u>(8.2)%</u>	<u>\$ 714,583</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The following factors were considered in preparing TCPA's budget for fiscal year 2023.

1. TCPA is hopeful about its ability to continue competing with imported soap and oil products, as well as acquiring HACCP certification and FDA approval to support coconut cooking oil.
2. Our diversified products, including VCO, Beauty soap, cooking oil, and beauty oil are expected to dominate the domestic market and be exported to nearby countries and the US mainland. This strategy aims to address the unforeseen volatility of the CNO price in the global market.

Tobolar Copra Processing Authority
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Management's Discussion and Analysis, continued

ECONOMIC FACTORS AND NEXT YEAR'S RATES, CONTINUED

3. TCPA's goal is to continue improving oil refinery production to develop, produce, and formulate new value-added products.
4. Additional revenue will be expected from outer island consigned TCPA value-added products and Rear cart projects.
5. The RepMar government will help stabilize the price of copra to maintain the current \$0.60 cents per pound by continuation of the copra subsidy. At the same time TCPA will aim to complete 2 rounds in collecting copra from the outer islands.
6. Through the RepMar government's establishment of the copra stabilization fund, TCPA anticipates that it will help cover costs and support the increase in copra production.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide TCPA's customers and other interested parties with an overview of TCPA's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the Tobolar Copra Processing Authority General Manager at P.O. Box G, Majuro MH 96960.

Tobolar Copra Processing Authority
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Statement of Net Position

September 30, 2022

ASSETS

Current assets:	
Cash and cash equivalents	\$ 432,495
Time certificates of deposit	<u>133,567</u>
Receivables:	
Trade	587,618
Affiliates	718,060
Director	21,750
Employees	54,243
Advances to suppliers and copra buyers	<u>62,022</u>
	1,443,693
Allowance for doubtful accounts	(<u>1,188,377</u>)
	<u>255,316</u>
Inventories	1,769,761
Prepayment and deposits	<u>12,450</u>
Total current assets	<u>2,603,589</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable capital assets	4,800
Capital assets, net of accumulated depreciation	801,711
Deposits for capital asset acquisition	69,158
Lease assets, net	<u>88,198</u>
Total noncurrent assets	<u>963,867</u>
	\$ <u><u>3,567,456</u></u>

LIABILITIES AND NET POSITION

Liabilities:	
Accounts payable	\$ 359,038
Payable to affiliates	463,093
Advance from customer	38,284
Lease liabilities, current portion	1,718
Accrued payroll liabilities	<u>48,377</u>
Total current liabilities	910,510
Lease liabilities, net of current portion	<u>87,429</u>
Total liabilities	<u>997,939</u>
Commitments and contingencies	
Net position:	
Net investment in capital assets	874,720
Unrestricted	<u>1,694,797</u>
Total net position	<u>2,569,517</u>
	\$ <u><u>3,567,456</u></u>

See accompanying notes.

Tobolar Copra Processing Authority
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

Sales	\$ 5,314,297
Provision for doubtful accounts	(83,442)
Net sales	5,230,855
Less cost of copra products manufactured and sold	(10,401,552)
Gross loss	(5,170,697)
General and administrative expenses:	
Salaries and wages	864,370
Insurance	67,155
Meals and refreshments	57,134
Automobile expense	43,438
Travel and entertainment	40,880
Communications	32,206
Taxes and licenses	30,527
Office supplies	27,423
Freight	16,450
Professional and management fees	14,550
Bank charges	11,585
Membership dues	5,231
Donations	3,045
Advertising	2,193
Repairs and maintenance	2,140
Rent expense	1,053
Miscellaneous	21,102
Total general and administrative expenses	<u>1,240,482</u>
Operating loss	(6,411,179)
Nonoperating revenues (expenses):	
Copra subsidies from RepMar	7,209,733
Interest expense	(12,853)
Total nonoperating revenues, net	<u>7,196,880</u>
Change in net position	785,701
Net position at beginning of year	<u>1,783,816</u>
Net position at end of year	\$ <u><u>2,569,517</u></u>

See accompanying notes.

Tobolar Copra Processing Authority
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 5,234,719
Cash payments to suppliers for goods and services	(10,837,243)
Cash payments to employees for services	(1,429,818)
Net cash used for operating activities	(7,032,342)
Cash flows from noncapital financing activities:	
Copra subsidies received from RepMar	7,509,733
Principal repayment of long-term debt	(174,557)
Interest paid on long-term debt	(17,647)
Net cash provided by noncapital financing activities	7,317,529
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(142,858)
Net change in cash and cash equivalents	142,329
Cash and cash equivalents at beginning of year	290,166
Cash and cash equivalents at end of year	\$ 432,495
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (6,411,179)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation and amortization	165,648
Provision for doubtful accounts	83,442
Changes in assets and liabilities:	
Receivables:	
Trade	(101,241)
Affiliates	6,770
Director	500
Employees	(19,352)
Advances to suppliers and copra buyers	15,657
Inventories	(753,502)
Prepayment and deposits	(1,500)
Accounts payable	65,357
Advances from customer	33,745
Payable to affiliates	(96,561)
Lease liabilities	(4,564)
Accrued payroll liabilities	(15,562)
Net cash used for operating activities	\$ (7,032,342)

See accompanying notes.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2022

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 Federated States of Micronesia. 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 of 60 cents per pound.

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

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

2. Summary of Significant Accounting Policies

The accounting policies of TCPA conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 as of September 30, 2022.
- 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.

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 and operating 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.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit, continued

For purposes of the statements of net position and cash flows, cash and cash equivalents are 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 statement of net position. As of September 30, 2022, the carrying amount of cash and cash equivalents and time certificates of deposit was \$566,062 and the corresponding bank balance was \$687,574. Of the bank balance amount, \$436,166, was maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$251,408 was maintained in a financial institution not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$250,000 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.

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).

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.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Property, Plant and Equipment, continued

The estimated useful lives of these assets are as follows:

	<u>Estimated Useful Lives</u>
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, 2022, an accumulated vacation leave liability of \$32,508, is included in the statement of net position within accrued payroll liabilities.

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.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2022, T CPA implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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. As a result of adoption of GASB Statement No. 87, T CPA has recognized right-to-use leased assets and related lease liabilities in the initial amount of \$93,711.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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 the fiscal year ending September 30, 2023.

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 the fiscal year ending September 30, 2023.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

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
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Notes to Financial Statements, continued

3. Inventories

Inventories as of September 30, 2022 consist of the following:

Copra oil	\$1,007,733
Raw copra	412,668
Materials	217,961
Copra bags	88,584
Soap and refined oil products	30,331
Copra cake	<u>12,484</u>
	<u>\$1,769,761</u>

4. Capital Assets

Capital asset activity for the year ended September 30, 2022 is as follows:

	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Nondepreciable capital assets:				
Construction in progress	\$ ---	\$ 4,800	\$ ---	\$ 4,800
Depreciable capital assets:				
Building and Improvements	2,572,810	15,249	(600,988)	1,987,071
Equipment	3,535,958	70,444	(656,714)	2,949,688
Furniture and fixtures	<u>106,965</u>	<u>2,950</u>	<u>(86,783)</u>	<u>23,132</u>
	6,215,733	88,643	(1,344,485)	4,959,891
Less accumulated depreciation	(<u>5,342,530</u>)	(<u>160,135</u>)	<u>1,344,485</u>	(<u>4,158,180</u>)
	<u>873,203</u>	(<u>71,492</u>)	<u>---</u>	<u>801,711</u>
Lease assets:				
Right-to-use assets	---	93,711	---	93,711
Less accumulated amortization	<u>---</u>	(<u>5,513</u>)	<u>---</u>	(<u>5,513</u>)
	<u>---</u>	<u>88,198</u>	<u>---</u>	<u>88,198</u>
	<u>\$ 873,203</u>	<u>\$ 21,506</u>	<u>\$ ---</u>	<u>\$ 894,709</u>

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

5. Related Party Transactions

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

During the year ended September 30, 2022, TCPA received cash operating subsidies from RepMar of \$7,209,733. A summary of RepMar appropriations by funding source received by TCPA for the years ended September 30, 2022 is as follows:

General Fund - Copra Subsidy	\$5,721,733
ROC Taiwan - Copra Subsidy	<u>1,488,000</u>
	<u>\$7,209,733</u>

In 2019, Cabinet Minute C.M. 244 (2018) authorized and approved the transfer of MV Tobolar and crew to MISC. The receivable from MISC as of September 30, 2022 relating to this transfer amounted to \$588,070. A summary of receivables from affiliates as of September 30, 2022 is as follows:

Marshall Islands Shipping Corporation	\$ 692,331
RepMar	21,120
Other	<u>4,609</u>
	<u>\$ 718,060</u>

As of September 30, 2022, a corresponding allowance for doubtful debts of \$692,331 has been established with respect to the receivable from MISC. On March 17, 2022, TCPA entered into an agreement with MISC to write-off a \$588,070 receivable, for which a corresponding allowance for doubtful debts has been established. Management is currently in the process of negotiating with MISC regarding the concurrent write-off of certain liabilities, which management believes was the intent of the agreement. Accordingly, management will recognize the receivable write-off once such negotiations are complete.

In 2021, TCPA sold a vehicle to a member of the Board of Directors with a net book value of \$26,000 for \$23,250 resulting in a \$2,750 loss on disposal of capital assets. As of September 30, 2022, receivable due from director relating to this transaction amounted to \$21,750.

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

5. Related Party Transactions, continued

TCPA utilizes services from its affiliates at the same rates charged to third parties and at substantially more favorable terms than those afforded to third parties. A summary of additional related party transactions as of September 30, 2022, and for the years then ended is as follows:

	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$ 417,010	\$ 327,903
Marshall's Energy Company, Inc.	196,260	38,142
Marshall Islands Social Security Administration	129,846	82,646
RMI Ports Authority	21,205	339
RepMar	32,220	10,892
Others	<u>40,403</u>	<u>3,171</u>
	<u>\$ 836,944</u>	<u>\$ 463,093</u>

6. 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.

7. Significant Customers

Approximately 80% of total sales was earned from one customer during the years ended September 30, 2022.

8. Lease

As Lessee

In 2013, TCPA entered into a 25-year ground lease agreement for a portion of Wojale Weto expiring on June 5, 2038. The calculated interest rate used was 13.5%.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

8. Lease, continued

As Lessee, continued

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2022.

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,718	\$ 11,950	\$ 13,668
2024	1,962	11,706	13,668
2025	2,241	11,428	13,669
2026	2,559	11,110	13,669
2027	2,922	10,746	13,668
2028 - 2032	22,145	46,197	68,342
2033 - 2037	43,012	25,330	68,342
2038	<u>12,588</u>	<u>1,080</u>	<u>13,668</u>
	<u>\$ 89,147</u>	<u>\$ 129,547</u>	<u>\$ 218,694</u>

9. 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 year ended September 30, 2022 was \$57,592. Management is of the opinion that the plan does not represent an asset or liability of TCPA. As of September 30, 2022, Plan assets were \$199,483

10. 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 year ended September 30, 2022, TCPA incurred a loss from operations of \$6,411,179. 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.

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

10. Contingencies, continued

In view of these matters, realization of a major portion of the assets in the accompanying statement of net position as of September 30, 2022, 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. 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, 2023, RepMar has appropriated \$6,775,000 to fund TCPA operations.

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.

Report of Independent Auditors 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, 2022, 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 December 13, 2024.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2022-001.

TCPA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on TCPA's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. TCPA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

The signature is written in a cursive, handwritten style. It reads "Ernst & Young LLP". The "E" is large and loops around the "r". The "&" is written as an ampersand. "Young" is written in a fluid cursive, and "LLP" is in a slightly more formal, but still cursive, script.

December 13, 2024

Tobolar Copra Processing Authority
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses

Year ended September 30, 2022

Finding No. 2022-001

Noncompliance with RMI Procurement Code

Criteria: Section 118 of the RMI Procurement Code requires that unless otherwise provided for in Section 119, all Government contracts shall be awarded by competitive sealed bidding. Section 121 stipulates that the solicitation documents, regardless of type, shall provide sufficient detail in description of the requirement and other terms and conditions to allow prospective suppliers to prepare a realistic and complete response.

Condition: During the year ended September 30, 2022, TCPA acquired a Payloader in the amount of \$114,500 based on a solicitation notice placed in the local newspaper. A summary of responses was as follows:

<u>Vendor</u>	<u>Bid Amount</u>
# 1	\$ 60,555
# 2	\$ 51,888
# 3	\$ 114,500
# 4	\$ 117,080

Vendor # 3 was awarded by TCPA. Documentation was inadequate to satisfy compliance with applicable procurement requirements including the rationale for not selecting the lowest responsive bidder.

Cause: TCPA did not enforce adequate internal control policies and procedures over documentation of the procurement process to satisfy compliance with applicable procurement requirements.

Effect: TCPA appears to be in noncompliance with applicable procurement requirements.

Recommendation: We recommend TCPA comply with the RMI Procurement Code. Documentation associated with procurement should indicate the history of procurement, including the rationale for vendor selection.

Auditee Response and Corrective Action Plan: We acknowledge the recommendation and will comply with the RMI Procurement Code, specifically ensuring that all procurement documentation is properly maintained, clearly outlined, and includes a detailed rationale for the selection of the vendor. TCPA is committed to maintaining transparency, accountability, and compliance with all applicable procurement regulations.