

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

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

*Years ended September 30, 2023 and 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 Compliance and Internal Control

Years ended September 30, 2023 and 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 years ended September 30, 2023 and 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 at September 30, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

Substantial Doubt About TCPA's Ability to Continue as a Going Concern

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

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, and for 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.

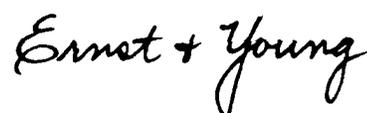
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic 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 September 18, 2025, 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 logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

September 18, 2025

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

Management's Discussion and Analysis

Years ended September 30, 2023 and 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, 2023 with comparative information for the years ended September 30, 2022 and 2021. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

TCPA's net position rose by \$234,909 (9.1%), from \$2,569,517 in 2022 to \$2,804,426 in 2023, primarily due to a \$2,261,664 (31.4%) increase in the RepMar Copra Subsidy.

Operating expenses increased by \$1,011,291 (8.6%), from \$11,725,476 in 2022 to \$12,736,767 in 2023. This was mainly attributed to the carryover of copra inventory from FY2022, an increase in electricity rates, and additional supplies for the Woja Oil Refinery and Rear Cart Shop.

Operating revenues declined by \$1,797,232 (33.8%), from \$5,314,297 in 2022 to \$3,517,065 in 2023, due to unfavorable market prices for CNO. However, this decrease was offset by an increase in net non-operating revenues, which grew by \$2,257,731 (31.4%), from \$7,196,880 in 2022 to \$9,454,611 in 2023.

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

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Assets:					
Current and other assets	\$ 2,799,670	\$ 2,672,747	\$ 126,923	4.7%	\$ 2,007,886
Capital assets	1,051,684	894,709	156,975	17.5%	966,914
Total assets	<u>3,851,354</u>	<u>3,567,456</u>	<u>283,898</u>	8.0%	<u>2,974,800</u>
Liabilities:					
Current and other liabilities	<u>1,046,928</u>	<u>997,939</u>	<u>48,989</u>	4.9%	<u>1,190,984</u>
Net position:					
Net investment in capital assets	910,628	874,720	35,908	4.1%	892,946
Unrestricted	<u>1,893,798</u>	<u>1,694,797</u>	<u>199,001</u>	11.7%	<u>890,870</u>
Total net position	<u>\$ 2,804,426</u>	<u>\$ 2,569,517</u>	<u>\$ 234,909</u>	9.1%	<u>\$ 1,783,816</u>

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

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS, CONTINUED

As indicated above, total assets increased by \$283,898 or 8%, from \$3,567,456 in 2022 to \$3,851,354 in 2023. Current and other assets rose by \$126,923 or 4.7%, from \$2,672,747 in 2022 to \$2,799,670 in 2023. This increase was primarily attributable to the copra fund available on hand and an increase in receivables. Additionally, capital assets increased by \$156,975 or 17.5%, from \$894,709 in 2022 to \$1,051,684 in 2023, mainly due to the acquisition of transportation equipment, office equipment, and other tools.

Total liabilities increased by \$48,989 or 4.9%, from \$997,939 in 2022 to \$1,046,928 in 2023. This increase was primarily due to accrued freight charges from boat field trips and accrued employee allotments for payroll processed on September 27, 2023.

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

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Operating:					
Operating revenues	\$ 3,517,065	\$ 5,314,297	\$ (1,797,232)	(33.8)%	\$ 4,564,199
Operating expenses	<u>12,736,767</u>	<u>11,725,476</u>	<u>1,011,291</u>	8.6%	<u>11,609,227</u>
Operating loss	<u>(9,219,702)</u>	<u>(6,411,179)</u>	<u>(2,808,523)</u>	43.8%	<u>(7,045,028)</u>
Nonoperating:					
Nonoperating revenues	9,471,397	7,209,733	2,261,664	31.4%	6,752,000
Nonoperating expenses	<u>16,786</u>	<u>12,853</u>	<u>3,933</u>	30.6%	<u>29,662</u>
	<u>9,454,611</u>	<u>7,196,880</u>	<u>2,257,731</u>	31.4%	<u>6,722,338</u>
Change in net position	<u>\$ 234,909</u>	<u>\$ 785,701</u>	<u>\$ (550,792)</u>	(70.1)%	<u>\$ (322,690)</u>

The Statement of Revenues, Expenses, and Changes in Net Position outlines the various revenue and expense items that impact net position. As indicated above, TCPA's operating losses increased by \$2,808,523 or 43.8%, from \$6,411,179 in 2022 to \$9,219,702 in 2023. This increase was primarily due to a decline in operating revenues of \$1,797,232 or 33.8%, from \$5,314,297 in 2022 to \$3,517,065 in 2023 - largely a result of the continued unfavorable global market prices for CNO.

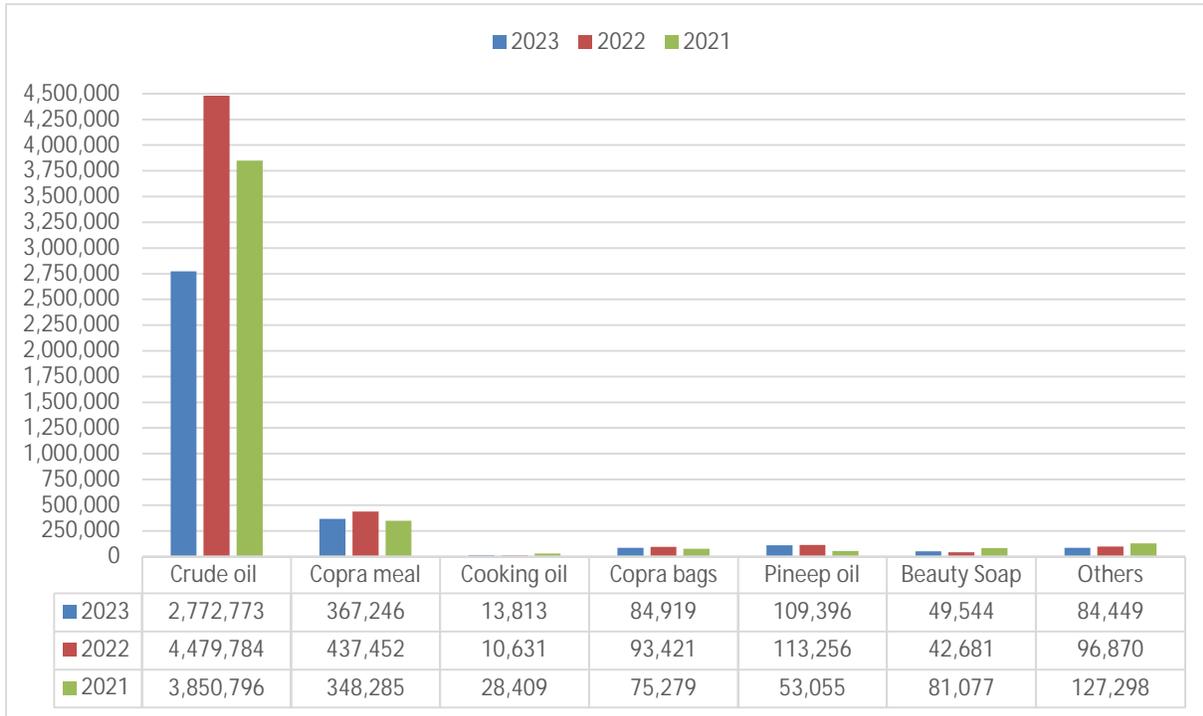
TCPA's operating losses are offset annually by the copra subsidies provided by RepMar. These subsidies increased by \$2,261,664 or 31.4%, from \$7,209,733 in 2022 to \$9,471,397 in 2023.

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

FINANCIAL ANALYSIS, CONTINUED

The graph below illustrates the major components of operating revenues for 2023, in comparison to 2022 and 2021:



On the expense side, operating expenses increased by \$1,011,291 or 8.6%, from \$11,725,476 in 2022 to \$12,736,767 in 2023. This increase was primarily driven by the utilization of the beginning inventory of copra and increase in supplies for Woja Oil refinery and Rear cart Shop. Copra purchases from growers declined from 7,580 tons in 2022 to 6,776 tons in 2023.

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

Management’s Discussion and Analysis, continued

FINANCIAL ANALYSIS, CONTINUED

The graph below highlights the major components of operating expenses for 2023, in comparison to 2022 and 2021:



The Management’s Discussion and Analysis for the year ended September 30, 2022 is set forth in TCPA’s report on the audit of financial statements, which is dated December 13, 2024. That discussion and analysis explains the major factors impacting the 2022 financial statements and can be obtained from TCPA’s General Manager via the contact information below.

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

CAPITAL ASSETS AND DEBT

Capital Assets:

Net capital assets increased by \$156,975 or 17.5%, from \$894,709 in 2022 to \$1,051,684 in 2023, primarily due to the addition of new equipment and lease assets.

A summary of TCPA's capital assets as of September 30, 2023, compared with 2022 and 2021, is presented below:

Summary Schedules of Capital Assets
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Building and leasehold	\$ 1,987,071	\$ 1,987,071	\$ -	0.0%	\$ 2,572,810
Equipment	3,230,238	2,949,688	280,550	9.5%	3,535,958
Lease assets	145,824	93,711	52,113	55.6%	93,711
Furniture and fixtures	30,342	23,132	7,210	31.2%	106,965
	<u>5,393,475</u>	<u>5,053,602</u>	<u>339,873</u>	<u>6.7%</u>	<u>6,309,444</u>
Accumulated depreciation and amortization	<u>(4,359,214)</u>	<u>(4,163,693)</u>	<u>(195,521)</u>	<u>4.7%</u>	<u>(5,342,530)</u>
	1,034,261	889,909	144,352	16.2%	966,914
Construction in progress	<u>17,423</u>	<u>4,800</u>	<u>12,623</u>	<u>263.0%</u>	<u>-</u>
	<u>\$ 1,051,684</u>	<u>\$ 894,709</u>	<u>\$ 156,975</u>	<u>17.5%</u>	<u>\$ 966,914</u>

Please refer to Notes 4 and 5 of the accompanying financial statements for the additional information regarding TCPA's capital assets.

Long-term Debt:

No outstanding long-term debt was outstanding and payable by TCPA in 2023 and 2022. A summary of TCPA's debt as of September 30, 2023 compared with 2022 and 2021 is presented below:

Summary of Long-term Debt
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Bank term loan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,557</u>

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

CAPITAL ASSETS AND DEBT, CONTINUED

Long-term Debt, continued:

In 2016, TCPA entered into a term loan agreement with a bank in the amount of \$1,430,000 for the purpose of funding operations with interest at 8.5% per annum. The loan matured in June 2022. No new debt was entered into in 2022 or 2023.

ECONOMIC FACTOR'S AND NEXT YEAR'S RATES

The following factors were considered in preparing TCPA's budget for fiscal year 2024:

1. TCPA remains optimistic about continuing to compete with imported soap and oil products. Efforts are underway to acquire HACCP certification to support the production of coconut cooking oil. With CNO prices showing signs of stability and potential growth in the coming fiscal year, TCPA aims to capitalize on these favorable conditions.
2. The organization expects to strengthen its presence in the domestic market through its diversified product line, including virgin coconut oil (VCO), soap, cooking oil, beauty oil, drinking water, and agricultural initiatives. These efforts are intended to help mitigate the impact of fluctuations in global CNO prices.
3. TCPA is committed to improving oil refinery production to support the development and expansion of value-added products.
4. Additional revenue is anticipated from outer island consignment sales of TCPA's value-added products, as well as from Rear Cart projects.
5. The RepMar government will continue to support the copra industry by stabilizing copra prices at \$0.60 per pound through ongoing subsidies. Simultaneously, TCPA plans to complete two full rounds of copra collection from the outer islands.
6. With the establishment of the Copra Stabilization Fund by the RepMar government, TCPA expects to receive support to offset projected operating losses. This will help ensure the continuation of copra purchasing throughout the fiscal year.

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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Statements of Net Position

<u>ASSETS</u>	September 30,	
	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ <u>929,646</u>	\$ <u>432,495</u>
Time certificates of deposit	<u>137,722</u>	<u>133,567</u>
Receivables:		
Trade	817,789	587,618
Affiliates	738,948	718,060
Director	21,750	21,750
Employees	81,578	54,243
Funds held by copra boat custodians and other advances	<u>527,076</u>	<u>62,022</u>
	2,187,141	1,443,693
Allowance for doubtful accounts	(<u>1,310,999</u>)	(<u>1,188,377</u>)
	<u>876,142</u>	<u>255,316</u>
Inventories	845,210	1,769,761
Prepayment and deposits	<u>10,950</u>	<u>12,450</u>
Total current assets	<u>2,799,670</u>	<u>2,603,589</u>
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	17,423	4,800
Capital assets, net of accumulated depreciation	901,077	801,711
Deposits for capital asset acquisition	---	69,158
Lease assets, net	<u>133,184</u>	<u>88,198</u>
Total noncurrent assets	<u>1,051,684</u>	<u>963,867</u>
	\$ <u>3,851,354</u>	\$ <u>3,567,456</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ 364,849	\$ 359,038
Payable to affiliates	482,736	463,093
Advance from customer	12,669	38,284
Lease liabilities, current portion	3,174	1,718
Accrued payroll liabilities	<u>45,618</u>	<u>48,377</u>
Total current liabilities	909,046	910,510
Lease liabilities, net of current portion	<u>137,882</u>	<u>87,429</u>
Total liabilities	<u>1,046,928</u>	<u>997,939</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	910,628	874,720
Unrestricted	<u>1,893,798</u>	<u>1,694,797</u>
Total net position	<u>2,804,426</u>	<u>2,569,517</u>
	\$ <u>3,851,354</u>	\$ <u>3,567,456</u>

See accompanying notes.

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

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended September 30,	
	2023	2022
Sales	\$ 3,517,065	\$ 5,314,297
Provision for doubtful accounts	(<u>102,870</u>)	(<u>83,442</u>)
Net sales	3,414,195	5,230,855
Less cost of copra products manufactured and sold	(<u>11,269,055</u>)	(<u>10,401,552</u>)
Gross loss	(<u>7,854,860</u>)	(<u>5,170,697</u>)
General and administrative expenses:		
Salaries and wages	889,830	864,370
Travel and entertainment	95,018	40,880
Insurance	67,761	67,155
Automobile expense	55,660	43,438
Meals and refreshments	51,006	57,134
Taxes and licenses	27,964	30,527
Communications	26,697	32,206
Office supplies	26,357	27,423
Professional and management fees	21,000	14,550
COVID payments	18,500	---
Membership dues	15,002	5,231
Transportation	13,687	2,663
Bank charges	12,126	11,585
Advertising	3,014	2,193
Rent expense	2,161	1,053
Freight	1,449	16,450
Repairs and maintenance	963	2,140
Donations	779	3,045
Miscellaneous	<u>35,868</u>	<u>18,439</u>
Total general and administrative expenses	<u>1,364,842</u>	<u>1,240,482</u>
Loss from operations	(<u>9,219,702</u>)	(<u>6,411,179</u>)
Nonoperating revenues (expenses):		
Copra subsidies from RepMar	9,471,397	7,209,733
Interest expense	(<u>16,786</u>)	(<u>12,853</u>)
Total nonoperating revenues, net	<u>9,454,611</u>	<u>7,196,880</u>
Change in net position	234,909	785,701
Net position at beginning of year	<u>2,569,517</u>	<u>1,783,816</u>
Net position at end of year	\$ <u><u>2,804,426</u></u>	\$ <u><u>2,569,517</u></u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 3,232,808	\$ 5,234,719
Cash payments to suppliers for goods and services	(10,481,470)	(10,837,243)
Cash payments to employees for services	(1,473,418)	(1,429,818)
Net cash used for operating activities	(8,722,080)	(7,032,342)
Cash flows from noncapital financing activities:		
Copra subsidies received from RepMar	9,471,397	7,509,733
Principal repayment of long-term debt	---	(174,557)
Net change in time certificate of deposit	(4,155)	(3,891)
Interest paid on leases	(16,786)	(9,104)
Interest paid on long-term debt	---	(4,652)
Net cash provided by noncapital financing activities	<u>9,450,456</u>	<u>7,317,529</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(231,225)	(142,858)
Net change in cash and cash equivalents	497,151	142,329
Cash and cash equivalents at beginning of year	<u>432,495</u>	<u>290,166</u>
Cash and cash equivalents at end of year	<u>\$ 929,646</u>	<u>\$ 432,495</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (9,219,702)	\$ (6,411,179)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation and amortization	195,521	165,648
Provision for doubtful accounts	102,870	83,442
Changes in assets and liabilities:		
Receivables:		
Trade	(210,419)	(101,241)
Affiliates	(20,888)	6,770
Director	---	500
Employees	(27,335)	(19,352)
Funds held by copra boat custodians and other advances	(465,054)	15,657
Inventories	924,551	(753,502)
Prepayment and deposits	1,500	(1,500)
Accounts payable	5,811	65,357
Advances from customer	(25,615)	33,745
Payable to affiliates	19,643	(96,561)
Lease liabilities	(204)	(4,564)
Accrued payroll liabilities	(2,759)	(15,562)
Net cash used for operating activities	<u>\$ (8,722,080)</u>	<u>\$ (7,032,342)</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2023 and 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 state and local governments, 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.

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

- 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, 2023 and 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 an 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
(A Component Unit of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit, continued

For 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, 2023 and 2022, the carrying amount of cash and cash equivalents and time certificates of deposit was \$1,067,368 and \$566,062, respectively, and the corresponding bank balance was \$1,326,768 and \$687,574, respectively. Of the bank balance amount, and \$961,372 and \$436,166, respectively, is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$365,396 and \$251,408, respectively, is maintained in a financial institution not subject to depository insurance.

As of September 30, 2023 and 2022, bank deposits in the amount of \$250,000 were FDIC insured. TCPA does not require collateralization of its cash deposits; therefore, deposit levels more than 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. As of September 30, 2023, funds advanced to copra buyers not yet liquidated amounted to \$499,800, which is included as funds held by copra boat custodians and other advances within the accompanying statement of net position.

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).

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

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:

	<u>Estimated Useful Lives</u>
Building and improvements	10 - 20 years
Equipment	3 - 20 years
Furniture and fixtures	3 - 5 years

Leases

TCPA is a party as lessee for various long-term ground leases. TCPA determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statements of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

Deferred Outflows of Resources

In addition to assets, the statements 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 statements 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.

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

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, 2023 and 2022, an accumulated vacation leave liability of \$29,366 and \$32,508, respectively, are included in the statements 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.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, TCPA implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides 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.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves 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.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which 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.

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 enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

This Statement provides clarification of provisions in:

- 1) GASB Statement No. 87, *Leases*, 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.
- 2) 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.
- 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- 4) GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99. 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 the 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 the fiscal year ending September 30, 2024.

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

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 the 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 the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred, has begun to occur, or is more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

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

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

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

Reclassifications

Certain reclassifications have been made to the 2022 statement of revenues, expenses, and changes in net position and statement of cashflows for comparative purposes. Such reclassifications have no effect on the previously reported operating loss and net change in net position.

Estimates

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

3. Inventories

Inventories as of September 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Copra oil	\$415,512	\$1,007,733
Materials	235,096	217,961
Copra bags	128,440	88,584
Soap and refined oil products	24,358	30,331
Copra cake	24,006	12,484
Raw copra	<u>17,798</u>	<u>412,668</u>
	<u>\$845,210</u>	<u>\$1,769,761</u>

Tobolar Copra Processing Authority
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Notes to Financial Statements, continued

4. Capital Assets

Capital asset activity for the years ended September 30, 2023 and 2022 is as follows:

	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Nondepreciable capital assets:				
Construction in progress	\$ <u>4,800</u>	\$ <u>12,623</u>	\$ <u>---</u>	\$ <u>17,423</u>
Depreciable capital assets:				
Building and Improvements	1,987,071	---	---	1,987,071
Equipment	2,949,688	280,550	---	3,230,238
Furniture and fixtures	<u>23,132</u>	<u>7,210</u>	<u>---</u>	<u>30,342</u>
	4,959,891	287,760	---	5,247,651
Less accumulated depreciation	<u>(4,158,180)</u>	<u>(188,394)</u>	<u>---</u>	<u>(4,346,574)</u>
	<u>801,711</u>	<u>99,366</u>	<u>---</u>	<u>901,077</u>
	<u>\$ 806,511</u>	<u>\$ 111,989</u>	<u>\$ ---</u>	<u>\$ 918,500</u>
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Nondepreciable capital assets:				
Construction in progress	\$ <u>---</u>	\$ <u>4,800</u>	\$ <u>---</u>	\$ <u>4,800</u>
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>
	<u>\$ 873,203</u>	<u>\$ (66,692)</u>	<u>\$ ---</u>	<u>\$ 806,511</u>

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

Notes to Financial Statements, continued

5. Leased Assets

Leased asset activities for the years ended September 30, 2023 and 2022 is as follows:

	<u>October 1, 2022</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2023</u>
Lease assets:				
Right-to-use assets	\$93,711	\$52,113	\$ ---	\$145,824
Less accumulated amortization	<u>(5,513)</u>	<u>(7,127)</u>	<u>---</u>	<u>(12,640)</u>
	<u>\$88,198</u>	<u>\$44,986</u>	<u>\$---</u>	<u>\$133,184</u>
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</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>\$93,711</u>	<u>\$(5,513)</u>	<u>\$---</u>	<u>\$ 88,198</u>

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 Shipping Corporation (MISC). 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 related party transactions as of September 30, 2023 and 2022, and for the years then ended is as follows:

	<u>2023</u>	<u>2022</u>
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$403,785	\$362,538
Marshalls Energy Company, Inc.	271,771	17,744
Marshall Islands Social Security Administration	142,760	90,663
RepMar	38,800	10,546
RMI Ports Authority	25,075	339
Others	<u>13,647</u>	<u>906</u>
	<u>\$895,838</u>	<u>\$482,736</u>

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

Notes to Financial Statements, continued

6. Related Party Transactions, continued

	<u>2022</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Shipping Corporation	\$417,010	\$327,903
Marshalls Energy Company, Inc.	196,260	38,142
Marshall Islands Social Security Administration	129,846	82,646
RepMar	32,220	10,892
RMI Ports Authority	21,205	339
Others	<u>40,403</u>	<u>3,171</u>
	<u>\$836,944</u>	<u>\$463,093</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, 2023 and 2022 relating to this transfer amounted to \$588,070. A summary of receivables from affiliates as of September 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Marshall Islands Shipping Corporation	\$692,441	\$692,331
RepMar	34,387	21,120
Other	<u>12,120</u>	<u>4,609</u>
	<u>\$738,948</u>	<u>\$718,060</u>

As of September 30, 2023 and 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.

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

Notes to Financial Statements, continued

6. Related Party Transactions, continued

During the years ended September 30, 2023 and 2022, TCPA received cash operating subsidies from RepMar of \$9,471,397 and \$7,209,733, respectively. A summary of RepMar appropriations by funding source received by TCPA are as follows:

	<u>2023</u>	<u>2022</u>
General Fund - Copra Subsidy	\$7,983,397	\$5,721,733
ROC Taiwan - Copra Subsidy	<u>1,488,000</u>	<u>1,488,000</u>
	<u>\$9,471,397</u>	<u>\$7,209,733</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 Customer

For the years ended September 30, 2023 and 2022, sales to one major customer represented approximately \$2.77 million or 81%, and \$4.24 million or 80%, respectively, of TCPA's net sales.

9. Leases

As Lessee

TCPA is the lessee under non-cancellable ground lease agreements with terms ranging from 25 to 30 years. One lease includes variable payments and escalation clauses, while the other has fixed payments. The calculated interest rate applied to these leases is 13.5%.

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

Notes to Financial Statements, continued

9. Leases, continued

As Lessee, continued

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2023:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 3,174	\$ 18,821	\$ 21,995
2025	1,481	18,633	20,114
2026	1,696	18,417	20,113
2027	2,659	18,170	20,829
2028	3,039	17,791	20,830
2029 - 2033	18,122	73,791	91,913
2034 - 2038	46,407	62,755	109,162
2039 - 2043	22,142	34,496	56,638
2044 - 2048	17,994	24,975	42,969
2049 - 2052	<u>24,342</u>	<u>9,076</u>	<u>33,418</u>
	<u>\$141,056</u>	<u>\$296,925</u>	<u>\$437,981</u>

10. Long-term Liabilities

Long-term liabilities as of September 30, 2023 and 2022, and changes for the years then ended are as follows:

	<u>October 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2023</u>	<u>Due Within One Year</u>
Lease liability	<u>\$89,147</u>	<u>\$52,113</u>	<u>\$(_204)</u>	<u>\$141,056</u>	<u>\$3,174</u>
	<u>October 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2022</u>	<u>Due Within One Year</u>
Lease liability	<u>\$93,711</u>	<u>\$ ---</u>	<u>\$(4,564)</u>	<u>\$ 89,147</u>	<u>\$1,718</u>

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

Notes to Financial Statements, continued

11. 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 for the years ended September 30, 2023 and 2022 were \$62,456 and \$57,592, respectively. Management is of the opinion that the Plan does not represent an asset or liability of TCPA. As of September 30, 2023 and 2022, Plan assets were \$306,510 and \$199,483, respectively.

12. Contingencies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of TCPA as a going concern. During the years ended September 30, 2023 and 2022, TCPA incurred losses from operations of \$9,219,702 and \$6,411,179, respectively. Management acknowledges that it is currently dependent on RepMar for cash funding 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, the realization of a major portion of the assets in the accompanying statement of net position as of September 30, 2023, 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. If 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 years ending September 30, 2024 and 2025, RepMar has appropriated \$7,457,590 and \$9,000,665, respectively, 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Tobolar Copra Processing Authority (TCPA), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise TCPA's basic financial statements, and have issued our report thereon dated September 18, 2025.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 2023-001.

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 logo for Ernst & Young, featuring the company name in a stylized, cursive script font.

September 18, 2025

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

Schedule of Findings and Responses

Year ended September 30, 2023

Finding No. 2023-001

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, 2023, TCPA acquired a Backhoe loader in the amount of \$98,000 based on a solicitation notice placed in the local newspaper dated August 26 and September 2, 2022 with a closing date dated September 2, 2022 or a one week notice. This timeline did not allow sufficient time for other bidders on the island to submit their proposals. Although TCPA advertised a two-week notice period, the actual notice was only one week. Further, the awarding occurred six months after the closing date of September 2, 2022. Vendor #3 was awarded by TCPA on February 28, 2023. A summary of responses was as follows:

<u>Vendor</u>	<u>Bid Amount</u>	<u>Reason for Acceptance or Rejection</u>
# 1	\$ 85,300	No License
# 2	\$ 56,950	No experience
# 3	\$ 98,000	With Warranty

No evident effort was made to obtain interested bidders from off-island through direct solicitation from heavy equipment companies or by advertising in more widely circulated trade magazines. Consequently, the documentation was inadequate to satisfy compliance with applicable procurement requirements.

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

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

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

Schedule of Findings and Responses

Year ended September 30, 2023

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audit of TCPA for fiscal year 2022.

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