

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

Chairman
Board of Directors
Federated States of Micronesia
Coconut Development Authority:

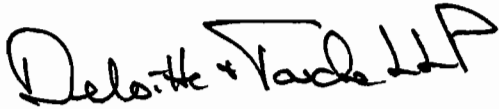
We have audited the accompanying statements of net assets of Federated States of Micronesia Coconut Development Authority (the Authority), a component unit of the National Government of the Federated States of Micronesia, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2006 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and written in a cursive-like font.

July 5, 2006

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2004

This section of the FSM Coconut Development Authority (the Authority's) annual financial report presents our discussion and analysis of the Authority's financial performance for the year ended September 30, 2004.

The Federated States of Micronesia Coconut Development Authority (the Authority) was established in 1981 by Public Law 1-156 and incorporated as Chapter Two, Title 22 of the Code of the Federated States of Micronesia. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree. The Authority has the additional responsibility to establish prices to producers or sellers of coconut products in the Federated States of Micronesia, to collect and receive all monies derived from the sales of coconut products and to stabilize the price of these products. The Authority is a component unit of the Federated States of Micronesia National Government.

The affairs of the Authority are managed by a five-member board, consisting of representatives of the four FSM states and the FSM National Government. Daily operations of the Authority is delegated to a general manager, who is hired by and serves at the pleasure of the Board.

The operation of the Authority is funded by annual appropriations from the FSM Congress. The purchase of copra is funded by copra subsidy appropriations from the FSM Congress and revenues generated through sales of copra and coconut by-products.

In fiscal year 2004, the Authority's annual copra subsidy was reduced further from \$150,000 to \$100,000. With the continuous decline in the world price of copra, the Authority continues to depend on the copra subsidy provided yearly by the FSM Congress to stabilize the farmgate price of the producers. If there is going to be a further reduction of the copra subsidy in fiscal 2005 the nation can expect a reduction of the copra price which will affect those people whose livelihood depends on the revenue from the copra.

The Authority has also experienced a drastic decline in the production of copra over the years. The Authority's peak production of 5,788 s/tons in 1985 has gone down steadily over the years and in the current year dropped to only 600 s/tons.

Following are the production of copra in s/tons within the past 20 years:

1985	5,788 s/tons	1995	1,210 s/tons
1986	607 s/tons	1996	717 s/tons
1987	1,774 s/tons	1997	510 s/tons
1988	2,175 s/tons	1998	928 s/tons
1989	1,140 s/tons	1999	548 s/tons
1990	2,305 s/tons	2000	757 s/tons
1991	982 s/tons	2001	529 s/tons
1992	242 s/tons	2002	754 s/tons
1993	633 s/tons	2003	583 s/tons
1994	909 s/tons	2004	600 s/tons

With the above short falls, the Authority opened a Food Processing Division to produce virgin coconut oil and other edible products from the coconut, with the anticipation that it will help increase revenues for the copra farmers. This is a very promising project and the Authority plans to up grade it to a level where it can be commercialized and turn over for private operation. This will require establishment of good regular sources of raw materials, training of personnel, establishment of market and upgrading of the project output. In anticipation of meeting all the above targets, the Authority will continue to retain a

**FEDERATED STATES OF MICRONESIA
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Management Discussion and Analysis
Year Ended September 30, 2004

plant chemist who works in its small Food Processing Division and provides training for the local people. The Authority also hired another consultant who assists the Authority in its current development works and also provides technical assistance to the two oil processing plants in Pohnpei and Chuuk States.

The above outlines an anticipated restructuring of the industry from the current practice of copra production which has become a low priced trade commodity to higher value added product. More importantly, it will increase earnings of the coconut farmers and may subsequently develop this industry to be less dependent on government financial subsidy.

The industry is already experiencing the effect of the decrease in the copra subsidy and further decrease in the copra subsidy will absolutely affect the industry especially those whose livelihood are dependent on the revenue from copra.

The following summarizes the financial condition and operations of the Authority at September 30, 2004 and 2003.

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Property, plant and equipment, net	\$ 238,794	\$ 275,723
Current assets	<u>121,401</u>	<u>243,630</u>
Total assets	\$ <u>360,195</u>	\$ <u>519,353</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 21,604	\$ 9,373
Other payables	4,538	4,808
Net assets	<u>334,053</u>	<u>505,172</u>
Total liabilities and net assets	\$ <u>360,195</u>	\$ <u>519,353</u>
 <u>Revenues, Expenses and Changes in Net Assets</u>		
Operating loss, net	\$ 144,663	\$ (1,738)
Operating expenses	<u>267,804</u>	<u>215,933</u>
Net operating loss	<u>412,467</u>	<u>217,671</u>
 Others Grants and Income/Expense:		
Grants and subsidies	(215,534)	(275,904)
Interest income	-	(629)
Miscellaneous income and (expense)	<u>(25,815)</u>	<u>(1,038)</u>
Net other income	(241,349)	(277,571)
Change in net assets	\$ <u>171,118</u>	\$ <u>(59,900)</u>

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2004

Financial Highlights

The annual copra subsidy has reduced again this fiscal year. In the previous years, prior to this reduction, the Authority received \$200,000 annually. In fiscal year 2002 the Authority received \$100,000. In fiscal year 2003, the Authority received \$150,000 and in the current fiscal year the Authority received only \$100,000.00.

The operation cost for the Authority which is provided under appropriation from the FSM Congress has not gone through any drastic change. The Authority continues to maintain its operation at a minimal level as in the past.

Plan of Action for 2005

The Authority will maintain the following course of action plans for the industry:

1. Re-examine the budget and make straightforward assessment of its expenses to minimize its operation costs.
2. Promote accountability of the Authority's records.
3. Advocate teamwork in the current operations to accomplish efficiency and enhance employee morale
4. Stop all non essential expenses and promote cost saving measures
5. Aggressive collection of receivables
6. Venture into development of other high value added coconut products.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Statements of Net Assets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and equivalents	\$ 7,230	\$ 32,457
Copra buyers' revolving fund, net	22,550	36,500
Accounts receivable, net	2,358	7,793
Prepayments	1,362	256
Copra bags inventory	18,463	10,429
Copra inventory, net	<u>69,438</u>	<u>156,195</u>
Total current assets	121,401	243,630
Property, plant and equipment, net	<u>238,794</u>	<u>275,723</u>
	<u>\$ 360,195</u>	<u>\$ 519,353</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 21,604	\$ 9,373
Accrued payroll and others	2,538	2,808
Customer deposits	<u>2,000</u>	<u>2,000</u>
Total current liabilities	<u>26,142</u>	<u>14,181</u>
Contingency		
Net assets:		
Invested in capital assets, net of related debt	238,794	275,723
Unrestricted	<u>95,259</u>	<u>229,449</u>
Total net assets	<u>334,053</u>	<u>505,172</u>
	<u>\$ 360,195</u>	<u>\$ 519,353</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	2004	2003
Copra sales	\$ 114,666	\$ 81,666
Cost of copra sold	(259,329)	(83,404)
Gross loss	(144,663)	(1,738)
Operating expenses:		
Personnel services	80,493	73,911
Depreciation	46,221	28,922
Bad debts	23,457	-
Contractual services	22,244	29,090
Consumables and others	21,257	24,344
Miscellaneous	18,915	5,248
Inventory shrinkage	18,060	25,815
Travel	13,981	8,787
Ocean freight	7,501	525
Damaged bags expense	6,552	3,431
Stevedoring	5,480	7,627
Handling	3,644	376
Per diem and transportation	-	7,857
Total expenses	267,805	215,933
Loss from operations	(412,468)	(217,671)
Nonoperating revenues (expenses), net:		
Operating grants and subsidies	215,534	275,904
Interest income	-	629
Miscellaneous income	25,815	1,038
Total nonoperating revenues	241,349	277,571
Change in net assets	(171,119)	59,900
Net assets at beginning of year	505,172	445,272
Net assets at end of year	\$ 334,053	\$ 505,172

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 120,101	\$ 81,015
Cash paid to suppliers	<u>(351,569)</u>	<u>(367,466)</u>
Net cash used for operating activities	<u>(231,468)</u>	<u>(286,451)</u>
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	<u>215,534</u>	<u>275,904</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	<u>(9,293)</u>	<u>(118,809)</u>
Cash flows from investing activities:		
Liquidation of investments	-	110,442
Interest received	<u>-</u>	<u>629</u>
Net cash provided by investing activities	<u>-</u>	<u>111,071</u>
Decrease in cash	(25,227)	(18,285)
Cash and equivalents at beginning of year	<u>32,457</u>	<u>50,742</u>
Cash and equivalents at end of year	\$ <u><u>7,230</u></u>	\$ <u><u>32,457</u></u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (412,468)	\$ (217,671)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	46,221	28,922
Bad debts	23,457	-
Inventory shrinkage expense	18,060	25,815
Others	-	1,038
Accounts receivable	5,435	(651)
Inventory and prepayments	75,866	(121,920)
Accounts payable	12,231	(2,962)
Accrued payroll and others	(270)	1,199
Customer deposits	<u>-</u>	<u>(221)</u>
Net cash used for operating activities	\$ <u><u>(231,468)</u></u>	\$ <u><u>(286,451)</u></u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Federated States of Micronesia Coconut Development Authority (the Authority) was established in 1981 by Public Law 1-145, as amended by Public Law 2-8, and incorporated as Chapter Two, Title 22 of the Code of the Federated States of Micronesia. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree. The Authority has the additional responsibility to establish prices to producers or sellers of coconut products in the Federated States of Micronesia, to collect and receive all monies derived from the sales of coconut products, and to stabilize the price of these products. The Authority is a component unit of the National Government of the Federated States of Micronesia.

The affairs of the Authority are managed by a five-member board, consisting of representatives of the four FSM states and the FSM National Government. Daily operations of the Authority are delegated to a general manager, who is hired by and serves at the pleasure of the board.

The operation of the Authority is funded by annual appropriations from the FSM Congress. The purchase of coconut products is funded by copra subsidy appropriations from the FSM Congress and revenues generated through sales of copra.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

For the year ended September 30, 2003, the Authority adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and applied those standards on a retroactive basis. GASB Statement Nos. 34, 37 and 38 establish standards for external financial reporting for state and local governments and require that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that require the Authority to maintain them permanently. For the years ended September 30, 2004 and 2003, the Authority does not have nonexpendable restricted net assets.
 - Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.
- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

B. Fund Structure and Basis of Accounting

The accounts of the Authority are organized in the same manner as a proprietary fund-component unit. A proprietary fund is used by governmental units that are operated in a manner similar to private business enterprises. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income, with maintenance of capital. Proprietary funds are accounted for on the flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the statement of net assets. This is in contrast to "governmental" fund type accounting, which has a measurement focus on the sources and uses of funds, and includes only current assets and current liabilities on the balance sheet.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related liabilities are incurred, regardless of when cash is received or payment is made.

C. Reclassification

Certain accounts in the 2003 statements have been reclassified to conform with the 2004 presentation.

D. Cash and Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and equivalents are defined as cash in checking accounts and certificates of deposit with initial maturities of ninety days or less.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

E. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

F. Receivables

Receivables are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts is estimated using the valuation method. Accounts determined to be uncollectible are charged against the allowance. Uncollectibility of accounts is determined by management based on the financial condition and responsiveness of the debtors to the Authority's collection efforts. Amounts ultimately collected could differ materially from the amounts estimated in determining the allowance for doubtful accounts.

Copra Buyers Revolving Fund. In prior years, the Authority executed contracts with local businesses within the FSM states, wherein the businesses agreed to act on behalf of the Authority as copra purchasing agents. As part of the agreements, the Authority advances \$10,000 to each agent to be used for the purchase and collection of copra. The advances are treated as a revolving fund, whereby the agents purchase copra from the producers in their home states and submit voucher claims to the Authority for replenishment. There are ten designated purchasing agents of which only four were active during the years ended September 30, 2004 and 2003.

A summary of the copra revolving fund at September 30, 2004 and 2003, is presented below:

	<u>2004</u>	<u>2003</u>
Copra revolving funds advanced	\$ 89,500	\$ 94,500
Allowance for doubtful accounts	(66,950)	(58,000)
Copra revolving funds, net	\$ <u>22,550</u>	\$ <u>36,500</u>

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

F. Receivables, Continued

Accounts Receivable. Accounts receivable substantially arise from copra sales to local customers, of which one entity is considered to be a related party. The Chairman of the Board of Directors of Coconut Development Authority is also a stockholder of Pohnpei Coconut Products, from whom the total related party receivable is due. A summary at September 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Trade accounts receivable	\$ 34,750	\$ 36,394
Related party accounts receivable	<u>110,318</u>	<u>107,415</u>
	145,068	143,809
Allowance for doubtful accounts	<u>(142,710)</u>	<u>(136,016)</u>
Accounts receivable, net	\$ <u>2,358</u>	\$ <u>7,793</u>

G. Inventory

The Authority purchases and collects copra from local vendors within the FSM states. Inventory consists of dried copra and copra bags which are collected and stored at designated warehouses located within the four FSM states. Copra inventory is carried at cost determined through use of average costs. Cost may ultimately exceed market value, a factor which is offset by subsidies for this purpose which are received from the FSM National Government (note 3).

Ending copra inventory at September 30, 2004 and 2003 is valued at estimated realizable market value.

The inventory of bags is recorded at cost. Provision for damaged bags and deterioration in value of usable bags is made at the end of each fiscal year.

H. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation expense is calculated by the straight-line method over the estimated useful lives of the assets.

I. New Accounting Standards

For fiscal year 2005, the Authority will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. The Authority has not evaluated the financial statement impact of GASB Statement No. 40.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies, Continued

I. New Accounting Standards, Continued

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The provisions of the Statement are effective for periods beginning after December 15, 2004. The Authority does not believe that the implementation of this Statement will have a material effect on its financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. The Authority does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. The Authority does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. The Authority does not believe the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. The Authority does not believe that the implementation of this Statement will have a material effect on its financial statements.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2004 and 2003

(2) Property, Plant and Equipment

Fixed assets movement for the years ended September 30, 2004 and 2003, are as follows:

	<u>Estimated Useful Life</u>	<u>October 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2004</u>
Buildings	20 years	\$ 255,524	\$ -	-	\$ 255,524
Equipment	5-10 years	179,196	9,292	-	188,488
Vehicles	5 years	31,642	-	-	31,642
Furniture and fixtures	5-10 years	6,422	-	-	6,422
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	<u>7,589</u>	<u>-</u>	<u>-</u>	<u>7,589</u>
		491,628	9,292	-	500,920
Less accumulated depreciation		<u>(215,905)</u>	<u>(46,221)</u>	<u>-</u>	<u>(262,126)</u>
		<u>\$ 275,723</u>	<u>\$ (36,929)</u>	<u>\$ -</u>	<u>\$ 238,794</u>
	<u>Estimated Useful Life</u>	<u>October 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2003</u>
Buildings	20 years	\$ 245,429	\$ 10,095	-	\$ 255,524
Equipment	5-10 years	74,054	105,142	-	179,196
Vehicles	5 years	30,582	1,060	-	31,642
Furniture and fixtures	5-10 years	6,422	-	-	6,422
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	<u>7,589</u>	<u>-</u>	<u>-</u>	<u>7,589</u>
		375,331	116,297	-	491,628
Less accumulated depreciation		<u>(189,495)</u>	<u>(26,410)</u>	<u>-</u>	<u>(215,905)</u>
		<u>\$ 185,836</u>	<u>\$ 89,887</u>	<u>\$ -</u>	<u>\$ 275,723</u>

(3) Grants and Subsidies

During the years ended September 30, 2004 and 2003, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

	<u>2004</u>	<u>2003</u>
Copra subsidy funds	\$ 100,000	\$ 150,000
Operational grants:		
Administrative expenses	<u>115,534</u>	<u>125,904</u>
Total grants and subsidies	<u>\$ 215,534</u>	<u>\$ 275,904</u>

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2004, the Authority's Pohnpei and Chuuk warehouses, buildings and contents were insured for coverage of \$371,500 and \$131,000, respectively. The Authority is self insured for all other risks.

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

Chairman
Board of Directors
Federated States of Micronesia
Coconut Development Authority:

We have audited the financial statements of Federated States of Micronesia Coconut Development Authority (the Authority), as of and for the year ended September 30, 2004, and have issued our report thereon dated July 5, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

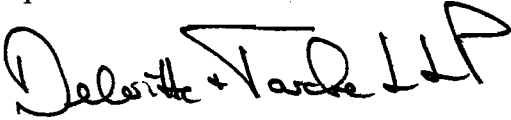
In planning and performing our audit of the financial statements of the Authority for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-01 through 2004-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we consider none of the reportable conditions described above to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and written in a cursive-like font.

July 5, 2006

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Finding No.: 2004-1
Area: Trade Receivables

Criteria: Policies and procedures should be in place to promote timely collection of trade accounts receivable.

Condition: Trade accounts receivable balances from some customers have been outstanding for over 1 year. Credit sales to one of these customers, Pohnpei Coconut Products, continued to be made during FY 2004, despite the outstanding receivable balance.

Cause: Procedures are not in place to monitor and enforce collection of trade accounts receivable. In addition, management has been reluctant to cut off sales to major customers (primarily Pohnpei Coconut Products).

Effect: Excessively aged accounts receivable balances increase the likelihood of large balances becoming uncollectible.

Recommendation: We recommend that management actively pursue collection of accounts receivable over 90 days. If management does not believe these amounts will be recovered, these accounts should be written off.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for the years ended September 30, 2002 and 2003.

Auditee Response and Corrective Action Plan: The Authority continued to make attempts to collect on its Receivables. This year we will try to determine those that the Authority feels it could collect. Those that the Authority have made some attempt to collect and fail the Authority will request in the next audit to be written off. As for PCPI, there is still hope that we could recover their debt in small installment. Their new project in coconut bio-diesel is a promising project and may become a turning point in the recovering their debts.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Finding No.: 2004-2
Area: Copra Purchase

Criteria: Payment to copra farmers should agree to the purchase ticket total.

Condition:

1. Check 1767 for \$8,170 was paid to a copra farmer for 198 copra bags. However, only 54 bags were supported by purchase tickets.
2. Check 1811 for \$8,465.21 was paid to the copra farmer for 44 copra bags. However, 78 bags were supported by purchase tickets.

Cause: There appears to be weak internal control over ensuring that payments are properly disbursed according to information on the purchase tickets.

Effect: The effect of this condition is a misstatement of financial statements.

Recommendation: We recommend that disbursements be reviewed for clerical accuracy.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for the year ended September 30, 2003.

Auditee Response and Corrective Action Plan: The above two payments were properly documented. Payments were made based on the invoices received which constituted the total amount of the two payments. During process of filing some of the documents were probably lost or misplaced. More care will be taken in the future to prevent such errors being repeated.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Finding No.: 2004-3
Area: Accounts Payable

Criteria: Accounts payable should be paid in a timely manner.

Condition: A total of \$1,815 of payables are outstanding in excess of one year.

Cause: There appears to be a weakness in internal controls over ensuring that accounts payable are liquidated in a timely manner.

Effect: No material impact on the financial statements results from this condition.

Recommendation: Accounts payable should be liquidated in a timely manner.

Auditee Response and Corrective Action Plan: It was an oversight on the following accounts and the Authority will make every attempt to liquidate such account.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Finding No.: 2004-4
Area: Travel

Criteria: All travel disbursements should be sufficiently supported by receipts.

Condition: Check number 1861 was disbursed for travel expenses of which \$785 was not supported by receipts.

Cause: There appears to be weak internal control over ensuring that travel expenses are supported by receipts.

Effect: Travel expenses may be misstated.

Recommendation: Travel should be supported by supporting documentation, such as vendor receipts.

Auditee Response and Corrective Action Plan: Some of the travel documents were lost by the travelers. Sometimes travelers forget to retain the travel documents for the claim. Authority will remind the travelers to make sure travel documents are retained and submitted to the Authority.