

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

INDEPENDENT AUDITORS' REPORT

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

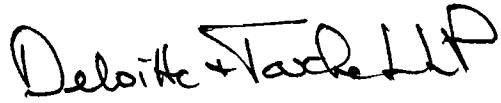
We have audited the accompanying statements of net assets of Federated States of Micronesia Coconut Development Authority (the Authority), a component unit of the National Government of the Federated States of Micronesia, as of September 30, 2006 and 2005, and the related statements of revenues, expenses 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, 2006 and 2005, 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's Discussion and Analysis (MD&A) on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary 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 June 1, 2007 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 written in a cursive, stylized font.

June 1, 2007

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2006

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, 2006.

The Federated States of Micronesia Coconut Development Authority of the Federated States of Micronesia (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 serve 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 2006 the Authority's annual copra subsidy was only \$75,000.00 with no additional supplemental during the fiscal year. With the continuous instability of the world prices in the world market, the copra subsidy plays an important role in maintaining a stable price for the producers. If there is going to be a further reduction of the copra subsidy in fiscal 2006 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 under the current year only 145 tons were produced. Following are the production of copra in s/tons within the past 20 years(c/y):

| | | | |
|------------|--------------|------------|------------|
| 1987 | 1,774 s/tons | 1996 | 717 s/tons |
| 1988 | 2,175 s/tons | 1997 | 510 s/tons |
| 1989 | 1,140 s/tons | 1998 | 928 s/tons |
| 1990 | 2,305 s/tons | 1999 | 548 s/tons |
| 1991 | 982 s/tons | 2000 | 757 s/tons |
| 1992 | 242 s/tons | 2001 | 529 s/tons |
| 1993 | 633 s/tons | 2002 | 754 s/tons |
| 1994 | 909 s/tons | 2003 | 583 s/tons |
| 1995 | 1,210 s/tons | 2004 | 352 s/tons |
| | | 2005 | 116 s/tons |
| | | 2006..... | 145 s/tons |

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2006

With the above short falls, the Authority opened up 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 the anticipation to meet all the above targets the Authority will continue to retain a plant chemist who works in its small Food Processing Division and provide training for the local people. The Authority also hires another consultant who assist the Authority in its current development works and also provide 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 earning 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.

| <u>Assets:</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------------------------------------|--------------------|--------------------|--------------------|
| Property, plant and equipment, net | \$ 226,329 | \$ 252,888 | \$ 238,794 |
| Current Assets | <u>160,793</u> | <u>191,769</u> | <u>121,401</u> |
| Total Assets | \$ <u>387,122</u> | \$ <u>444,657</u> | \$ <u>360,195</u> |
| <u>Liabilities & Net Assets:</u> | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 3,416 | \$ 5,997 | \$ 21,604 |
| Other Payables | 1,308 | 5,673 | 4,538 |
| Net Assets | <u>382,398</u> | <u>432,987</u> | <u>334,053</u> |
| Total Liabilities & Net Assets: | \$ <u>387,122</u> | \$ <u>444,657</u> | \$ <u>360,195</u> |

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2006

Revenues, Expenses and Changes in Net Assets:

| | | | |
|-------------------------------------|--------------------|------------------|---------------------|
| Operating Revenue, net | \$ (16,432) | \$ 47,509 | \$ (144,663) |
| Operating Expenses | <u>(241,355)</u> | <u>(257,440)</u> | <u>(267,804)</u> |
| Net Operating Revenues (Loss) | <u>(257,787)</u> | <u>(209,931)</u> | <u>(412,467)</u> |
| Others Grants and Income (Expense): | | | |
| Grants and subsidies | 198,106 | 282,565 | 215,534 |
| Misc. income and (expense) | <u>9,092</u> | <u>26,300</u> | <u>25,815</u> |
| Total other income and (expenses) | <u>207,198</u> | <u>308,865</u> | <u>241,349</u> |
| Increase (decrease) in net assets | \$ <u>(50,589)</u> | \$ <u>98,934</u> | \$ <u>(171,118)</u> |

Financial Highlights

The copra subsidy remains at the level between \$50,000 to \$75,000.

The operation cost for the Authority which is provided under appropriation from the FSM Congress remains the same. The Authority continues to maintain its operation at a minimal level to meet with the objective to minimize operation cost of the Government.

Plan of Action for 2007

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

1. 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 moral.
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.

Management's Discussion and Analysis for the year ended September 30, 2005 is set forth in the report on the audit of CDA's financial statements, which is dated September 12, 2006. That Discussion and Analysis explains the major factors impacting the 2005 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmpublicauditor.fm

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Statements of Net Assets
September 30, 2006 and 2005

| <u>ASSETS</u> | <u>2006</u> | <u>2005</u> |
|-------------------------------------------------|-------------------|-------------------|
| Current assets: | | |
| Cash and equivalents | \$ 45,357 | \$ 75,271 |
| Copra buyers' revolving fund, net | - | 22,550 |
| Accounts receivable, net | 610 | 1,560 |
| Prepayments | 15,980 | 1,362 |
| Copra bags inventory | 13,428 | 14,125 |
| Copra inventory, net | <u>85,418</u> | <u>76,901</u> |
| Total current assets | 160,793 | 191,769 |
| Property, plant and equipment, net | <u>226,329</u> | <u>252,888</u> |
| | <u>\$ 387,122</u> | <u>\$ 444,657</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,416 | \$ 5,997 |
| Accrued payroll and others | 808 | 3,673 |
| Customer deposits | <u>500</u> | <u>2,000</u> |
| Total current liabilities | <u>4,724</u> | <u>11,670</u> |
| Contingency | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | 226,329 | 252,888 |
| Unrestricted | <u>156,069</u> | <u>180,099</u> |
| Total net assets | <u>382,398</u> | <u>432,987</u> |
| | <u>\$ 387,122</u> | <u>\$ 444,657</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, 2006 and 2005

| | 2006 | 2005 |
|----------------------------------------|------------|------------|
| Copra sales | \$ 65,542 | \$ 85,196 |
| Cost of copra sold | (34,651) | (37,687) |
| Less: uncollectible revenues | (47,323) | - |
| Gross profit (loss) | (16,432) | 47,509 |
| Operating expenses: | | |
| Personnel services | 78,221 | 84,263 |
| Depreciation | 44,366 | 44,135 |
| Consumables and others | 39,015 | 29,932 |
| Contractual services | 23,810 | 22,160 |
| Travel | 18,700 | 13,400 |
| Inventory shrinkage | 12,383 | 29,110 |
| Damaged bags expense | 6,010 | 18,819 |
| Per diem and transportation | 4,125 | - |
| Miscellaneous | 14,725 | 15,621 |
| Total expenses | 241,355 | 257,440 |
| Loss from operations | (257,787) | (209,931) |
| Nonoperating revenues (expenses), net: | | |
| Operating grants and subsidies | 198,106 | 282,565 |
| Miscellaneous income | 9,092 | 26,300 |
| Total nonoperating revenues | 207,198 | 308,865 |
| Change in net assets | (50,589) | 98,934 |
| Net assets at beginning of year | 432,987 | 334,053 |
| Net assets at end of year | \$ 382,398 | \$ 432,987 |

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|------------------------------------------------------------------------------------|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 77,461 | \$ 112,294 |
| Cash paid to employees | (81,086) | (83,125) |
| Cash paid to suppliers | <u>(206,588)</u> | <u>(185,464)</u> |
| Net cash used for operating activities | <u>(210,213)</u> | <u>(156,295)</u> |
| Cash flows from noncapital financing activities: | | |
| Congress of the FSM operating appropriations | <u>198,106</u> | <u>282,565</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of property, plant and equipment | <u>(17,807)</u> | <u>(58,229)</u> |
| Change in cash | (29,914) | 68,041 |
| Cash and equivalents at beginning of year | <u>75,271</u> | <u>7,230</u> |
| Cash and equivalents at end of year | <u>\$ 45,357</u> | <u>\$ 75,271</u> |
| Reconciliation of operating loss to net cash used for operating activities: | | |
| Operating loss | \$ (257,787) | \$ (209,931) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | | |
| Depreciation | 44,366 | 44,135 |
| Bad debts | 47,323 | - |
| Inventory shrinkage expense | 12,383 | 29,110 |
| Others | 9,092 | 26,300 |
| Change in accounts receivable | 2,556 | 798 |
| Change in inventory and prepayments | (61,472) | (32,235) |
| Change in travel advances | 1,560 | - |
| Due from other funds | (1,288) | - |
| Change in accounts payable | (2,581) | (15,608) |
| Change in accrued payroll and others | (2,865) | 1,136 |
| Change in accrued customer deposit | <u>(1,500)</u> | <u>-</u> |
| Net cash used for operating activities | <u>\$ (210,213)</u> | <u>\$ (156,295)</u> |

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2006 and 2005

(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.

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 – Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Disclosures" establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following 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, 2006 and 2005

(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, 2006 and 2005, 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 balance sheet. 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. Cash and Equivalents

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

For the purposes of the statements of net assets and 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. There are no significant differences between cash balances per book and per bank.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

D. 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.

E. 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, 2006 and 2005.

A summary of the copra buyers' revolving fund at September 30, 2006 and 2005, is presented below:

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|-------------|------------------|
| Copra revolving funds advanced | \$ 87,622 | \$ 89,500 |
| Allowance for doubtful accounts | (87,622) | (66,950) |
| Copra revolving funds, net | \$ <u>-</u> | \$ <u>22,550</u> |

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, 2006 and 2005, is as follows:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------------|---------------|-----------------|
| Trade accounts receivable | \$ 10,310 | \$ 12,548 |
| Related party accounts receivable | 110,318 | 110,318 |
| Due from General Fund | <u>1,288</u> | <u>-</u> |
| | 121,916 | 122,866 |
| Allowance for doubtful accounts | (121,306) | (121,306) |
| Accounts receivable, net | \$ <u>610</u> | \$ <u>1,560</u> |

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

F. 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, 2006 and 2005 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.

G. 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.

H. New Accounting Standards

The Authority implemented the following pronouncements in fiscal year 2006:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which 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. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment 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. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes uniform financial reporting for these types of revenues. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Property, Plant and Equipment

Fixed assets movement for the years ended September 30, 2006 and 2005, are as follows:

| | Estimated Useful Life | October 1, 2005 | Additions | Retirements | September 30, 2006 |
|-------------------------------|--------------------------|--------------------|------------------|--------------------|-----------------------|
| Buildings | 20 years | \$ 255,524 | \$ - | \$ - | \$ 255,524 |
| Equipment | 5-10 years | 193,870 | 50,040 | - | 243,910 |
| Vehicles | 5 years | 35,353 | 16,543 | - | 51,896 |
| Furniture and fixtures | 5-10 years | 6,422 | - | - | 6,422 |
| Leasehold improvements | 20 years | 11,255 | - | - | 11,255 |
| Water tank | 10 years | 7,589 | - | - | 7,589 |
| Equipment in transit | | <u>48,776</u> | <u>-</u> | <u>(48,776)</u> | <u>-</u> |
| | | 558,789 | 66,583 | (48,776) | 576,596 |
| Less accumulated depreciation | | <u>(305,901)</u> | <u>(44,366)</u> | <u>-</u> | <u>(350,267)</u> |
| | | \$ <u>252,888</u> | \$ <u>22,217</u> | \$ <u>(48,776)</u> | \$ <u>226,329</u> |

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2006 and 2005

(2) Property, Plant and Equipment, Continued

| | <u>Estimated Useful Life</u> | <u>October 1, 2004</u> | <u>Additions</u> | <u>Retirements</u> | <u>September 30, 2005</u> |
|-------------------------------|----------------------------------|----------------------------|------------------|--------------------|-------------------------------|
| Buildings | 20 years | \$ 255,524 | \$ - | \$ - | \$ 255,524 |
| Equipment | 5-10 years | 188,488 | 5,742 | (360) | 193,870 |
| Vehicles | 5 years | 31,642 | 3,711 | - | 35,353 |
| Furniture and fixtures | 5-10 years | 6,422 | - | - | 6,422 |
| Leasehold improvements | 20 years | 11,255 | - | - | 11,255 |
| Water tank | 10 years | 7,589 | - | - | 7,589 |
| Equipment in transit | | <u>-</u> | <u>48,776</u> | <u>-</u> | <u>48,776</u> |
| | | 500,920 | 58,229 | (360) | 558,789 |
| Less accumulated depreciation | | <u>(262,126)</u> | <u>(44,135)</u> | <u>360</u> | <u>(305,901)</u> |
| | | <u>\$ 238,794</u> | <u>\$ 14,094</u> | <u>\$ -</u> | <u>\$ 252,888</u> |

(3) Grants and Subsidies

During the years ended September 30, 2006 and 2005, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|-------------------|-------------------|
| Copra subsidy funds | \$ 75,000 | \$ 125,000 |
| Operational grants: | | |
| Administrative expenses | <u>123,106</u> | <u>157,565</u> |
| Total grants and subsidies | <u>\$ 198,106</u> | <u>\$ 282,565</u> |

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2006, the Authority's warehouses and buildings were insured for coverage of \$131,500. Furthermore, the contents (equipment and stock) held at the warehouses and buildings were insured for coverage of \$240,000. 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, 2006, and have issued our report thereon dated June 1, 2007. 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

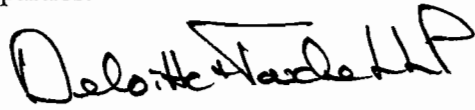
In planning and performing our audit of the financial statements of the Authority for the year ended September 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-01.

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 caused by error or fraud 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 do not consider the reportable condition 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 cursive, with the company name written in a fluid, connected script.

June 1, 2007