

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

**(A COMPONENT UNIT OF THE FEDERATED
STATES OF MICRONESIA NATIONAL GOVERNMENT)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Years Ended September 30, 2011 and 2010
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INDEPENDENT AUDITORS' REPORT

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

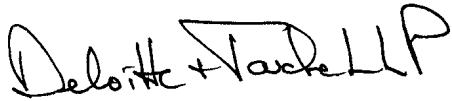
We have audited the accompanying statements of net assets of the Federated States of Micronesia (FSM) Coconut Development Authority (the Authority), a component unit of the FSM National Government, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2012 on our consideration of the Authority'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 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 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.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

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

June 6, 2012

FEDERATED STATES OF MICRONESIA COCONUT DEVELOPMENT AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

This section is the Management Discussion and Analysis of the FSM Coconut Development Authority (the Authority). Its objective is to provide the reader with an introduction and overview of the Financial Statements of the Authority for the year ended September 30, 2011. This report is to be read in conjunction with the financial statements that follow this section. Fiscal Year 2010 comparative information has been included, where appropriate. This MD&A is prepared in compliance with GASB Statement No. 34 issued by the U.S. Governmental Accounting Standards Board.

FINANCIAL OPERATIONS OVERVIEW

The Federated States of Micronesia (FSM) 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 FSM 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 are delegated to a general manager, who is hired by and serves at the pleasure of the Board.

The operations of the Authority are 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.

For fiscal year 2011, the Authority's original annual copra subsidy was \$75,000 with an additional supplemental of \$25,000 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 2012, 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 254 s/tons were produced. This is a slight increase in production due to additional copra subsidy and improvement in the transportation services to the outer islands.

Following are the production of copra in s/tons within the past 24 years(c/y):

1988.....	2,175 s/tons	2000.....	757 s/tons
1989.....	1,140 s/tons	2001.....	509 s/tons
1990.....	2,305 s/tons	2002.....	754 s/tons
1991.....	982 s/tons	2003.....	583 s/tons
1992.....	242 s/tons	2004.....	352 s/tons
1993.....	633 s/tons	2005.....	116 s/tons
1994.....	909 s/tons	2006.....	145 s/tons
1995.....	1,210 s/tons	2007.....	7 s/tons
1996.....	717 s/tons	2008.....	52 s/tons
1997.....	510 s/tons	2009.....	174 s/tons
1998.....	928 s/tons	2010.....	361 s/tons
1999.....	548s/tons	2011.....	254 s/tons

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2011 and 2010

With the above shortfalls, 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 upgrade it to a level where it can be commercialized and turned 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 provides training for the local people.

As already indicated in the previous Management Discussion and Analysis, the plant in the State of Chuuk was destroyed by fire and the State has not made any attempt to restore the plant to operational stage. The plant in Pohnpei is barely in operational stage. They have just renovated their oil mill section after the fire that destroyed almost 60% of the entire plant. As of the current status, they are only producing Markeiso using crude coconut oil purchased from the Authority. They have indicated to the Authority that when the island power is connected to their plant they will commence to produce their products (Markeiso, toilet soap, laundry soap, shampoo and other coconut products) and will concentrate in the production of crude coconut oil for fuel substitute on diesel engines. Until today, nothing has been made to fulfill their work plans. As already indicated, under the Food Processing Division the Authority has begun the installation of the second apron dryer that will use coconut shell and fire wood instead of the expensive LPGas. The Authority anticipates increasing its production of virgin coconut oil and its premium quality virgin coconut oil. The Authority has installed the new mini oil equipment for a pilot project to produce crude coconut oil from copra. The Authority has also made a change in its operation and is now working toward increasing its production of crude coconut for blending with diesel fuel. The Authority is currently making every effort to work with the FSM Petro Corporation as the main buyer of its coconut crude oil.

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.

Financial Highlights

- For the fiscal year ended September 30, 2011, the Coconut Development authority has total net assets of \$342,300, a slight decrease of \$5,171 or 1.5% compared to FY2010 net assets of \$347,471.
- During the year, the Authority's gross profit was \$28,093 while total operating expenses were \$248,112 resulting in a net loss from operations of \$220,019. The net loss was funded by operating grants and subsidies received from FSM National Government of \$214,848.
- During the year, the Authority received a copra subsidy appropriation from FSM National Government of \$100,000, an increase of \$20,000 or 25% as compared to the FY2010 appropriation. The original copra subsidy was \$75,000 with \$25,000 being appropriated under the supplemental request for that fiscal year.
- During the year, the Authority received operational grants of \$114,848 from the FSM National Government, an increase of \$29,582 or 35% as compared to FY2010 operation cost. The Authority continues to maintain its operation at a minimal level to meet the objective of minimizing operation costs of the government.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2011 and 2010

The CDA as A Whole

Net assets may serve over time as a useful indicator of the Authority's financial position. At the end of the fiscal year 2011, the Authority's assets exceeded liabilities by \$342,300. Of the total assets, \$141,309 is restricted as to purpose to which they may be used and these assets are not available for future spending while \$200,991 is unrestricted for its use.

Table 1 summarizes the financial condition and operations of the Authority.

<u>Assets</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Property, plant and equipment, net	\$ 141,309	\$ 159,548	\$ 136,872
Current assets	<u>237,427</u>	<u>193,479</u>	<u>173,628</u>
Total assets	\$ <u>378,736</u>	\$ <u>353,027</u>	\$ <u>310,500</u>

Liabilities and Net Assets

Liabilities:			
Accounts payable	\$ 25,056	\$ 4,008	\$ 3,343
Other payables	<u>11,380</u>	<u>1,548</u>	<u>1,480</u>
	<u>36,436</u>	<u>5,556</u>	<u>4,823</u>
Net assets:			
Invested in capital assets	141,309	159,548	136,872
Unrestricted	<u>200,991</u>	<u>187,923</u>	<u>168,805</u>
	<u>342,300</u>	<u>347,471</u>	<u>305,677</u>
Total liabilities and net assets	\$ <u>378,736</u>	\$ <u>353,027</u>	\$ <u>310,500</u>

Revenues, Expenses and Changes in Net Assets

Gross profit	\$ 28,093	\$ 47,266	\$ 62,385
Operating expenses	<u>248,112</u>	<u>246,593</u>	<u>241,295</u>
Net operating loss	(<u>220,019</u>)	(<u>199,327</u>)	(<u>178,910</u>)

Others Grants and Income/Expense

Loss on disposal of fixed assets	-	-	(27,327)
Grants and subsidies	<u>214,848</u>	<u>241,121</u>	<u>176,196</u>
Total other income and (expenses)	<u>214,848</u>	<u>241,121</u>	<u>148,869</u>
Change in net assets	\$ <u>(5,171)</u>	\$ <u>41,794</u>	\$ <u>(30,041)</u>

Capital Assets

At September 30, 2011, the Authority had invested \$561,544 in capital assets less accumulated depreciation of \$420,235. During the year, the Authority acquired numerous equipment and other capital assets, totaling \$7,863, and retired equipment totaling \$35,893.

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Management's Discussion and Analysis, Continued
Years Ended September 30, 2011 and 2010

Table 2 shows the summary of capital assets for the fiscal year 2011 as compared to fiscal year 2010.

	<u>2011</u>	<u>2010</u>
Buildings	\$ 191,429	\$ 191,429
Equipment	293,598	321,128
Vehicles	49,355	49,355
Furniture and Fixtures	7,317	7,317
Leasehold Improvements	11,255	11,255
Water Tank	<u>9,590</u>	<u>9,090</u>
Total	561,544	589,574
Less: Accumulated Depreciation	(420,235)	(430,026)
Net Assets	\$ <u>141,309</u>	\$ <u>159,548</u>

Please refer to note 2 to the accompanying financial statements for additional information on the Authority's capital assets.

Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the Authority's report on the audit of financial statements, which is dated February 12, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

Plan of Action for 2013 and Economic Outlook

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

1. In the Authority's anticipation to continue its work to develop the industry, another grant request through the Department of Foreign Affairs to the Indian Government has been submitted to purchase a bigger oil mill to increase its output of crude coconut oil that will meet the requirement for blending with diesel fuel. In FY2010, new equipment was purchased through a grant funded by the Indian Government.
2. The industry will continue to request for an increase in copra subsidy as any further decrease in the copra subsidy will absolutely affect the industry especially those whose livelihood are dependent on the revenue from copra. However, if the Authority's quest to make the above improvement to its operation is successful there could be a bright future for the coconut industry.
3. In anticipation to meet the target plan of the Authority, we will continue to retain a plant chemist who works in the Food Processing Division and provide training for the local people.
4. Make straightforward assessment of its expenses to minimize its operation costs.
5. Promote accountability of the Authority's records.
6. Advocate teamwork in the current operations to accomplish efficiency and enhance employee morale.
7. Stop all non-essential expenses and promote cost saving measures.
8. Aggressive collection of receivables.
9. Venture into development of other high value added and new coconut by-products.

**FEDERATED STATES OF MICRONESIA
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Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 18,537	\$ 23,896
Accounts receivable, net	15,965	11,875
Advances to employees	8,519	1,066
Prepayments	743	991
Copra bags inventory	8,680	21,689
Copra inventory	<u>184,983</u>	<u>133,962</u>
Total current assets	237,427	193,479
Property, plant and equipment, net	<u>141,309</u>	<u>159,548</u>
	<u><u>\$ 378,736</u></u>	<u><u>\$ 353,027</u></u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 25,056	\$ 4,008
Accrued payroll and others	10,880	1,048
Customer deposits	<u>500</u>	<u>500</u>
Total current liabilities	<u>36,436</u>	<u>5,556</u>
Commitment and contingency		
Net assets:		
Invested in capital assets	141,309	159,548
Unrestricted	<u>200,991</u>	<u>187,923</u>
Total net assets	<u>342,300</u>	<u>347,471</u>
	<u><u>\$ 378,736</u></u>	<u><u>\$ 353,027</u></u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Copra sales	\$ 152,317	\$ 90,011
Cost of copra sold	<u>(124,224)</u>	<u>(42,745)</u>
Gross profit	<u>28,093</u>	<u>47,266</u>
Operating expenses:		
Personnel services	127,118	91,566
Consumables and others	52,405	58,055
Depreciation	26,102	42,555
Travel	17,510	21,380
Per diem and transportation	-	1,500
Miscellaneous	<u>24,977</u>	<u>31,537</u>
Total expenses	<u>248,112</u>	<u>246,593</u>
Loss from operations	<u>(220,019)</u>	<u>(199,327)</u>
Nonoperating revenues:		
Operating grants and subsidies	<u>214,848</u>	<u>165,266</u>
Loss before contributions	(5,171)	(34,061)
Capital contribution - grant from the Government of India	<u>-</u>	<u>75,855</u>
Change in net assets	(5,171)	41,794
Net assets at beginning of year	<u>347,471</u>	<u>305,677</u>
Net assets at end of year	<u>\$ 342,300</u>	<u>\$ 347,471</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
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Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 148,227	\$ 91,056
Cash paid to employees for services	(124,739)	(92,564)
Cash paid to suppliers for goods and services	<u>(235,832)</u>	<u>(259,974)</u>
Net cash used for operating activities	<u>(212,344)</u>	<u>(261,482)</u>
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	<u>214,848</u>	<u>165,266</u>
Cash flows from capital and related financing activities:		
Government of India grant	-	75,855
Acquisition of property, plant and equipment	<u>(7,863)</u>	<u>(65,231)</u>
Net cash provided by (used for) capital and related financing activities	<u>(7,863)</u>	<u>10,624</u>
Change in cash and equivalents	(5,359)	(85,592)
Cash and equivalents at beginning of year	<u>23,896</u>	<u>109,488</u>
Cash and equivalents at end of year	<u>\$ 18,537</u>	<u>\$ 23,896</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (220,019)	\$ (199,327)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	26,102	42,555
(Increase) decrease in assets:		
Accounts receivable	(4,090)	1,045
Advances to employees	(7,453)	(1,066)
Prepayments	248	309
Inventories	(38,012)	(105,731)
Increase in liabilities:		
Accounts payable	21,048	665
Accrued payroll and others	<u>9,832</u>	<u>68</u>
Net cash used for operating activities	<u>\$ (212,344)</u>	<u>\$ (261,482)</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Federated States of Micronesia (FSM) 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 of, 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 FSM National Government.

The affairs of the Authority are managed by a five-member Board of Directors, 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. A change in the level of such appropriations could impact the ability of the Authority to maintain its current level of operations. 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. Governmental 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 Note 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
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Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, 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 in 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. 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 Authority 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 on hand and cash in checking accounts. There are no significant differences between cash balances per book and per bank. As of September 30, 2011 and 2010, \$22,306, and \$35,097, respectively, of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

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Notes to Financial Statements
September 30, 2011 and 2010

(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. As of September 30, 2011 and 2010, there are four designated purchasing agents, of which only three were active during the years ended September 30, 2011 and 2010.

During the year ended September 30, 2010, the Authority wrote off 7 advances in the total amount of \$57,622.

A summary of the copra buyers' revolving fund at September 30, 2011 and 2010, is presented below:

	<u>2011</u>	<u>2010</u>
Copra revolving funds advanced	\$ 38,144	\$ 40,000
Allowance for doubtful accounts	(30,000)	(30,000)
Copra revolving funds, net	\$ <u>8,144</u>	\$ <u>10,000</u>

Accounts Receivable. Accounts receivable substantially arise from sales to local customers, of which one entity is considered to be a related party. The Chairman of the Board of Directors of the Authority is also a stockholder of Pohnpei Coconut Products, from whom the total related party receivable is due. A summary of accounts receivable at September 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Trade accounts receivable	\$ 6,321	\$ 375
Related party accounts receivable	10,511	10,511
Due from General Fund	<u>1,500</u>	<u>1,500</u>
	18,332	12,386
Allowance for doubtful accounts	(10,511)	(10,511)
Accounts receivable, net	\$ <u>7,821</u>	\$ <u>1,875</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

F. Inventory

The Authority purchases and collects copra from local vendors within the FSM. 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, as reduced by a provision for inventory shrinkage. Cost may ultimately exceed market value, a factor which is offset by subsidies for this purpose received from the FSM National Government (note 3).

Ending copra inventory at September 30, 2011 and 2010 is valued at estimated net 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. The Authority capitalizes all assets of any value that have an estimated useful life of more than one year.

H. Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Authority. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, surcharges and certain other non-recurring income and costs.

I. Taxes

Corporate profits are not subject to income tax in the FSM. The FSM National Government imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax. In addition, the Authority is exempt from any taxes or assessments on any of its property and operations imposed by the FSM National Government or local governments.

J. New Accounting Standards

During fiscal year 2011, the Authority implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2011 and 2010

(1) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. 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 asset movements for the years ended September 30, 2011 and 2010, are as follows:

	<u>Estimated Useful Life</u>	<u>October 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2011</u>
Buildings	20 years	\$ 191,429	\$ -	\$ -	\$ 191,429
Equipment	5-10 years	321,128	7,363	(35,893)	293,598
Vehicles	5 years	49,355	-	-	49,355
Furniture and fixtures	5-10 years	7,317	-	-	7,317
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	<u>9,090</u>	<u>500</u>	<u>-</u>	<u>9,590</u>
		589,574	7,863	(35,893)	561,544
Less accumulated depreciation		<u>(430,026)</u>	<u>(26,102)</u>	<u>35,893</u>	<u>(420,235)</u>
		\$ <u>159,548</u>	\$ <u>(18,239)</u>	\$ <u>-</u>	\$ <u>141,309</u>

	<u>Estimated Useful Life</u>	<u>October 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2010</u>
Buildings	20 years	\$ 191,429	\$ -	\$ -	\$ 191,429
Equipment	5-10 years	262,293	58,835	-	321,128
Vehicles	5 years	42,959	6,396	-	49,355
Furniture and fixtures	5-10 years	7,317	-	-	7,317
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	<u>9,090</u>	<u>-</u>	<u>-</u>	<u>9,090</u>
		524,343	65,231	-	589,574
Less accumulated depreciation		<u>(387,471)</u>	<u>(42,555)</u>	<u>-</u>	<u>(430,026)</u>
		\$ <u>136,872</u>	\$ <u>22,676</u>	\$ <u>-</u>	\$ <u>159,548</u>

(3) Grants and Subsidies

During the years ended September 30, 2011 and 2010, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

	<u>2011</u>	<u>2010</u>
Copra subsidy funds	\$ 100,000	\$ 80,000
Operational grants:		
Administrative expenses	<u>114,848</u>	<u>85,266</u>
Total grants and subsidies	\$ <u>214,848</u>	\$ <u>165,266</u>

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2011 and 2010

(3) Grants and Subsidies, Continued

During the years ended September 30, 2011 and 2010, the Authority received capital contributions from the Government of India as follows:

	<u>2011</u>	<u>2010</u>
Contribution from the Government of India	\$ <u>-</u>	\$ <u>75,855</u>

(4) Minimum Lease Payments

The Authority has entered into two lease agreements with copra purchasing agents with combined annual rent expense of \$9,000. One agreement for \$4,200 per annum expires in April 2012 while the other agreement for \$4,800 per annum does not specify a lease period.

(5) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2011 and 2010, 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 and no material losses from this policy have been incurred during the past three years.

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

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

We have audited the financial statements of the Federated States of Micronesia Coconut Development Authority (the Authority), as of and for the year ended September 30, 2011, and have issued our report thereon dated June 6, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

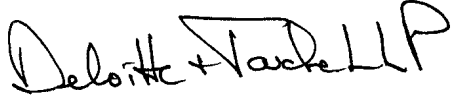
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, 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 an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated June 6, 2012.

This report is intended solely for the information and use of management and the Board of Directors of the Federated States of Micronesia Coconut Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

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

June 6, 2012