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, 2013 AND 2012

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Coconut Development Authority (the "Authority"), a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSM Coconut Development Authority as of September 30, 2013 and 2012, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 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* in considering the Authority's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 26, 2014

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

This section is the Management's Discussion and Analysis (MD&A) of the FSM Coconut Development Authority (the "Authority" or "CDA"). Its objective is to provide the reader with an introduction and overview of the Financial Statements of the Authority for the fiscal year ended (FYE) September 30, 2013. This report is to be read in conjunction with the financial statements that follow this section. Fiscal Year 2012 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 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 2013, the Authority's original annual copra subsidy was $100,000 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.

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 241 s/tons were produced.

Following are the production of copra in s/tons since 1988:

1988	2,175 s/tons	2001	509 s/tons
1989	1,140 s/tons	2002	754 s/tons
1990	2,305 s/tons	2003	583 s/tons
1991	982 s/tons	2004	352 s/tons
1992	242 s/tons	2005	116 s/tons
1993	633 s/tons	2006	145 s/tons
1994	909 s/tons	2007	7 s/tons
1995	1,210 s/tons	2008	52 s/tons
1996	717 s/tons	2009	174 s/tons
1997	510 s/tons	2010	361 s/tons
1998	928 s/tons	2011	361 s/tons
1999	548s/tons	2012	156 s/tons
2000	757 s/tons	2013	241 s/tons

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.

CDA will continue to purchase copra from Yap state thru WAAB Transportation Company and in Pohnpei thru Federated Shipping Company at $.015 cent per pound plus the additional charges related to copra purchasing and buyer's commission. CDA food division purchase fresh husked nuts from farmers at $.09 cent per pound.

The fresh nuts are processed into products such as virgin coconut oil, fragrance oil, cooking oil, bath soap, hotel soap and natural bath soap. Copra is mainly for the export market but part of the crude oil is sold locally. Others are process to laundry soap. Our present inventory of crude oil in our storage is approximately seven thousand five hundred gallons or equivalent to 28 short tons.

Financial Highlights

- As of September 30, 2013, the Authority has total assets of $343,889, a decrease of $14,753 compared to total assets of $358,642 as of September 30, 2012.

- During FY2013, the Authority's gross loss was $4,550 while total operating expenses were $319,402 resulting in a net loss from operations of $323,952. The net loss was funded by operating grants and subsidies received from FSM National Government of $205,355.

- During FY2013, the Authority received a copra subsidy appropriation from FSM National Government of $100,000.

- During FY2013 the Authority received operational grants of $105,355 from the FSM National Government, an increase of $3,747 or 3.7% as compared to FY2012. The Authority continues to maintain its operation at a minimal level to meet the objective of minimizing operation costs of the government.

The CDA as a Whole

Net position may serve over time as a useful indicator of the Authority's financial position. At the end of fiscal year 2013, the Authority's assets exceeded liabilities by $312,595. Of the total assets, $136,462 is restricted as net investment in capital assets while $176,133 is unrestricted for its use.

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

Assets	2013	2012	2011
Property, plant and equipment, net	$ 136,462	$ 103,999	$ 141,309
Current assets	207,427	254,643	237,427
Total assets	$ 343,889	$ 358,642	$ 378,736
Liabilities and net position			
Accounts payable	$ 20,601	$ 2,944	$ 25,056
Other payables	10,693	11,381	11,380
	31,294	14,325	36,436
Net position:			
Unrestricted	176,133	240,318	200,991
Net investment in capital assets	136,462	103,999	141,309
	312,595	344,317	342,300
Total liabilities and net position	$ 343,889	$ 358,642	$ 378,736
Revenues, expenses and changes in net position			
Gross (loss) profit	$ (4,550)	$ 48,518	$ 28,093
Operating expenses	319,402	248,109	248,112
Net operating loss	(323,952)	(199,591)	(220,019)
Grants, subsidies and other income and capital contribution	292,230	201,618	214,848
Change in net position	$ (31,722)	$ 2,017	$ (5,171)

Capital Assets

Table 2 shows the summary of capital assets as of as compared to fiscal year 2012.

	2013	2012
Buildings	$ 191,429	$ 191,429
Equipment	389,007	292,598
Vehicles	49,355	49,355
Furniture and fixtures	8,272	7,317
Leasehold improvements	11,255	11,255
Water tank	9,590	9,590
Total	658,908	561,544
Less: Accumulated depreciation	(522,446)	(457,545)
Net capital assets	$ 136,462	$ 103,999

Asset additions occurred during FY2013 were primarily funded by capital contribution from the Government of India. 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, 2012 is set forth in the Authority's report on the audit of financial statements, which is dated June 18, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

Plan of Action for 2015 and Economic Outlook

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

1. The Authority will continue to improve its operation by selling and promoting coconut products locally, within the FSM and outside the FSM.

2. In anticipation to meet the target plans of the Authority, we will continue to retain a Plant Chemist.

3. The Authority will discontinue the expensive and therefore uneconomical exportation of copra and will instead process all copra in Pohnpei and sell the crude oil as cocofuel (coconut oil as diesel fuel) and the copra meal as pig/animal feeds. CDA has already secured a one year ***Goods for Sale*** contract with Pohnpei Utilities Corporation to supply the Power Plant with at least 1,728 gallons of cocofuel per month. With the new and larger equipment installed and operational, the Authority anticipates to increase the amount to 12,000 gallons per month.

4. The Authority is making arrangements with Lotte Duty Free Guam, who is interested in buying Virgin Coconut Oil (VCO) and VCO Soap for their Duty Free Shops in Guam, and possibly in other airports it operates.

5. The Authority will invest in online marketing to establish online sales channels (website) to Guam, Hawaii, U.S Mainland, Australia, Europe, and Asia.

6. The Authority now focuses on an agenda where it will be financially self-independent by the end of 2023.

CONTACTING CDA'S MANAGEMENT

This financial report is designed to provide our citizens and other users of our financial information, a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the General Manager, P.O. Box 1210 Kolonia, Pohnpei 96941.

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY
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Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and equivalents	$ 35,990	$ 137,550
Accounts receivable, net	22,266	27,577
Advances to employees	90	5,629
Prepayments	743	743
Copra bags inventory	17,623	10,934
Copra inventory	130,715	72,210
Total current assets	207,427	254,643
Property, plant and equipment, net	136,462	103,999
	$ 343,889	$ 358,642
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 20,601	$ 2,944
Accrued payroll and others	10,193	10,881
Customer deposits	500	500
Total current liabilities	31,294	14,325
Commitment and contingency		
Net position:		
Net investment in capital assets	136,462	103,999
Unrestricted	176,133	240,318
Total net position	312,595	344,317
	$ 343,889	$ 358,642

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Copra sales	$ 170,764	$ 255,727
Cost of copra sold	(175,314)	(207,209)
Gross (loss) profit	(4,550)	48,518
Operating expenses:		
Personnel services	114,090	111,716
Consumables and others	77,080	75,778
Depreciation	64,901	37,310
Bad debts	44,879	-
Travel	15,133	6,766
Miscellaneous	3,319	16,539
Total expenses	319,402	248,109
Operating loss	(323,952)	(199,591)
Nonoperating revenues:		
Operating grants and subsidies	205,355	201,608
Other income	59	-
Total nonoperating revenues	205,414	201,608
Capital contribution from the Government of India	86,816	-
Change in net position	(31,722)	2,017
Net position at beginning of year	344,317	342,300
Net position at end of year	$ 312,595	$ 344,317

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
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Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 199,036	$ 244,115
Cash paid to employees for services	(114,778)	(111,716)
Cash paid to suppliers for goods and services	(380,626)	(214,994)
Net cash used in operating activities	(296,368)	(82,595)
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	205,356	201,608
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	(97,364)	-
Capital grant from the Government of India	86,816	-
Net cash used in capital and related financing activities	(10,548)	-
Change in cash and equivalents	(101,560)	119,013
Cash and equivalents at beginning of year	137,550	18,537
Cash and equivalents at end of year	$ 35,990	$ 137,550
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (323,952)	$ (199,591)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	64,901	37,310
Bad debts	44,879	-
Miscellaneous income	59	-
(Increase) decrease in assets:		
Accounts receivable	(39,569)	(11,612)
Advances to employees	5,539	2,890
Inventories	(65,194)	110,519
Increase (decrease) in liabilities:		
Accounts payable	17,657	(22,112)
Accrued payroll and others	(688)	1
Net cash used in operating activities	$ (296,368)	$ (82,595)

See accompanying notes to financial statements.

(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.

B. Net Position

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of the following categories:

- Net investment in capital assets:

  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  - Nonexpendable – Net position subject to externally imposed stipulations that require the Authority to maintain them permanently. For the years ended September 30, 2013 and 2012, the Authority does not have nonexpendable restricted net position.

  - Expendable – Net position 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.

(1) Summary of Significant Accounting Policies, Continued

B. Net Position, Continued

- Unrestricted:

  Net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

C. 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 position. 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.

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. Cash and Equivalents

For the purposes of the statements of net position 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.

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.

As of September 30, 2013 and 2012, $35,990 and $137,550, respectively, of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

(1) Summary of Significant Accounting Policies, Continued

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 based on the specific identification method. 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, 2013 and 2012, there are four designated purchasing agents, of which only three were active during the years ended September 30, 2013 and 2012.

A summary of the copra buyers' revolving fund at September 30, 2013 and 2012 is presented below:

	2013	2012
Copra revolving funds advanced	$ 38,144	$ 38,144
Allowance for doubtful accounts	(30,000)	(30,000)
Copra revolving funds, net	$ 8,144	$ 8,144

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, 2013 and 2012, is as follows:

	2013	2012
Trade accounts receivable	$ 57,501	$ 17,933
Related party accounts receivable	10,511	10,511
Due from FSM National Government	1,500	1,500
	69,512	29,944
Allowance for doubtful accounts	(55,390)	(10,511)
Accounts receivable, net	$ 14,122	$ 19,433

G. 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).

(1) Summary of Significant Accounting Policies, Continued

G. Inventory, Continued

Ending copra inventory at September 30, 2013 and 2012 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.

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. The Authority capitalizes all assets of any value that have an estimated useful life of more than one year.

I. 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.

J. 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.

K. New Accounting Standards

During the year ended September 30, 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(1) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement *N*o. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

(1) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

(2) Property, Plant and Equipment

Fixed asset movements for the years ended September 30, 2013 and 2012, are as follows:

	Estimated Useful Life	October 1, 2012	Additions	Retirements	September 30, 2013
Buildings	20 years	$ 191,429	$ -	$ -	$ 191,429
Equipment	5-10 years	292,598	96,409	-	389,007
Vehicles	5 years	49,355	-	-	49,355
Furniture and fixtures	5-10 years	7,317	955	-	8,272
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	9,590	-	-	9,590
		561,544	97,364	-	658,908
Less accumulated depreciation		(457,545)	(64,901)	-	(522,446)
		$ 103,999	$ 32,463	$ -	$ 136,462

	Estimated Useful Life	October 1, 2011	Additions	Retirements	September 30, 2012
Buildings	20 years	$ 191,429	$ -	$ -	$ 191,429
Equipment	5-10 years	292,598	-	-	292,598
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	9,590	-	-	9,590
		561,544	-	-	561,544
Less accumulated depreciation		(420,235)	(37,310)	-	(457,545)
		$ 141,309	$ (37,310)	$ -	$ 103,999

(3) Grants and Subsidies

During the years ended September 30, 2013 and 2012, the Authority recognized grants and contributions as follows:

	2013	2012
Copra subsidy funds	$ 100,000	$ 100,000
Operational grants:		
Administrative expenses	105,355	101,608
Capital grants from the Government of India	86,816	-
Total grants and subsidies	$ 292,171	$ 201,608

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2013 and 2012, 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.

(5) Subsequent Event

In June 2014, the FSM Congress approved the integration of the Authority into the operations of the FSM Petroleum Corporation, which is also a component unit of the FSM National Government. This integration is expected to occur as of October 1, 2014.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia (FSM) Coconut Development Authority (the "Authority"), which comprise the statements of net position as September 30, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

June 26, 2014

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Summary Schedule of Prior Year Findings
Year Ended September 30, 2013

There are no prior year findings unresolved as of September 30, 2013.