

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

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

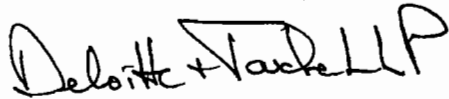
We have audited the accompanying statements of net assets of Federated States of Micronesia Coconut Development Authority (the Authority), a component unit of the National Government of the Federated States of Micronesia, as of September 30, 2007 and 2006, and the related statements of revenues, expenses 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, 2007 and 2006, 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 March 27, 2008 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 + Stach LLP". The signature is written in a cursive, stylized font.

March 27, 2008

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Management Discussion and Analysis
Year Ended September 30, 2007

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, 2007.

The Federated States of Micronesia Coconut Development Authority (the Authority) was established in 1981 by Public Law 1-156 and incorporated as Chapter Two, Title 22 of the Code of the Federated States of Micronesia. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export, inspect, improve the quality 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 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 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 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 2007 the Authority's annual copra subsidy was only \$50,000 with no additional supplemental subsidy during the fiscal year. With the continuous instability of 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 2007 the nation can expect a reduction of the copra price which will affect those people whose livelihood depends on revenue from the copra.

The Authority has also experienced a drastic decline in the production of copra over the years. The Authority's peak production of 5,788 s/tons in 1985 has gone down steadily over the years and in the current year only 7 tons were produced.

Following are the production of copra in s/tons within the past 21 years(c/y):

1987	1,774 s/tons	1997	510 s/tons
1988	2,175 s/tons	1998	928 s/tons
1989	1,140 s/tons	1999	548 s/tons
1990	2,305 s/tons	2000	757 s/tons
1991	982 s/tons	2001	529 s/tons
1992	242 s/tons	2002	754 s/tons
1993	633 s/tons	2003	583 s/tons
1994	909 s/tons	2004	352 s/tons
1995	1,210 s/tons	2005	116 s/tons
1996	717 s/tons	2005	200 s/tons
		2006	145 s/tons
		2007	7 s/tons

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Management Discussion and Analysis
Year Ended September 30, 2007

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 turned over to a private operation. This will require establishment of good regular sources of raw materials, training of personnel, establishment of market and upgrading of the project output. In anticipation of meeting all the above targets, the Authority will continue to retain a plant chemist who works in its small Food Processing Division and provides training for the local people. The Authority has discontinued the consultant who assisted the Authority in its current development works and also provided technical assistance to the two oil processing plants in Pohnpei and Chuuk State. This is due to the discontinuation of funding to retain this consultant. The Authority is currently in the process of installing its second apron dryer donated by the Government of India, using coconut shell and firewood instead of the expensive LPGas. The Authority anticipates an increase in its production of regular virgin coconut and the premium grade virgin coconut oil. The plant in Chuuk State was destroyed by fire and the State has not made any attempt to restore the plant to its operational state. The plant in Pohnpei has discontinued for a while, making markeiso, toilet soap, shampoo and other coconut products and is concentrating on the production of crude coconut oil as a fuel substitute for diesel engines.

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 products. More importantly, it will increase earnings of the coconut farmers and may subsequently develop this industry to be less dependent on government financial subsidies.

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

The following summarizes the financial condition and operations of the Authority.

<u>Assets:</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Property, plant and equipment, net	\$ 264,328	\$ 226,329	\$ 252,888
Current assets	<u>97,233</u>	<u>160,793</u>	<u>191,769</u>
Total assets	\$ <u>361,561</u>	\$ <u>387,122</u>	\$ <u>444,657</u>
 <u>Liabilities and Net Assets:</u>			
Liabilities:			
Accounts payable	\$ 2,810	\$ 3,416	\$ 5,996
Other payables	1,267	1,308	5,673
Net assets:			
Invested in capital assets	264,328	226,329	252,888
Unrestricted	<u>93,156</u>	<u>156,069</u>	<u>180,099</u>
Total liabilities and net assets	\$ <u>361,561</u>	\$ <u>387,122</u>	\$ <u>444,657</u>

**FEDERATED STATES OF MICRONESIA
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Management Discussion and Analysis
Year Ended September 30, 2007

Revenues, Expenses and Changes in Net Assets:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenue, net of cost of sales	\$ 24,966	\$ (16,432)	\$ 47,509
Operating expenses	<u>246,793</u>	<u>241,355</u>	<u>257,440</u>
Net operating revenues loss	<u>(221,827)</u>	<u>(257,787)</u>	<u>(209,931)</u>
Other grants and income/expense:			
Grants and subsidies	185,550	198,106	282,565
Miscellaneous income and (expense)	<u>11,363</u>	<u>9,092</u>	<u>26,300</u>
Total other income and (expenses)	<u>196,913</u>	<u>207,198</u>	<u>308,865</u>
Increase (decrease) in net assets	\$ <u>(24,914)</u>	\$ <u>(50,589)</u>	\$ <u>98,934</u>

Financial Highlights

The copra subsidy appropriation for the reporting fiscal year is \$50,000.

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 the objective of minimizing operation costs of the government.

For additional information concerning the Authority's capital assets, please refer to Note 2 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of CDA's financial statements, which is dated June 1, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmpublicauditor.fm

Plan of Action for 2008

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 morale.
4. Stop all non essential expenses and promote cost saving measures.
5. Aggressive collection of receivables.
6. Venture into development of other high value added and new coconut by-products.

**FEDERATED STATES OF MICRONESIA
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Statements of Net Assets
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and equivalents	\$ 73,804	\$ 45,357
Accounts receivable, net	1,869	610
Prepayments	1,254	15,980
Copra bags inventory	10,619	13,428
Copra inventory, net	<u>9,687</u>	<u>85,418</u>
Total current assets	97,233	160,793
Property, plant and equipment, net	<u>264,328</u>	<u>226,329</u>
	<u>\$ 361,561</u>	<u>\$ 387,122</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 2,810	\$ 3,416
Accrued payroll and others	767	808
Customer deposits	<u>500</u>	<u>500</u>
Total current liabilities	<u>4,077</u>	<u>4,724</u>
Contingency		
Net assets:		
Invested in capital assets, net of related debt	264,328	226,329
Unrestricted	<u>93,156</u>	<u>156,069</u>
Total net assets	<u>357,484</u>	<u>382,398</u>
	<u>\$ 361,561</u>	<u>\$ 387,122</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
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Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Copra sales	\$ 90,430	\$ 65,542
Cost of copra sold	(65,464)	(34,651)
Less: uncollectible revenues	<u>-</u>	<u>(47,323)</u>
Gross profit (loss)	<u>24,966</u>	<u>(16,432)</u>
Operating expenses:		
Personnel services	82,232	78,221
Inventory shrinkage	58,074	12,383
Consumables and others	36,105	39,015
Depreciation	17,434	44,366
Travel	11,964	18,700
Contractual services	6,000	23,810
Per diem and transportation	4,230	4,125
Damaged bags expense	997	6,010
Miscellaneous	<u>29,757</u>	<u>14,725</u>
Total expenses	<u>246,793</u>	<u>241,355</u>
Loss from operations	<u>(221,827)</u>	<u>(257,787)</u>
Nonoperating revenues (expenses), net:		
Operating grants and subsidies	185,550	198,106
Miscellaneous income (expense), net	<u>11,363</u>	<u>9,092</u>
Total nonoperating revenues	<u>196,913</u>	<u>207,198</u>
Change in net assets	(24,914)	(50,589)
Net assets at beginning of year	<u>382,398</u>	<u>432,987</u>
Net assets at end of year	<u>\$ 357,484</u>	<u>\$ 382,398</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
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Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 100,534	\$ 77,461
Cash paid to employees	(82,273)	(81,086)
Cash paid to suppliers	<u>(105,744)</u>	<u>(206,588)</u>
Net cash used for operating activities	<u>(87,483)</u>	<u>(210,213)</u>
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	<u>185,550</u>	<u>198,106</u>
Cash flows from capital and related financing activities:		
Proceeds from disposal of property, plant and equipment	2,985	-
Acquisition of property, plant and equipment	<u>(72,605)</u>	<u>(17,807)</u>
Net cash used for capital and related financing activities	<u>(69,620)</u>	<u>(17,807)</u>
Change in cash	28,447	(29,914)
Cash and equivalents at beginning of year	<u>45,357</u>	<u>75,271</u>
Cash and equivalents at end of year	<u>\$ 73,804</u>	<u>\$ 45,357</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (221,827)	\$ (257,787)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	17,434	44,366
Losses on write-off of property	14,187	-
Bad debts	-	47,323
Inventory shrinkage	58,074	12,383
Others	11,363	9,092
Change in accounts receivable	(1,087)	2,556
Change in inventory and prepayments	35,192	(61,472)
Change in travel advances	-	1,560
Due from other funds	(172)	(1,288)
Change in accounts payable	(606)	(2,581)
Change in accrued payroll and others	(41)	(2,865)
Change in accrued customer deposit	<u>-</u>	<u>(1,500)</u>
Net cash used for operating activities	<u>\$ (87,483)</u>	<u>\$ (210,213)</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements
September 30, 2007 and 2006

(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 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 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, 2007 and 2006

(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, 2007 and 2006, 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 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. As of September 30, 2007 and 2006, \$72,582 and \$44,081, respectively, of cash is subject to FDIC insurance.

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2007 and 2006

(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, 2007 and 2006.

A summary of the copra buyers' revolving fund at September 30, 2007 and 2006, is presented below:

	<u>2007</u>	<u>2006</u>
Copra revolving funds advanced	\$ 87,622	\$ 87,622
Allowance for doubtful accounts	(87,622)	(87,622)
Copra revolving funds, net	\$ <u>-</u>	\$ <u>-</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, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Trade accounts receivable	\$ 8,083	\$ 10,310
Related party accounts receivable	110,318	110,318
Due from General Fund	<u>1,460</u>	<u>1,288</u>
	119,861	121,916
Allowance for doubtful accounts	(117,992)	(121,306)
Accounts receivable, net	\$ <u>1,869</u>	\$ <u>610</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2007 and 2006

(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, as reduced by a provision for inventory shrinkage. 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, 2007 and 2006 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. The CDA 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 CDA. 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. New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefit expenses and related liabilities, note disclosures, and, if applicable, required supplementary information in the reports of the state and local employers. The provisions of this Statement are effective for periods beginning after December 15, 2007.

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*. GASB Statement No. 48 establishes uniform financial reporting for these types of revenues. The provisions of this Statement are effective for periods beginning after December 15, 2006.

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Notes to Financial Statements
September 30, 2007 and 2006

(1) Summary of Significant Accounting Policies, Continued

H. New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009.

Management does not believe that the implementation of these Statements 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, 2007 and 2006, are as follows:

	<u>Estimated Useful Life</u>	<u>October 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2007</u>
Buildings	20 years	\$ 255,524	\$ 3,292	\$ (50,820)	\$ 207,996
Equipment	5-10 years	243,910	1,282	-	245,192
Vehicles	5 years	51,896	-	(10,162)	41,734
Furniture and fixtures	5-10 years	6,422	895	-	7,317
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	7,589	-	-	7,589
Construction in Progress		-	67,136	-	67,136
		576,596	72,605	(60,982)	588,219
Less accumulated depreciation		(350,267)	(17,434)	43,810	(323,891)
		<u>\$ 226,329</u>	<u>\$ 55,171</u>	<u>\$ (17,172)</u>	<u>\$ 264,328</u>
	<u>Estimated Useful Life</u>	<u>October 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2006</u>
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		48,776	-	(48,776)	-
		558,789	66,583	(48,776)	576,596
Less accumulated depreciation		(305,901)	(44,366)	-	(350,267)
		<u>\$ 252,888</u>	<u>\$ 22,217</u>	<u>\$ (48,776)</u>	<u>\$ 226,329</u>

**FEDERATED STATES OF MICRONESIA
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Notes to Financial Statements
September 30, 2007 and 2006

(2) Property, Plant and Equipment, Continued

During the year ended September 30, 2007, the Authority abandoned use of a warehouse and recognized a non-cash loss of \$14,187 as a result.

(3) Grants and Subsidies

During the years ended September 30, 2007 and 2006, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

	<u>2007</u>	<u>2006</u>
Copra subsidy funds	\$ 55,000	\$ 75,000
Operational grants:		
Administrative expenses	<u>130,550</u>	<u>123,106</u>
Total grants and subsidies	<u>\$ 185,550</u>	<u>\$ 198,106</u>

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2007, 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 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 Federated States of Micronesia Coconut Development Authority (the Authority), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 27, 2008. 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, 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. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 17 and 18) as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

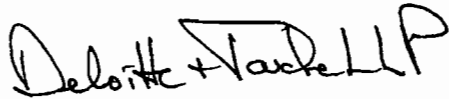
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

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*.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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 + Touche LLP". The signature is written in a cursive, stylized font.

March 27, 2008

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Finding No.: 2007-1
Area: Accounts Receivable

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

Condition: Trade accounts receivable balances from some customers have been outstanding for over one year. Credit sales to one of these customers, Pohnpei Coconut Products, continued to be made during fiscal year 2007, despite the outstanding receivable balance.

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

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

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

Prior Year Status: This condition was reported as an internal control finding in the audits of the Authority for the fiscal years 2002 through 2006.

Auditee Response and Corrective Action Plan: The Authority continued to make attempts to collect on the current receivables. The Authority is currently selling to PCPI copra on the cash basis where the Authority releases copra, PCPI crushed and pay back in full within 30 days. This process seems to be working and it is helping PCPI to improve their cash flow and make payment on their current accounts on a timely basis. The Authority feels that if this process continues PCPI will continue to fulfill their payment arrangements.

During the last board meeting PCPI's old account was discussed at length. Management informed that PCPI has not made any attempt to make payment on the old account also informed the board that collection of such account will be difficult. Based on the deliberations on PCPI the board unanimously approved to write off PCPI's old account.

**FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Finding No.: 2007-2
Area: Copra Revolving Funds

Criteria: Management should monitor old, reserved receivables and consider a write-off if they appear uncollectible.

Condition: There were no movements in copra revolving funds and related allowances in fiscal year 2007. Seven of ten listed agents are already out of business, and it appears that some of these funds are uncollectible.

Cause: It appears that management has yet to determine the amount to be written-off.

Effect: No net effect on the financial statements results from this condition.

Recommendation: We recommend that management look into these accounts and consider a write-off of these receivables.

Auditee Response and Corrective Action Plan: The Authority agrees with the recommendation put forth on the Copra Revolving Funds. Most of these agents are no longer in business and it will be very difficult to collect these funds. Based on that it is also the Authority's recommendation to write-off their accounts except FSCO, K&I & Waab.