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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 7, 2010 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 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.

Deloitte + Touche LLP

June 7, 2010

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2009 and 2008

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, 2009.

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

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

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

In year 2009 the Authority's annual copra subsidy was only $82,500 with no additional supplemental during the fiscal year. With the continuous instability of the world prices in the world market, the copra subsidy plays an important role in maintaining a stable price for the producers. If there is going to be a further reduction of the copra subsidy in fiscal year 2010 the nation can expect a reduction of the copra price which will affect those people whose livelihood depends on the revenue from the copra.

The Authority has also experienced a drastic decline in the production of copra over the years. The Authority's peak production of 5,788 s/tons in 1985 has gone down steadily over the years and in the current year only 174 s/ tons were produced.

Following are the production of copra in s/tons within the past 22 years(c/y):

1988	2,175 s/tons	1999	548 s/tons
1989	1,140 s/tons	2000	757 s/tons
1990	2,305 s/tons	2001	529 s/tons
1991	982 s/tons	2002	754 s/tons
1992	242 s/tons	2003	583 s/tons
1993	633 s/tons	2004	352 s/tons
1994	909 s/tons	2005	116 s/tons
1995	1,210 s/tons	2006	145 s/tons
1996	717 s/tons	2007	7 s/tons
1997	510 s/tons	2008	52 s/tons
1998	928 s/tons	2009	174 s/tons

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 for private operation. This will require establishment of good regular sources of raw materials, training of personnel, establishment of market and upgrading of the project output. In anticipation of meeting all the above targets, the Authority will continue to retain a plant chemist who works in its small Food Processing Division and provide training for the local people. The Authority discontinued hiring 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 due to the discontinuation of funding to maintain such consultant. Under the current situation, the processing 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 operational. They have just renovated their oil mill section after a fire that destroyed almost 60% of the entire plant. 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. 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 to increase 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. This project will enable the outer islanders to produce their own crude oil instead of shipping bulky copra. In the Authority's anticipation to continue its work to develop the industry, the Authority has sent a grant request through the Department of Foreign Affairs to the Indian Government for new equipment to make soap and improve the quality of virgin coconut oil for edible products.

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 a higher value added product. More importantly, it will increase earnings of the coconut farmers and may subsequently develop this industry to be less dependent on government financial subsidy.

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

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

Assets	2009	2008	2007
Property, plant and equipment, net	$ 136,872	$ 229,142	$ 264,328
Current assets	173,628	108,625	97,233
Total assets	$ 310,500	$ 337,767	$ 361,561
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$ 3,343	$ 1,043	$ 2,810
Other payables	1,480	1,006	1,267
Net assets:			
Invested in capital assets	136,872	229,142	264,328
Unrestricted	168,805	106,576	93,156
	305,677	335,718	357,484
Total liabilities and net assets	$ 310,500	$ 337,767	$ 361,561

Revenues, Expenses and Changes in Net Assets

Gross profit	$ 62,385	$ 33,685	$ (21,745)
Operating expenses	241,295	199,009	174,532
Net operating revenues (loss)	(178,910)	(165,324)	(196,277)
Others Grants and Income/Expense			
Loss on disposal of fixed assets	(27,327)	-	-
Grants and subsidies	176,196	143,558	171,363
Total other income and (expenses)	148,869	143,558	171,363
Change in net assets	$ (30,041)	$ (21,766)	$ (24,914)

Financial Highlights

The copra subsidy appropriation for the reporting fiscal year is $82,500. The original copra subsidy was $100,000. A total of $35,000 was taken out of the $100,000 and only $17,500 was reimbursed. $17,500 remain outstanding and management has sent a request to the President's office to find a source to reimburse the balance.

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

The Authority has not engaged in significant capital asset activity. For more information about the Authority's capital assets, please see note 2 to the financial statements.

The Authority has not engaged in debt financing.

Management's Discussion and Analysis for the years ended September 30, 2008 and 2007 is set forth in the report on the audit of the Authority's financial statements, which is dated May 22, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmpublicauditor.fm

Plan of Action for 2010

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

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

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Statements of Net Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and equivalents	$ 109,488	$ 91,048
Accounts receivable, net	12,920	4,433
Prepayments	1,300	1,300
Copra bags inventory	9,694	10,161
Copra bags inventory in transit	11,298	-
Copra inventory	28,928	1,683
Total current assets	173,628	108,625
Property, plant and equipment, net	136,872	229,142
	$ 310,500	$ 337,767
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 3,343	$ 1,043
Accrued payroll and others	980	506
Customer deposits	500	500
Total current liabilities	4,823	2,049
Contingency		
Net assets:		
Invested in capital assets	136,872	229,142
Unrestricted	168,805	106,576
Total net assets	305,677	335,718
	$ 310,500	$ 337,767

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Copra sales	$ 83,104	$ 91,281
Cost of copra sold	(20,719)	(57,596)
Gross profit	62,385	33,685
Operating expenses:		
Personnel services	95,508	84,042
Depreciation	68,865	38,793
Consumables and others	29,313	34,413
Travel	21,407	13,687
Contractual services	2,452	6,000
Donation	1,950	-
Per diem and transportation	-	1,675
Miscellaneous	21,800	20,399
Total expenses	241,295	199,009
Loss from operations	(178,910)	(165,324)
Nonoperating revenues (expenses):		
Operating grants and subsidies	176,196	143,558
Loss on disposal of fixed assets	(27,327)	-
Total nonoperating revenues (expenses), net	148,869	143,558
Change in net assets	(30,041)	(21,766)
Net assets at beginning of year	335,718	357,484
Net assets at end of year	$ 305,677	$ 335,718

See accompanying notes to financial statements.

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 74,617	$ 85,720
Cash paid to employees	(95,508)	(84,303)
Cash paid to suppliers	(132,943)	(124,124)
Net cash used for operating activities	(153,834)	(122,707)
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	176,196	143,558
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	(3,922)	(3,607)
Net cash used for capital and related financing activities	(3,922)	(3,607)
Change in cash	18,440	17,244
Cash and equivalents at beginning of year	91,048	73,804
Cash and equivalents at end of year	$ 109,488	$ 91,048
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (178,910)	$ (165,324)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	68,865	38,793
Bad debts	-	2,997
(Increase) decrease in assets:		
Accounts receivable	(8,487)	(5,561)
Prepayments	-	(46)
Inventories	(38,076)	8,462
Increase (decrease) in liabilities:		
Accounts payable	2,300	(1,767)
Accrued payroll and others	474	(261)
Net cash used for operating activities	$ (153,834)	$ (122,707)

See accompanying notes to financial statements.

(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.

(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, 2009 and 2008, 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 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, 2009 and 2008, $109,488 and $91,048, respectively, of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which are fully FDIC insured.

(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, 2009 and 2008, there are eleven and ten designated purchasing agents respectively, of which only five and four, respectively, were active during the years ended September 30, 2009 and 2008.

A summary of the copra buyers' revolving fund at September 30, 2009 and 2008, is presented below:

	2009	2008
Copra revolving funds advanced	$ 97,622	$ 87,622
Allowance for doubtful accounts	(87,622)	(87,622)
Copra revolving funds, net	$ 10,000	$ -

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 the Authority is also a stockholder of Pohnpei Coconut Products, from whom the total related party receivable is due. A summary at September 30, 2009 and 2008, is as follows:

	2009	2008
Trade accounts receivable	$ 1,936	$ 4,433
Related party accounts receivable	10,511	10,511
Due from General Fund	984	-
	13,431	14,944
Allowance for doubtful accounts	(10,511)	(10,511)
Accounts receivable, net	$ 2,920	$ 4,433

(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, 2009 and 2008 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 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 2009, the Authority implemented the following pronouncements:

- In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

(2) Summary of Significant Accounting Policies, Continued

J. 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.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 this statement will have a material effect on the financial statements of the Authority.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Summary of Significant Accounting Policies, Continued

J. New Accounting Standards, Continued

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe implementation of this statement will have a material impact on the financial statements of the Authority.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent and Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans. GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The provisions of these statements are effective for periods beginning after June 15, 2011 and June 15, 2009, respectively. Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Authority.

K. Reclassifications

Certain reclassifications have been made to the 2008 financial statements in order to conform to the 2009 presentation.

(2) Property, Plant and Equipment

Fixed asset movements for the years ended September 30, 2009 and 2008, are as follows:

	Estimated Useful Life	October 1, 2008	Additions	Retirements	September 30, 2009
Buildings	20 years	$ 251,597	$ -	$ (60,168)	$ 191,429
Equipment	5-10 years	261,098	1,195	-	262,293
Vehicles	5 years	41,734	1,225	-	42,959
Furniture and fixtures	5-10 years	7,317	-	-	7,317
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	7,589	1,501	-	9,090
		580,590	3,921	(60,168)	524,343
Less accumulated depreciation		(351,448)	(68,865)	32,841	(387,471)
		$ 229,142	$ (64,944)	$ (27,327)	$ 136,872

(2) Property, Plant and Equipment, Continued

	Estimated Useful Life	October 1, 2007	Additions	Retirements	September 30, 2008
Buildings	20 years	$ 207,996	$ 43,601	$ -	$ 251,597
Equipment	5-10 years	245,192	27,142	(11,236)	261,098
Vehicles	5 years	41,734	-	-	41,734
Furniture and fixtures	5-10 years	7,317	-	-	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)	-
		588,219	70,743	(78,372)	580,590
Less accumulated depreciation		(323,891)	(38,793)	11,236	(351,448)
		$ 264,328	$ 31,950	$ (67,136)	$ 229,142

(3) Grants and Subsidies

During the years ended September 30, 2009 and 2008, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

	2009	2008
Copra subsidy funds	$ 82,500	$ 55,000
Operational grants:		
Administrative expenses	93,696	88,558
Total grants and subsidies	$ 176,196	$ 143,558

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2009 and 2008, 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.

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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 the financial statements of Federated States of Micronesia Coconut Development Authority (the Authority), as of and for the year ended September 30, 2009, and have issued our report thereon dated June 7, 2010. 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 deficiency described in the accompanying Schedule of Findings and Responses (pages 18 through 19) as item 2009-1 to be a significant deficiency 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 deficiency described above is a material weakness.

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 Responses. 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.

Deloitte + Touche LLP

June 7, 2010

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2009

Finding No.: 2009-1
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 10 of 11 copra revolving funds and related allowances in fiscal year 2009. Seven of eleven listed agents are apparently 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.

Prior Year Status: This condition is reiterative of a condition identified in the prior year audit.

Recommendation: We recommend that management consider these accounts and determine whether a write-off of these receivables should occur.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan: The Authority agrees with the recommendation put forth. As of now the only copra buyers that are still active are Federated Shipping Co., Inc. in Pohnpei, WAAB Transportation Company in Yap, K & I and EMA in the State of Chuuk. All the previous copra buyers are no longer active and are out of business. Based on their current status today it would be very difficult to even attempt to collect from them. The four active buyers mentioned above, K & I has reported to us that their vessel is now in operation and they are going back to collecting copra again. All the remaining buyers other than the four mentioned above, are out of business and the Authority sees to chance of recovering anything from them and recommends to write off whatever amount owed to the Authority and the Authority will include these in their next board meeting so the management will have the opportunity to inform them the recommendation put forth by the Auditor.

FEDERATED STATES OF MICRONESIA
COCONUT DEVELOPMENT AUTHORITY

Schedule of Unresolved Prior Year Findings
Year Ended September 30, 2009

The status of unresolved prior year findings are disclosed within the Schedule of Findings and Responses section (pages 18 through 19) of this report.