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, 2014 AND 2013

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

Years Ended September 30, 2014 and 2013
Table of Contents

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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, 2014 and 2013, 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, 2014 and 2013, 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

Report on Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historic context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2015, 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 18, 2015

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

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash and equivalents	$ 73,618	$ 35,990
Accounts receivable, net	3,181	22,266
Advances to employees	140	90
Prepayments	743	743
Copra bags inventory	16,105	17,623
Copra inventory	73,256	130,715
Total current assets	167,043	207,427
Property, plant and equipment, net	89,047	136,462
	$ 256,090	$ 343,889
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 17,380	$ 20,601
Accrued payroll and others	8,813	10,193
Customer deposits	301	500
Total current liabilities	26,494	31,294
Commitment and contingency		
Net position:		
Net investment in capital assets	89,047	136,462
Unrestricted	140,549	176,133
Total net position	229,596	312,595
	$ 256,090	$ 343,889

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Copra sales	$ 173,898	$ 170,764
Cost of copra sold	(185,587)	(175,314)
Bad debts	(22,200)	(44,879)
Gross loss	(33,889)	(49,429)
Operating expenses:		
Personnel services	135,530	114,090
Consumables and others	52,052	77,080
Depreciation	47,415	64,901
Travel	12,722	15,133
Bad debts	8,143	-
Miscellaneous	4,490	3,319
Total expenses	260,352	274,523
Operating loss	(294,241)	(323,952)
Nonoperating revenues:		
Operating grants and subsidies	211,242	205,355
Other income	-	59
Total nonoperating revenues	211,242	205,414
Capital contribution from the Government of India	-	86,816
Change in net position	(82,999)	(31,722)
Net position at beginning of year	312,595	344,317
Net position at end of year	$ 229,596	$ 312,595

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 162,640	$ 199,036
Cash paid to employees for services	(136,960)	(114,778)
Cash paid to suppliers for goods and services	(199,294)	(380,626)
Net cash used in operating activities	(173,614)	(296,368)
Cash flows from noncapital financing activities:		
Congress of the FSM operating appropriations	211,242	205,356
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	37,628	(101,560)
Cash and equivalents at beginning of year	35,990	137,550
Cash and equivalents at end of year	$ 73,618	$ 35,990
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (294,241)	$ (323,952)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	47,415	64,901
Bad debts	30,343	44,879
Miscellaneous income	-	59
(Increase) decrease in assets:		
Accounts receivable	(11,258)	(39,569)
Advances to employees	(50)	5,539
Inventories	58,977	(65,194)
Increase (decrease) in liabilities:		
Accounts payable	(3,221)	17,657
Accrued payroll and others	(1,579)	(688)
Net cash used in operating activities	$ (173,614)	$ (296,368)

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, 2014 and 2013, 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.

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Equivalents, Continued

As of September 30, 2014 and 2013, $73,618 and $35,990, respectively, of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

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, 2014 and 2013, there are four designated purchasing agents, of which only three were active during the years ended September 30, 2014 and 2013.

A summary of the copra buyers' revolving fund at September 30, 2014 and 2013 is presented below:

	2014	2013
Copra revolving funds advanced	$ 38,144	$ 38,144
Allowance for doubtful accounts	(38,144)	(30,000)
Copra revolving funds, net	$ -	$ 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, 2014 and 2013, is as follows:

	2014	2013
Trade accounts receivable	$ 68,760	$ 57,501
Related party accounts receivable	10,511	10,511
Due from FSM National Government	1,500	1,500
	80,771	69,512
Allowance for doubtful accounts	(77,590)	(55,390)
Accounts receivable, net	$ 3,181	$ 14,122

(1) Summary of Significant Accounting Policies, Continued

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).

Ending copra inventory at September 30, 2014 and 2013 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, 2014, the Authority implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. 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. 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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 November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

(2) Property, Plant and Equipment

Property, plant and equipment movements for the years ended September 30, 2014 and 2013, are as follows:

	Estimated Useful Life	October 1, 2013	Additions	Retirements	September 30, 2014
Buildings	20 years	$ 191,429	$ -	$ -	$ 191,429
Equipment	5-10 years	389,007	-	(1,079)	387,928
Vehicles	5 years	49,355	-	-	49,355
Furniture and fixtures	5-10 years	8,272	-	-	8,272
Leasehold improvements	20 years	11,255	-	-	11,255
Water tank	10 years	9,590	-	-	9,590
		658,908	-	(1,079)	657,829
Less accumulated depreciation		(522,446)	(47,415)	1,079	(568,782)
		$ 136,462	$ (47,415)	$ -	$ 89,047

	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

(3) Grants and Subsidies

During the years ended September 30, 2014 and 2013, the Authority recognized grants and contributions as follows:

	2014	2013
Copra subsidy funds	$ 100,000	$ 100,000
Operational grants:		
Administrative expenses	111,242	105,355
Capital grants from the Government of India	-	86,816
Total grants and subsidies	$ 211,242	$ 292,171

(4) Risk Management

The Authority purchases insurance to cover risks associated with its warehouses and buildings. As of September 30, 2014 and 2013, 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) Coconut Development Unit (CDU)

Coconut Development Unit was established through Public Law (P.L.) No. 18-68 enacted on June 16, 2014, which dissolved the FSM Coconut Development Authority (CDA) and transferred the responsibility of coconut development to FSM Petroleum Corporation (FSMPC). CDU is to become a division of FSMPC. Pursuant to P.L. 18-68, the transition will occur in several phases over 24 months. Phase I commenced June 2014 with the goal of ensuring a seamless transition of CDA employees and assets by September 30, 2014.

(6) 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. Therefore, after this date, the Authority will no longer be a component unit of the FSM National Government. This integration is expected to occur as of October 1, 2014.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

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*

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 statement of net position as September 30, 2014, 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 18, 2015.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-001 through 2014-009 to be material weaknesses.

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*.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 18, 2015

Finding No. 2014-001

Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: FSM-CDA did not close fiscal year September 30, 2014 financial information (trial balance and subsidiary ledgers) until May 19, 2015.

Cause: The cause of the above condition is the lack of timely closing of the year-end reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not provided for audit in a timely manner.

Recommendation: We recommend that FSM-CDA implement internal control procedures to facilitate timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-002

Cash Account and Bank Reconciliations

Criteria: Transactions should be timely recorded. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be performed monthly.

Condition: FSM-CDA does not have established policies, procedures and controls in place requiring timely processing and posting of transactions, and timely preparation and review of reconciliations. Bank accounts were not reconciled monthly, and were also not reviewed by the General Manager. The September 30, 2014 reconciliation was completed in May 2015. Transactions of $10,613 that were not previously accounted for were also noted. Deposited cash of $13,479 and the replenishment of petty cash account (GL A/c #1006A) were not recorded. These misstatements were corrected through the audit process. Petty cash changed from $1,500 to $550 in 2014 but no Board approval occurred.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: We recommend that management implement procedures requiring timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-003

Fixed Assets

Criteria: The fixed assets register is to be timely updated to reflect current year depreciation and the register should be reviewed by management.

Condition: Depreciation expense was not recorded.

Cause: There are no policies and procedures in place requiring that the fixed asset register be timely updated, be reviewed by management and be reconciled with the general ledger.

Effect: The effect of the above condition is the possible misstatement of fixed assets. This matter was corrected during the audit process.

Recommendation: We recommend that FSM CDA establish policies and procedures to require timely update of the fixed asset register and reconciliation with the general ledger.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-004

Net Position Reconciliation

Criteria: The current year beginning fund balance should agree with the prior year ending balance.

Condition: At September 30, 2014, FSM CDA's beginning net position did not agree with the FY2013 ending net position balance. This condition was corrected during the audit process.

Cause: The cause of the above condition is the lack of accounting understanding.

Effect: The effect of the above condition may lead to misstatements of the financial statements.

Recommendation: We recommend that management properly record transactions and accounts and timely review financial statements

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-005

Journal Vouchers

Criteria: Journal vouchers should be prepared and reviewed by the General Manager.

Condition: Journal vouchers are not prepared and therefore, such are not reviewed by the General Manager.

Cause: There are no policies and procedures in place for the review and approval of journal entries.

Effect: The effect is a lack of control over journal entries.

Recommendation: We recommend that policies and procedures be established requiring review and approval of journal vouchers.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-006

Payroll

Criteria: Employee time cards and overtime hours worked should be periodically authorized and reviewed.

Condition: During the year ended September 30, 2014, the Finance Manager or the General Manager did not review or approve timecards and vacation leave/sick leave hours. The "approved by" section in the timecards of all 9 employees tested in 5 pay periods during fiscal year 2014 were blank. One payment to an employee (chk#5138) for copra bleeding and repacking was recorded as payroll instead of cost of goods sold.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above condition is the possibility of unauthorized payroll expenses that may not be timely detected.

Recommendation: We recommend that internal control policies and procedures be established requiring authorization and review of time cards.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-007

Cost of Goods Sold

Criteria: Adequate internal control policies and procedures should be established requiring that cost of goods sold be supported, recorded, approved and paid.

Condition: The check vouchers or payments log related to the following checks were not approved or signed by the General Manager:

Check Numbers	Check Amount
5119	$ 136
5310	$ 1,847
5390	$ 7,982

Cause: The cause of the above condition is the lack of established policies and procedures that require that cost of goods sold be supported, recorded, approved and paid.

Effect: The effect of the above condition is a possible misstatement of cost of goods sold.

Recommendation: We recommend that management establish policies and procedures requiring that all supporting vendor invoices, check vouchers and payment log be approved and be kept in file.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-008

Employee Advances

Criteria: A policy concerning authorization of employee advances should be documented and adopted.

Condition: At September 30, 2014, cash on hand was short due to a $263 advance to an employee for personal use; however, there was no approved promissory note or advance form. Since FSM-CDA did not record the advance, no monitoring of accounts receivable and collections occurred.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation, recording and monitoring of employee advances.

Effect: The effect of the above condition is the misstatement of expenses and related receivables from employees.

Recommendation: We recommend that management establish policies and procedures requiring the authorization and collection of payroll advances.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

Finding No. 2014-009

Accounts Receivable

Criteria: The aged accounts receivable subsidiary ledger should be monitored and used for credit control purposes.

Condition: Of total receivables of $124,884, 96% or $120,003 have been outstanding and have been provided with an allowance as September 30, 2014. Regular reconciliations of customer subledger accounts were not performed during the year. FSM-CDA does not timely reconcile accounts receivable against customer invoices. This resulted in double recording of invoices in an amount of $24,192. One $413 approved invoice (inv#7273) was missing. These misstatements were corrected during the audit process.

Cause: The cause of the above condition is a lack of collection efforts throughout the year and a lack of policies and procedures requiring periodic account reconciliations.

Effect: The effect of the above condition is that potential misstatements could occur and not be timely detected.

Recommendation: We recommend that management require periodic review and reconciliation of accounts receivable. In addition, we recommend that collection procedures be implemented, on-going status meetings organized and collection targets established.

Auditee Response and Corrective Action Plan: FSMCDA is being absorbed by FSM Petro Corp so that entity will bear responsibility for resolution of this condition.

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

Summary Schedule of Prior Year Audit Findings
Year Ended September 30, 2014

There are no prior year unresolved questioned costs and prior year audit findings have been reiterated in the accompanying findings 2014-001-2014-009.