

*Financial Statements,  
Required Supplementary Information, and  
Compliance and Internal Control*

**National Fisheries Corporation**

*(A Component Unit of the Federated States of Micronesia  
National Government)*

*Years ended September 30, 2023 and 2022  
with Report of Independent Auditors*



National Fisheries Corporation  
(A Component Unit of the FSM National Government)

Financial Statements, Required Supplementary Information,  
and Compliance and Internal Control

Years ended September 30, 2023 and 2022

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## Report of Independent Auditors

The Board of Directors  
National Fisheries Corporation

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the business-type activities of National Fisheries Corporation (the Company), a component unit of the FSM National Government, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Company as of September 30, 2023 and 2022, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2025, on our consideration of the Company'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 solely 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 effectiveness of the Company's 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 Company's internal control over financial reporting and compliance.

*Ernst + Young LLP*

September 5, 2025

**National Fisheries Corporation**  
*(A Component Unit of the FSM National Government)*

**Management's Discussion and Analysis**

Years ended September 30, 2023 and 2022

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2023, 2022 and 2021. MD&A is supplementary information required by the Government Accounting Standards Board Statement (GASB) 34. The preparation of the MD&A is the responsibility of the management of NFC and is designed to help the reader in understanding the accompanying financial statements and notes to the financial statements.

**Background**

The National Fisheries Corporation is a government owned corporation, created under Public Law No. 3-14 by the 3<sup>rd</sup> Congress of the Federated States of Micronesia (FSM). The main purpose of NFC includes being involved in ancillary activities that support commercial fishing activities.

**Overview of Fiscal Year 2023**

The accounts of NFC are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises.

For the current year, NFC corporate office activities include consolidated activities from management and support services to its two (2) joint venture corporations.

2023 revenue sources of NFC operations are \$780,000 of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During this year, NFC also generated \$958,156 from other operating income.

The Corporation's existing practice of budget approval goes through the Board of Directors. The prior practice of submitting budget proposals to the National government and receiving approved budgets from FSM Congress had ceased. NFC generates its income from its operations and the Board approves the budget.

**Financial Highlights**

NFC started implementing the financial reporting standards in accordance with GASB principles in fiscal year 2003. Adopting the GASB principles provide the new financial report of the following basic financial statements:

1. Statement of Net Position (SNP)

SNP presents what NFC owns (assets), owes (liabilities) and the net position (the difference between total assets and total liabilities) at the end of the fiscal year. The "net position" is one indicator of whether the current financial condition has improved or worsened during the year.

National Fisheries Corporation  
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Management's Discussion and Analysis, continued

1. Statement of Net Position (SNP), continued

Comparative Statements of Net position at September 30, 2023 and 2022 are summarized below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Current assets	\$4,586,239	\$4,158,292	\$4,128,347
Noncurrent	<u>635,085</u>	<u>748,879</u>	<u>227,570</u>
Total assets	<u>\$5,221,324</u>	<u>\$4,907,171</u>	<u>\$4,355,917</u>
Liabilities:			
Current liabilities	\$ 138,373	\$ 148,037	\$ 67,442
Noncurrent liabilities	<u>333,991</u>	<u>430,251</u>	<u>----</u>
Total liabilities	<u>472,364</u>	<u>578,288</u>	<u>67,442</u>
Net position:			
Net investment in capital assets	635,085	748,879	227,570
Unrestricted	<u>4,113,875</u>	<u>3,580,004</u>	<u>4,060,905</u>
	<u>4,748,960</u>	<u>4,328,883</u>	<u>4,288,475</u>
Total liabilities and net position	<u>\$5,221,324</u>	<u>\$4,907,171</u>	<u>\$4,355,917</u>

Assets: Company assets of \$5.2 million comprised of current assets (\$4.6 million or 88%) and noncurrent assets (\$0.64 million or 12%).

Current assets: The \$4.6 million current assets consist of cash, which accounts for \$2.3 million (51%), investments in securities, which account for \$1.2 million (27%), and accounts receivable and others for \$1.1 million (22%).

Noncurrent assets: The noncurrent assets of \$0.64 million comprised of property and equipment, net of accumulated depreciation, which amounted to \$0.19 million or 31%, and right-of-use assets which amounted to \$0.44 million or 69%.

Liabilities: Company liabilities of \$0.47 million comprised of current liabilities which consists of accounts payable, accrued expenses, and lease liabilities which amounted to \$0.14 million or 29% and noncurrent liabilities which consists of lease liabilities which amounted to \$0.33 million or 71%.

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Management's Discussion and Analysis, continued

2. Summary Statement of Revenues, Expenses, and Changes in Net Position (SRECNP)

The SRECNP provides information on the financial performance of the current year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses. Below is the comparative summary of SRECNP for the fiscal years ended September 30, 2023 and 2022.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Sales/income	\$1,738,156	\$1,654,528	\$1,740,685
Cost of sales/bad debts	( 203,948)	( 180,521)	( 41,454)
Gross profit	1,534,208	1,474,007	1,699,231
Operating expenses	<u>1,292,296</u>	<u>1,186,346</u>	<u>884,696</u>
Earnings from operations	241,912	287,661	814,535
Other income (expense)	<u>178,165</u>	( 247,253)	<u>206,799</u>
Change in net position	420,077	40,408	1,021,334
Beginning net position	<u>4,328,883</u>	<u>4,288,475</u>	<u>3,267,141</u>
Ending net position	<u>\$4,748,960</u>	<u>\$4,328,883</u>	<u>\$4,288,475</u>

Sales are from NFC corporate operational activities. Total operating expenses for the year are \$1.3 million. The largest is salaries and wages of \$0.46 million, fuel of \$0.20 million, representation expense of \$0.11 million, travel and entertainment of \$0.11 million, boat lease of \$0.07 million, and other operating expenses.

3. Summary Statement of Cash Flows (SCF)

SCF presents information about changes in the cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating the activities into cash flows arising from operating activities, noncapital financing, and capital and related financing.

Below is the summary statements of cash flows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
From operating activities	\$ 426,920	\$ 412,780	\$ 143,811
From capital and related financing activities	( 20,525)	( 43,756)	( 7,149)
From investing activities	<u>7,851</u>	<u>20,884</u>	<u>---</u>
Net change in cash	414,246	389,908	136,662
Cash at beginning of year	<u>1,928,772</u>	<u>1,538,864</u>	<u>1,402,202</u>
Cash at year end	<u>\$2,343,018</u>	<u>\$1,928,772</u>	<u>\$1,538,864</u>



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**Management's Discussion and Analysis, continued**

Management's Discussion and Analysis for the year ended September 30, 2022 is outlined in NFC's report on the audit of financial statements issued on July 5, 2024. That Discussion and Analysis explains the major factors impacting the 2022 financial statements and can be obtained from the FSM Office of the National Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

**Economic Outlook**

NFC management maintains operations of a joint venture, which was formed with Taiwanese and Japanese purse seiner companies, Koo's Fishing Co., Ltd and TAFCO, and formed Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC), respectively, purse seiner companies to operate and fish in the FSM EEZ and areas under the FSMA regional agreement. These purse seiner companies operate and fish in the FSM EEZ and areas under the FSM Arrangement. Said joint venture operations are expected to generate sufficient added income to render NFC a self-supporting company in the years to come.

**FINANCIAL MANAGEMENT CONTACT**

This financial report is designed to provide all interested users with a general overview of the National Fisheries Corporation's finances. Inquiries concerning this report, if any, may be directed to the National Fisheries Corporation, P.O. Box R, Kolonia Pohnpei, FM 96941 or by email at [info@nfc.fm](mailto:info@nfc.fm).

National Fisheries Corporation  
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Statements of Net Position

	September 30, <u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current assets:		
Cash	\$2,343,018	\$1,928,772
Investment in securities	1,216,383	1,054,677
Receivables, net	986,068	1,133,613
Advances to employees	1,575	2,035
Inventory	<u>39,195</u>	<u>39,195</u>
Total current assets	4,586,239	4,158,292
Noncurrent assets:		
Property and equipment, net	194,299	210,127
Right-of-use asset, net	<u>440,786</u>	<u>538,752</u>
Total noncurrent assets	<u>635,085</u>	<u>748,879</u>
	<u>\$5,221,324</u>	<u>\$4,907,171</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,578	\$ 39,536
Current portion of lease liabilities	<u>106,795</u>	<u>108,501</u>
Total current liabilities	138,373	148,037
Noncurrent portion of lease liabilities	<u>333,991</u>	<u>430,251</u>
	<u>472,364</u>	<u>578,288</u>
Net position:		
Net investment in capital assets	635,085	748,879
Unrestricted	<u>4,113,875</u>	<u>3,580,004</u>
Net position	<u>4,748,960</u>	<u>4,328,883</u>
	<u>\$5,221,324</u>	<u>\$4,907,171</u>

See accompanying notes.

National Fisheries Corporation  
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Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Revenues:		
Management fees	\$ 780,000	\$ 780,000
Charter	850,000	630,345
Cargo	48,956	175,248
Passengers	5,065	11,779
Other operating income	54,135	57,156
Cost of sales	( 54,621)	( 54,621)
Provision for uncollectible accounts	( 149,327)	( 125,900)
Net revenues	<u>1,534,208</u>	<u>1,474,007</u>
Operating expenses:		
Salaries and wages	459,385	452,479
Fuels	203,497	182,100
Representations	113,869	56,019
Travel and entertainment	108,149	21,227
Contractual services	81,473	37,624
Office expenses	75,120	50,674
Boat lease	66,000	66,000
Depreciation	36,353	61,199
Vessel expenses	32,345	150,665
Utilities	27,294	23,390
Rent	24,000	24,000
Repairs and maintenance	17,882	11,214
Telephone and communication	10,819	10,899
Trainings	9,290	2,790
Miscellaneous	<u>26,820</u>	<u>36,066</u>
Total operating expenses	<u>1,292,296</u>	<u>1,186,346</u>
Earnings from operations	241,912	287,661
Nonoperating income (expenses), net:		
Investment income (loss), net	169,557	( 247,709)
Other income	<u>8,608</u>	<u>456</u>
Total nonoperating income (expenses), net	<u>178,165</u>	<u>( 247,253)</u>
Change in net position	420,077	40,408
Net position at beginning of year	<u>4,328,883</u>	<u>4,288,475</u>
Net position at end of year	<u>\$4,748,960</u>	<u>\$4,328,883</u>

*See accompanying notes.*

National Fisheries Corporation  
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Statements of Cash Flows

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$1,681,753	\$1,688,690
Cash paid to suppliers for goods and services	( 795,448)	( 826,018)
Cash paid to employees for services	( 459,385)	( 449,892)
Net cash provided by operating activities	<u>426,920</u>	<u>412,780</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	( 20,525)	( 43,756)
Cash flows from investing activities:		
Investment in securities	<u>7,851</u>	<u>20,884</u>
Net change in cash	414,246	389,908
Cash at beginning of the year	<u>1,928,772</u>	<u>1,538,864</u>
Cash at end of the year	<u>\$2,343,018</u>	<u>\$1,928,772</u>
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	\$ 241,912	\$ 287,661
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	36,353	61,199
Provision for uncollectible accounts	149,327	125,900
Other income	8,608	456
Decrease in assets:		
Receivables, net	(1,782)	( 37,117)
Advances to employees	460	2,587
Decrease in liabilities:		
Accounts payable and accrued liabilities	( 7,958)	( 27,906)
Net cash provided by operating activities	<u>\$ 426,920</u>	<u>\$ 412,780</u>
Supplementary disclosure of noncash investing and financing activities:		
Initial recognition of right-of-use asset	<u>\$ 20,785</u>	<u>\$ 646,937</u>
Initial recognition of lease liability	<u>\$ 20,785</u>	<u>\$ 646,937</u>

See accompanying notes.

**National Fisheries Corporation**  
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**Notes to Financial Statements**

Years ended September 30, 2023 and 2022

**1. Reporting Entity**

The National Fisheries Corporation (the “Company” or “NFC”) was created under FSM Public Law No. 3-14 by the third Congress of the Federated States of Micronesia (FSM).

The purpose of NFC is to promote the development of commercial pelagic fisheries and related industries within the Federated States of Micronesia's 200-mile Exclusive Economic Zone. NFC is also involved in ancillary activities that support commercial fishery activities. These activities include technical and infrastructure services, manpower training and other related activities promoting commercial fisheries development.

NFC operates in the states of Pohnpei and Chuuk. Pohnpei operation includes managing of commercial fisheries development activities and maintaining operations for venture businesses with Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). Chuuk operates with a leased vessel for chartering and cargo services.

NFC is a discretely presented component unit of the FSM National Government. The financial statements of NFC are incorporated into those of the FSM National Government. Debts and obligations of NFC are not obligations of the FSM National Government unless specifically authorized by the FSM National Government. To date, no such authorization has been made.

**2. Summary of Significant Accounting Policies**

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, net position is presented in the following categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of outstanding obligations related to those capital assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

National Fisheries Corporation  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**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 disclosure 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.

**Basis of Accounting**

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

**Cash**

Custodial credit risk is the risk that in the event of a bank failure, NFC'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. NFC does not have a deposit policy for custodial credit risk.

As of September 30, 2023 and 2022, the carrying amount of NFC's total cash was \$2,343,018 and \$1,928,772, respectively, and the corresponding bank balances were \$2,352,512 and \$1,912,500, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits in the amount of \$291,921 and \$372,942, respectively, were FDIC insured. NFC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. NFC has not experienced any losses in such accounts and management believes it is not exposed to any significant custodial credit risk on its deposits.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Investments and Business Development**

NFC, in prior years, has invested in various joint ventures with respective agencies in the four states of the FSM which are directly involved in the exploitation and development of the FSM's fisheries industry. The NFC's involvement in these joint ventures varies in nature.

In 2012, NFC invested \$75,000 in TMC. The equity investment in TMC represents 750 shares of common stock and a 25% ownership interest.

In 2018, NFC invested \$75,000 in KFC. The equity investment in KFC represents 150 shares of common stock and a 25% ownership interest.

The investments in TMC and KFC are recorded using the equity method of accounting. Under this method, NFC recognizes its proportionate share of earnings or losses of TMC and KFC based on its ownership interest. Dividends received reduce NFC's investment.

At September 30, 2023 and 2022, investment in TMC and KFC have been reduced to zero due to shareholders' deficit. No dividends or other contributions have been received during the years ended September 30, 2023 and 2022.

NFC has an operating lease agreement with KFC for the lease of a vessel until October 2029. In November 2024, NFC's lease agreement for the vessel was terminated.

**Receivables**

Receivables from fishing and ancillary activities are based on contracted prices, which are both interest free and uncollateralized and are primarily due from investee companies and government agencies, businesses and individuals located within the FSM. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables recorded in the statements of revenues, expenses and changes in net position. Bad debts are written off against the allowance on the specific identification method.

National Fisheries Corporation  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Receivables, continued**

Receivables, net recorded for the years ended September 30, 2023 and 2022 are comprised of the following:

	2023	2022
Accounts receivable	\$ 863,700	\$ 553,541
Cash advances	192,695	383,072
Undeposited funds	<u>4,000</u>	<u>322,900</u>
	1,060,395	1,259,513
Allowance for uncollectible receivables	( <u>74,327</u> )	( <u>125,900</u> )
	<u>\$ 986,068</u>	<u>\$1,133,613</u>

**Property and Equipment**

Property and equipment are stated at cost or estimated historical cost, less accumulated depreciation. Donated fixed assets are recorded at estimated fair market value at the date received. The provision for depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 10 to 15 years depending on the nature of the asset. A singular piece of equipment, vehicle, office equipment, etc. that equals or exceeds \$5,000 is capitalized, except for those assets of the investees, where no set threshold for capitalization of fixed assets has been established.

**Compensated Absences**

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Revenue Recognition**

NFC's primary source of revenue is derived from management fees from the venture businesses. Management fees are determined based on the monthly billing from the venture businesses and considered earned every month. Other revenue is recorded when earned and measurable, typically on a per-transaction basis or earned upon completion of each voyage, such as for charter fees or cargo services.



National Fisheries Corporation  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Concentration of Credit Risk**

The Company provides various services such as management fees, charter, cargo and passenger trips on credit to its customers. For the years ended September 30, 2023 and 2022, management fees from KFC and TMC to 46% and 49%, respectively, of total operating revenues. As of September 30, 2023 and 2022, receivables due from these two entities are 88% and 73%, respectively, of total receivables, net.

**Recently Adopted Accounting Pronouncements**

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The adoption of GASB Statement No. 94 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The adoption of GASB Statement No. 96 during the year ended September 30, 2023 did not have a material effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied more easily. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of local government financial statements. The adoption of GASB Statement No. 99 during the year ended September 30, 2023 did not have an effect on the accompanying financial statements.

National Fisheries Corporation  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements**

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

The management is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Reclassification**

Certain reclassifications have been made to the 2022 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported change in net position.

**3. Investment in Securities**

GASB Statement No. 40 requires disclosures addressing common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Company will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Company's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Company's name by the Company's custodial financial institutions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Company. As of September 30, 2023, the Company has investments with issuers with more than 5% of the Company's total investments. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on these issuers. As of September 30, 2022, the Company did not hold an investment in any one issuer that represented more than 5% of the Company's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Company does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Company categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2023 and 2022, investments comprise Exchange-Traded Funds (ETF) which are listed on a national stock exchange and can be bought and sold in the equity trading markets. Under certain circumstances, issuers may cease or suspend creating new shares, which may cause ETF to trade at a price that differs significantly from the value of its underlying holdings or index. As of September 30, 2023 and 2022, the Company's investment balance in ETF is approximately \$1,185,000 and \$1,075,000, respectively. Investments in securities are categorized as Level 1.

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Notes to Financial Statements, continued

**4. Leases and Commitments**

Rental expenses under operating leases are recognized on a straight-line basis over the terms of long-term lease agreements.

The Company leases land, warehouse, office spaces, and vessel under operating leases. Land and warehouse leases expire in February and March 2024, respectively, with a month to month arrangement after the expiration of these leases. The office space leases in Pohnpei and Chuuk expire in April 2025 and November 2024, respectively. The leased vessel expires in October 2029, which was early terminated in November 2024.

Statement No. 87, *Leases*, requires the use of the rate implicit in the lease whenever this rate is readily determinable. As the implicit rate is not readily determinable, the Company elected to use the risk-free interest rate with a similar term as the incremental borrowing rate ranging from 0.36% to 4.12% per annum upon initial adoption for the leases.

The carrying amounts of the Company's Right-of-use (ROU) asset and operating lease liabilities, excluding the effect of early termination in November 2024, are as follows:

	September 30, <u>2023</u>	<u>2022</u>
ROU, net	\$ <u>440,786</u>	\$ <u>538,752</u>
Lease liabilities		
Current	\$ <u>106,795</u>	\$ <u>108,501</u>
Non-Current	\$ <u>333,991</u>	\$ <u>430,251</u>

The following table provides the maturities of the operating lease liabilities at September 30, 2023:

Year ending <u>September 30,</u>	
2024	\$111,747
2025	80,000
2026	66,000
2027	66,000
2028	66,000
Thereafter	<u>66,000</u>
Total future lease payments	455,747
Amounts representing interest	( 14,961)
Present value of operating lease liabilities	\$ <u>440,786</u>

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Notes to Financial Statements, continued

**4. Leases and Commitments, continued**

For each of the years ended September 30, 2023 and 2022, the total costs of these leases of \$124,999 was charged to Boat lease, Office expenses and Rent as reported in the accompanying statements of revenues, expenses and changes in net position.

**5. Related Party Transactions**

NFC and KFC entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. For each of the years ended September 30, 2023 and 2022, NFC earned \$480,000 for the management of KFC operations and is included as component of management fees in the accompanying statements of revenues, expenses and changes in net position.

At September 30, 2023 and 2022, NFC has the following balances with KFC included as a component of receivables, net in the accompanying statements of net position as follows:

	<u>2023</u>	<u>2022</u>
Accounts receivables	\$266,219	\$169,038
Cash advances	<u>43,529</u>	<u>162,521</u>
	<u>\$309,748</u>	<u>\$331,559</u>

NFC and TMC entered into a management agreement in April 2012 wherein NFC would receive monthly management fees. For the years ended September 30, 2023 and 2022, NFC earned \$300,000 for the management of TMC operations and is included as component of management fees in the accompanying statements of revenues, expenses and changes in net position.

At September 30, 2023 and 2022, NFC has the following balances with TMC included as a component of receivables, net in the accompanying statements of net position as follows

	<u>2023</u>	<u>2022</u>
Accounts receivables	\$488,040	\$257,998
Cash advances	<u>66,582</u>	<u>243,397</u>
	<u>\$554,622</u>	<u>\$501,395</u>

National Fisheries Corporation  
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Notes to Financial Statements, continued

**6. Property and Equipment, net**

Capital asset activity for the year ended September 30, 2023 follows:

	October 1, <u>2022</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2023</u>
Machinery and equipment	\$212,096	\$ 14,885	\$(5,795)	\$221,186
Office furniture and equipment	81,827	8,326	---	90,153
Building	<u>139,021</u>	<u>---</u>	<u>---</u>	<u>139,021</u>
	432,944	23,211	(5,795)	450,360
Accumulated depreciation	<u>(222,817)</u>	<u>(36,353)</u>	<u>3,109</u>	<u>(256,061)</u>
	<u>\$210,127</u>	<u>\$(13,142)</u>	<u>\$(2,686)</u>	<u>\$194,299</u>

Capital asset activity for the year ended September 30, 2022 follows:

	October 1, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2022</u>
Machinery and equipment	\$212,096	\$ ---	\$---	\$212,096
Office furniture and equipment	74,163	7,664	---	81,827
Building	<u>102,929</u>	<u>36,092</u>	<u>---</u>	<u>139,021</u>
	389,188	43,756	---	432,944
Accumulated depreciation	<u>(161,618)</u>	<u>(61,199)</u>	<u>---</u>	<u>(222,817)</u>
	<u>\$227,570</u>	<u>\$(17,443)</u>	<u>\$---</u>	<u>\$210,127</u>

**7. Contingencies**

NFC is party to various legal proceedings arising from operations. External legal counsel represents that the ultimate outcome of the lawsuits cannot be predicted at this time; therefore, no provision for any related liability has been made in the financial statements.

## Report of Independent Auditors 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*

The Board of Directors  
National Fisheries Corporation

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, (*Government Audit Standards*), the financial statements of National Fisheries Corporation (the “Company”), a component unit of the FSM National Government, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Company’s basic financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated September 5, 2025.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Company’s internal control over financial reporting (internal control) as a basis for designing 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 Company’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Company’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be material weaknesses as items 2023-001 and 2023-002.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company'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 financial statements. 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 Company's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Company's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.

*Ernst + Young LLP*

September 5, 2025



National Fisheries Corporation  
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Schedule of Findings and Responses

Finding No. 2023-001 – Receivables

Criteria: The Company should maintain an adequate system of maintaining accounting files and should be able to account and support its accounts receivable and undeposited funds.

Condition: The Company did not maintain an adequate system of maintaining accounting files during the period and was not able to properly account and reconcile accounts receivable and undeposited funds. This resulted in audit adjustments to receivables and undeposited funds amounting to \$134,000 and allowance for uncollectible receivables amounting to \$74,327.

Cause: The cause of this condition is primarily due to inadequate accounting assistance, the absence of closing procedures and review and the lack of adequate filing and documented maintenance systems.

Effect: The effect of this condition is an inability to substantiate financial statement balances, financial statement transactions and compliance with laws and regulations.

Recommendation: The Company should secure adequate accounting assistance, prepare monthly financial statements that are supported by its books and records, maintain an adequate filing and retention system, and be able to demonstrate compliance with laws and regulations.

Auditee Response and Corrective Action Plan:

We acknowledge the finding.

NFC recognizes our need to collaborate more within NFC Pohnpei and Chuuk team. Regular updates from Chuuk office for reports of accounts receivables and payments will be made. NFC accounting team will record in the books and prepare monthly financial statements by the end of the following month. Books shall be closed and available for upper management's review and boards meeting every quarter.

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Schedule of Findings and Responses, continued

Finding No. 2023-002 –Property and Equipment

Criteria: The Company should perform monthly accrual of depreciation and properly maintain fixed asset registers.

Condition: The Company did not perform monthly accrual of depreciation expense and reconciliation of fixed assets registers to its trial balance resulting in adjustments in depreciation expense and accumulated depreciation as of September 2023 and 2022. Furthermore, this is a recurring issue identified in prior year audit.

Cause: The cause of this condition is primarily due to inadequate accounting assistance and the absence of closing procedures and review.

Effect: The effect of this condition is an inability to provide accurate accounting records.

Recommendation: The Company must record monthly accrual of depreciation, prepare monthly reconciliation and review of fixed asset registers to its books and maintain adequate records of its fixed asset registers.

Auditee Response and Corrective Action Plan:

We acknowledge the findings and thank you for your recommendation.

We will update our fixed assets register list regularly and record accrual of depreciation expense monthly in the books. Reconciliation of fixed asset registers will be updated monthly.