

**NATIONAL FISHERIES CORPORATION**  
**(A COMPONENT UNIT OF THE FSM NATIONAL**  
**GOVERNMENT)**

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**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2013 and 2012**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
National Fisheries Corporation:

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 National Fisheries Corporation as of September 30, 2013 and 2012, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements for the year ended September 30, 2013 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the financial statements, the Company is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 8 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

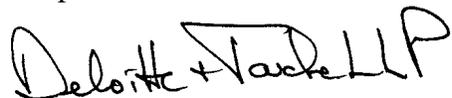
## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2014 on our consideration of National Fisheries Corporation'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 National Fisheries Corporation's internal control over financial reporting and compliance.



June 11, 2014

**NATIONAL FISHERIES CORPORATION**  
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Management Discussion and Analysis  
September 30, 2013 and 2012

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal years ended September 30, 2013 and 2012. MD&A is supplementary information required by the Government Accounting Standards Board Statement 34 (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 3rd Congress of the Federated States of Micronesia (FSM). The main purpose of NFC is also involved in ancillary activities that support commercial fishing activities. It is for this purpose that NFC initially engaged itself with its Subsidiaries; Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), Kosrae Sea Ventures, Inc. (KSVI) and Micronesia Longline Fishing Co. (MLFC). However, due to the drastic decline in the number of vessels utilizing YFTI and CFTI, NFC was forced to venture into actual operation of longline fishing vessels, trading of fishing supplies and an aircraft business, during the mid 1990s and early 2000s. All the above subsidiaries ceased operations since late 1990s.

Because of the unavailability of financial data from NFC subsidiaries, balances from these investees were excluded from NFC financial statements.

**Overview of Fiscal Year 2013**

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.

2013 revenue sources of NFC operations are \$446k of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During the year, NFC also generated \$10k from other operating income.

For the past three (3) fiscal years, NFC's budgets have been submitted to the NFC Board of Directors for its approval since the National Government has ceased providing funding assistance to NFC.

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Management Discussion and Analysis  
September 30, 2013 and 2012

**Financial Highlights**

NFC started implementing the financial reporting standards in accordance with Government Accounting Standards Board (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.

Comparative Statements of Net Position at September 30, 2013, 2012 and 2011 are summarized below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 428,033	\$ 72,249	\$ 65,526
Noncurrent	<u>771,368</u>	<u>399,272</u>	<u>14,347</u>
Total assets	\$ <u>1,199,401</u>	\$ <u>471,521</u>	\$ <u>79,873</u>
Liabilities:			
Current liabilities	\$ <u>3,636,645</u>	\$ <u>3,696,345</u>	\$ <u>3,839,822</u>
Total liabilities	<u>3,636,645</u>	<u>3,696,345</u>	<u>3,839,822</u>
Net position:			
Invested in capital assets	31,005	9,909	14,347
Unrestricted	<u>(2,468,249)</u>	<u>(3,234,733)</u>	<u>(3,774,296)</u>
Total liabilities and net position	\$ <u>1,199,401</u>	\$ <u>471,521</u>	\$ <u>79,873</u>

Assets: Company assets of \$1,199k comprised \$428k or 36% of current assets and \$771K or 64% of noncurrent assets.

Current assets: The major portion of the \$428k current assets is cash, which accounts for \$317k or 74% and accounts receivable for \$111k or 26%.

Noncurrent assets: The noncurrent assets of \$771k comprised \$740k or 96% of investment and \$31k or 4% of the Company's property and equipment, net of accumulated depreciation.

Liabilities: NFC's liabilities of \$3.697 million are all current consisting of \$3.6 million loans from the National Government, which comprises 99% of total NFC liabilities, and other accounts payable, deferred revenue and accrued liabilities of \$37k.

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Management Discussion and Analysis  
September 30, 2013 and 2012

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, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues	\$ 456,134	\$ 266,309	\$ 200,957
Bad debts	<u>(8,661)</u>	<u>-</u>	<u>(12,556)</u>
Revenues, net	447,473	266,309	188,401
Operating expenses	<u>260,127</u>	<u>262,114</u>	<u>182,731</u>
Earnings from operations	187,346	4,195	5,670
Other income, net	<u>600,234</u>	<u>530,930</u>	<u>2,319</u>
Increase in net position	787,580	535,125	7,989
Beginning net position	<u>(3,224,824)</u>	<u>(3,759,949)</u>	<u>(3,767,938)</u>
Ending net position	\$ <u>(2,437,244)</u>	\$ <u>(3,224,824)</u>	\$ <u>(3,759,949)</u>

Revenues are from NFC corporate operational activities. Total operating expenses for the year ended September 30, 2013 are \$260k. The components are salaries and wages expense of \$131k, rent expenses of \$31k, utilities expense of \$26k, travel and entertainment expenses of \$26k, and other operating expenses.

3. Summary Statement of Cash Flows (SCF)

SCF presents information about changes in the cash positions 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>2013</u>	<u>2012</u>	<u>2011</u>
From operating activities	\$ 23,729	\$ 99,042	\$ (5,548)
From investing activities	250,000	(75,000)	-
From capital and related financing activities	<u>(27,216)</u>	<u>-</u>	<u>(7,516)</u>
Net change in cash	246,513	24,042	(13,064)
Cash at beginning of year	<u>70,733</u>	<u>46,691</u>	<u>59,755</u>
Cash at year end	\$ <u>317,246</u>	\$ <u>70,733</u>	\$ <u>46,691</u>

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Management Discussion and Analysis  
September 30, 2013 and 2012

**4. Debt and Capital Asset Activities**

No significant debt or capital asset activities occurred during the year ended September 30, 2013. For additional information on capital assets, please refer to note 5 to the financial statements. For additional information concerning notes payable, please refer to note 6 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in NFC's report on the audit of financial statements, which is dated May 5, 2013. That Discussion and Analysis explains the major factors impacting the 2012 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**

The Company has incurred substantial losses from its regular operations including investments with Micronesia Longline Fishing Company (MLFC), Kosrae Sea Ventures, Inc. (KSVI), Chuuk Fresh Tuna, Inc. (CFTI), Yap Fresh Tuna, Inc. (YFTI). The accumulated losses of NFC from its investments have severely affected NFC's regular operations. These conditions raise substantial doubts about the Company's ability to continue as a going concern business entity. Given that the investments were no longer in operation and no financial records are available for too long, the NFC Board and Management, plan to take the necessary steps to remove them from the NFC books. Moreover, FSM National Government stopped providing a subsidy to NFC for the past five-six years.

NFC management recently established a joint venture with a Japanese purse seiner companies, New Eikyu Gyogo Co., Ltd. and TAFCO, and formed Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC), respectively, a purse seiner companies to operate and fish in the FSM EEZ and areas under the FSMA regional agreement. Said joint venture operations are expected to generate sufficient added income to render NFC a self supporting company in the years to come.

Long term plans for development include expanding the operations of KFC and TMC by adding more purse seiner fishing vessels by the end of 2015 and ventures into other fishing operations with other interested foreign fishing companies.

**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

**NATIONAL FISHERIES CORPORATION**  
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Statements of Net Position  
September 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Current assets:		
Cash	\$ 317,246	\$ 70,733
Receivables, net of an allowance for uncollectible accounts of \$8,661 and \$1,038,657 in 2013 and 2012, respectively	110,787	1,516
Total current assets	428,033	72,249
Investment	740,363	389,363
Property and equipment, net	31,005	9,909
	\$ 1,199,401	\$ 471,521
<u>LIABILITIES AND NET DEFICIENCY</u>		
Current liabilities:		
Notes payable	\$ 3,600,000	\$ 3,600,000
Accounts payable	6,085	57,090
Deferred revenue	18,027	28,328
Accrued liabilities	12,533	10,927
Total current liabilities	3,636,645	3,696,345
Commitment and contingencies		
Net position:		
Invested in capital assets	31,005	9,909
Unrestricted	(2,468,249)	(3,234,733)
Net position	(2,437,244)	(3,224,824)
	\$ 1,199,401	\$ 471,521

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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2013 and 2012

	2013	2012
Management fees	\$ 445,833	\$ 248,333
Other operating income	10,301	17,976
Bad debts	(8,661)	-
Net revenue	447,473	266,309
Operating expenses:		
Salaries and wages	131,286	122,307
Rent	31,388	28,000
Utilities	26,126	13,447
Travel and entertainment	25,743	29,066
Office expense	20,567	31,336
Telephone and communication	13,400	9,946
Repairs and maintenance	11,118	1,215
Representation	6,340	2,693
Depreciation and amortization	6,120	4,438
Contractual services	-	7,114
Miscellaneous	(11,961)	12,552
Total operating expenses	260,127	262,114
Earnings from operations	187,346	4,195
Other income (expense):		
Investment income	601,000	314,363
Other income (expense), net	(766)	216,567
Total other income (expense), net	600,234	530,930
Change in net position	787,580	535,125
Net position at beginning of year	(3,224,824)	(3,759,949)
Net position at end of year	\$ (2,437,244)	\$ (3,224,824)

**NATIONAL FISHERIES CORPORATION**  
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Statements of Cash Flows  
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 327,901	\$ 311,956
Cash paid to suppliers for goods and services	(174,491)	(90,372)
Cash paid to employees for services	(129,681)	(122,542)
	<u>23,729</u>	<u>99,042</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(27,216)	-
	<u>(27,216)</u>	<u>-</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Cash dividends received on investment	250,000	(75,000)
	<u>250,000</u>	<u>(75,000)</u>
Net cash provided by (used in) investing activities		
Net change in cash	246,513	24,042
Cash at beginning of year	<u>70,733</u>	<u>46,691</u>
Cash at end of year	<u>\$ 317,246</u>	<u>\$ 70,733</u>
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	\$ 187,346	\$ 4,195
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	6,120	4,438
Bad debts	8,661	-
Other (income) expense	(766)	216,567
(Increase) decrease in assets:		
Accounts receivable	(117,932)	17,319
Increase (decrease) in liabilities:		
Accounts payable	(51,005)	(171,570)
Deferred revenue	(10,301)	28,328
Accrued liabilities	1,606	(235)
	<u>23,729</u>	<u>99,042</u>
Net cash provided by operating activities	<u>\$ 23,729</u>	<u>\$ 99,042</u>

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Notes to Financial Statements  
September 30, 2013 and 2012

(1) Reporting Entity

The National Fisheries Corporation (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 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 are presented in the following categories:

- Investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net position that are 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.

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.

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Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 includes the 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, 2013 and 2012, the carrying amount of NFC's total cash was \$317,246 and \$70,733, respectively, and the corresponding bank balances were \$318,812 and \$75,667, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$258,525 and \$75,667, 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.

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 involvement in these joint ventures varies in nature.

NFC has previously been directly involved in the management of certain joint ventures through management and marketing agreements entered into with the respective parties. The investment in Micronesia Longline Fishing Company (MLFC), Yap Fishing Corporation (YFC), Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), and Kosrae Sea Venture Inc. (KSVI) are accounted for using the equity method and, accordingly, the carrying values of these investments have been reduced to \$0. In 2013 and 2012, financial statements for these joint ventures were not available. Management has asserted that it is unable to control these joint ventures and does not believe that it is liable for any additional losses of these entities that may occur.

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Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Investment and Business Development, Continued

As a result, the equity method of accounting has been adopted for investments in these entities for both the years ended September 30, 2013 and 2012.

On March 3, 2012, NFC invested \$75,000 in Taiyo Micronesia Corporation (TMC). The equity investment in TMC represents 750 shares of common stock and a 25% ownership interest. The investment in TMC is accounted for by use of the equity method.

Receivables

Receivables from fishing and ancillary activities are based on contracted prices, which are both interest free and uncollateralized and are primarily due from 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 statement of revenues, expenses and changes in net position. Bad debts are written off against the allowance on the specific identification method.

As of September 30, 2013, the receivable, net of an allowance for uncollectable accounts from KFC and TMC is 93.21% and 6.61%, respectively, of the total receivables.

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, vehicles, 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 nonvesting 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.

As of September 30, 2013 and 2012, management fee from KFC is 64.49% and 61.96%, respectively, of the total operating revenue. As of September 30, 2013 and 2012, management fee from TMC is 35.51% and 31.29%, respectively, of the total operating revenue.

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Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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Notes to Financial Statements  
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement 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 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of NFC.

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 these statements on the financial statements of NFC.

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

(3) Commitments

Lease

NFC leases a warehouse underlying its operations from the Pohnpei Port Authority, a component unit of the State of Pohnpei. NFC is to pay \$10,301 per year and the lease expires in March 2015.

Year ending September 30,

2014	\$ 10,301
2015	<u>5,151</u>
	\$ <u>15,452</u>

**NATIONAL FISHERIES CORPORATION**  
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Notes to Financial Statements  
September 30, 2013 and 2012

**(4) Related Party Transactions**

NFC has entered into various transactions with the FSM National Government. Various loans have been obtained from the FSM National Government. These loans are disclosed in note 6.

NFC and Kasar Fishing Corporation (KFC) entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. NFC received \$287,500 and \$165,000, respectively, in fiscal years 2013 and 2012, for management of KFC operations.

NFC and Taiyo Micronesia Corporation (TMC) entered into a management agreement in April 2012 wherein NFC would receive monthly management fees. NFC received \$158,333 and \$83,333, respectively, in fiscal years 2013 and 2012, for management of TMC operations.

**(5) Property and Equipment**

Capital asset activity for the years ended September 30, 2013 and 2012 follows:

	October 1, <u>2012</u>	Additions	Deletions	September 30, <u>2013</u>
Machinery and equipment	\$ 24,750	\$ 23,971	\$ -	\$ 48,721
Office furniture and equipment	<u>37,072</u>	<u>3,245</u>	-	<u>40,317</u>
	61,822	27,216	-	89,038
Less accumulated depreciation	<u>(51,913)</u>	<u>(6,120)</u>	-	<u>(58,033)</u>
	\$ <u>9,909</u>	\$ <u>21,096</u>	\$ -	\$ <u>31,005</u>
	October 1, <u>2011</u>	Additions	Deletions	September 30, <u>2012</u>
Machinery and equipment	\$ 24,750	\$ -	\$ -	\$ 24,750
Office furniture and equipment	<u>37,072</u>	-	-	<u>37,072</u>
	61,822	-	-	61,822
Less accumulated depreciation	<u>(47,475)</u>	<u>(4,438)</u>	-	<u>(51,913)</u>
	\$ <u>14,347</u>	\$ <u>(4,438)</u>	\$ -	\$ <u>9,909</u>

**(6) Notes Payable**

Notes payable consist of the following at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Loan payable to the FSM National Government due in annual installments of \$44,153, non-interest bearing, collateralized by NFC's shares in YFC, with a term of 16 years, beginning March 1994, ending March 2010.	\$ 750,640	\$ 750,640

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Notes to Financial Statements  
September 30, 2013 and 2012

(6) Notes Payable, Continued

	<u>2013</u>	<u>2012</u>
Loan payable to the FSM National Government due in annual installments of \$86,639, non-interest bearing, with a term of 13 years, beginning July 1994, ending July 2007.	1,212,940	1,212,940
Loan payable to the FSM National Government due in annual installments of \$23,363, non-interest bearing, with a term of 16 years, beginning September 1994, ending September 2010.	397,176	397,176
Loan payable to FSM National Government due in annual installments of \$29,412, non-interest bearing, with a term of 17 years, beginning October 1995, ending October 2011.	500,000	500,000
Loan payable to the FSM National Government due in annual installments of \$5,000, non-interest bearing, with a term of 20 years, beginning April 1995, ending April 2014.	100,000	100,000
Loan payable to the FSM National Government due in annual installments of \$1,962, non-interest bearing, with a term of 20 years, beginning April 1995, ending April 2014.	39,244	39,244
Loan payable to the FSM National Government due in annual installments of \$5,000, non-interest bearing, with a term of 20 years, beginning November 1994, ending April 2013.	100,000	100,000
Loan payable to the FSM National Government with no terms.	<u>500,000</u>	<u>500,000</u>
	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>

NFC is in default on its notes payable and, therefore, all related debt has been classified as current.

Changes in debt during the years ended September 30, 2013 and 2012 are as follows:

Balance at Beginning of <u>Year 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance at End of <u>Year 2013</u>
\$ <u>3,600,000</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>3,600,000</u>
Balance at Beginning of <u>Year 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance at End of <u>Year 2012</u>
\$ <u>3,600,000</u>	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>3,600,000</u>

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Notes to Financial Statements  
September 30, 2013 and 2012

(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.

NFC is ultimately liable for Micronesia Longline Fishing Company's (MLFC) loan payable to the Asian Development Bank. MLFC has defaulted on this loan; however, the FSM National Government has been making required debt service payments on behalf of NFC and it is not possible to predict the ultimate outcome of this matter. No provision for this matter has been made in the accompanying financial statements. The MLFC debt is, instead, recorded in the financial statements of the FSM National Government.

(8) Going Concern

NFC has incurred substantial losses from operations. This condition raises substantial doubt about its ability to continue as a going concern. NFC, as a component unit of the FSM National Government, is dependent on the FSM National Government for its cash flows. The FSM National Government has introduced legislation to dissolve NFC and the ultimate impact of this matter on the accompanying financial statements is uncertain. Additionally, the same measure seeks to transfer NFC's holdings in joint ventures to applicable State governments. Management is working with the FSM Congress relate to the matter and is seeking forgiveness of its debt to the National Government.

(9) Equity Investment in TMC

Changes in NFC's equity investment in TMC during the years ended September 30, 2013 and 2012 follows:

Initial Paid-in Capital	\$ 75,000
Pro rata share of TMC 2012 income	<u>314,363</u>
Investment balance as of September 30, 2012	\$ <u>389,363</u>
2013 dividends declared	(250,000)
Pro rata share of TMC 2013 net income	<u>601,000</u>
Investment balance as of September 30, 2013	\$ <u><u>740,363</u></u>

Below is the investee's summary financial information as of December 31, 2013:

Assets	\$ <u>9,784,000</u>
Liabilities	6,821,000
Equity	<u>2,963,000</u>
	\$ <u><u>9,784,000</u></u>

(10) Subsequent Event

Subsequent to September 30, 2013, the Corporation received a \$325,000 dividend from TMC.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT 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, the financial statements of National Fisheries Corporation (the "Corporation"), a component unit of the FSM National Government, which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2014.

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

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

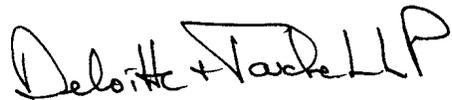
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

June 11, 2014

**NATIONAL FISHERIES CORPORATION  
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

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

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