

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

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

*Year ended September 30, 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

Year ended September 30, 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 year ended September 30, 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, 2022, and the changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 July 5, 2024, 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

July 5, 2024

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

Management's Discussion and Analysis

Years ended September 30, 2022 and 2021

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, 2022 and 2021. 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 includes being involved in ancillary activities that support commercial fishing activities.

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

Overview of Fiscal Year 2022

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 includes consolidated activities from management and support services to its two (2) joint venture corporations.

2022 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 \$874,528 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.

National Fisheries Corporation
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Management's Discussion and Analysis, continued

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. Statements 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 as at September 30, 2022 and 2021 are summarized below:

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets	\$4,158,292	\$4,128,347
Noncurrent	<u>748,879</u>	<u>227,570</u>
Total assets	<u>\$4,907,171</u>	<u>\$4,355,917</u>
Liabilities:		
Current liabilities	\$ 148,037	\$ 67,442
Noncurrent liabilities	<u>430,251</u>	<u>---</u>
Total liabilities	578,288	67,442
Net position:		
Net investment in capital assets	748,879	227,570
Unrestricted	<u>3,580,004</u>	<u>4,060,905</u>
	<u>4,328,883</u>	<u>4,288,475</u>
Total liabilities and net position	<u>\$4,907,171</u>	<u>\$4,355,917</u>

Assets: Company assets of \$4.9 million comprised of current assets (\$4.2 million or 85%) and noncurrent assets (\$0.75 million or 15%).

Current assets: The \$4.2 million current assets consist of cash, which accounts for \$1.9 million (45%), investments in securities, which account for \$1.1 million (26%), and accounts receivable and others for \$1.2 million (29%).

Noncurrent assets: The noncurrent assets of \$0.75 million comprised of property and equipment, net of accumulated depreciation, which amounted to \$0.21 million or 28%, and right-of-use assets which amounted to \$0.54 million or 72%.

Liabilities: Company liabilities of \$0.58 million comprised of current liabilities which consists of accounts payable, accrued expenses, and lease liabilities which amounted to \$0.15 million or 26% and noncurrent liabilities which consists of lease liabilities which amounted to \$0.43 million or 74%.

National Fisheries Corporation
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Management's Discussion and Analysis, continued

Financial Highlights, continued

2. Summary Statements 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, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Sales/income	\$1,654,528	\$1,740,685
Cost of sales/bad debts	(54,621)	(41,454)
Gross profit	1,599,907	1,699,231
Operating expenses	<u>1,312,246</u>	<u>884,696</u>
Earnings from operations	287,661	814,535
Other (expense) income, net	(247,253)	<u>206,799</u>
Change in net position	40,408	1,021,334
Beginning net position	<u>4,288,475</u>	<u>3,267,141</u>
Ending net position	<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 \$0.45 million, fuel of \$0.18, provision for uncollectible accounts of \$0.13 million, boat lease of \$0.07 million, depreciation expenses of \$0.06 million, and other operating expenses.

3. Summary Statements 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 are the summary statements of cash flows:

	<u>2022</u>	<u>2021</u>
Provided by operating activities	\$ 412,780	\$ 143,811
Used in capital and related financing activities	(43,756)	(7,149)
Provided by investing activities	<u>20,884</u>	<u>---</u>
Net change in cash	389,908	136,662
Cash at beginning of year	<u>1,538,864</u>	<u>1,402,202</u>
Cash at year end	<u>\$1,928,772</u>	<u>\$1,538,864</u>

National Fisheries Corporation
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Management's Discussion and Analysis, continued

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in NFC's report on the audit of financial statements, which was dated March 3, 2023. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be obtained from the FSM office of the National Public Auditor's website at 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. 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 Information

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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Statement of Net Position

September 30, 2022

Assets

Current assets:

Cash	\$1,928,772
Investment in securities	1,054,677
Receivables, net	1,133,613
Advances to employees	2,035
Inventory	<u>39,195</u>
Total current assets	4,158,292

Noncurrent assets:

Property and equipment, net	210,127
Right-of-use asset, net	<u>538,752</u>
Total noncurrent assets	<u>748,879</u>

\$4,907,171

Liabilities and Net Position

Current liabilities:

Accounts payable and accrued liabilities	\$ 39,536
Current portion of lease liabilities	<u>108,501</u>
Total current liabilities	148,037

Noncurrent portion of lease liabilities	<u>430,251</u>
	<u>578,288</u>

Net position:

Net investment in capital assets	748,879
Unrestricted	<u>3,580,004</u>
Net position	<u>4,328,883</u>

\$4,907,171

See accompanying notes.

National Fisheries Corporation
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Statement of Revenues, Expenses and Change in Net Position

Year ended September 30, 2022

Revenues:	
Management fees	\$ 780,000
Charter	630,345
Cargo	175,248
Passengers	11,779
Other operating income	57,156
Less: Cost of sales	(54,621)
Net revenues	<u>1,599,907</u>
Operating expenses:	
Salaries and wages	452,479
Fuel	182,100
Provision for uncollectible accounts	125,900
Boat lease	66,000
Depreciation	61,199
Representation	56,019
Office expense	50,674
Contractual services	37,624
Rent	24,000
Utilities	23,390
Travel and entertainment	21,227
Repairs and maintenance	11,214
Telephone and communication	10,899
Training	2,790
Miscellaneous	<u>186,731</u>
Total operating expenses	<u>1,312,246</u>
Earnings from operations	287,661
Nonoperating expenses (income), net:	
Investment loss, net	247,709
Other income	(456)
Total nonoperating expenses, net	<u>247,253</u>
Change in net position	<u>40,408</u>
Net position at beginning of year	<u>4,288,475</u>
Net position at end of year	<u>\$4,328,883</u>

See accompanying notes.

National Fisheries Corporation
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$1,688,690
Cash paid to suppliers for goods and services	(826,018)
Cash paid to employees for services	(<u>449,892</u>)
Net cash provided by operating activities	<u>412,780</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(<u>43,756</u>)
Cash flows from investing activities:	
Investment in securities	<u>20,884</u>
Net change in cash	389,908
Cash at beginning of the year	<u>1,538,864</u>
Cash at end of the year	<u>\$1,928,772</u>
Reconciliation of earnings from operations to net cash flows provided by operating activities:	
Earnings from operations	\$ 287,661
Adjustments to reconcile earnings from operations to net cash provided by operating activities:	
Depreciation	61,199
Provision for uncollectible accounts	125,900
Other income	456
Decrease in assets:	
Receivables, net	(37,117)
Advances to employees	2,587
Decrease in liabilities:	
Accounts payable and accrued liabilities	(<u>27,906</u>)
Net cash provided by operating activities	<u>\$ 412,780</u>
Supplementary disclosure of noncash investing and financing activities:	
Initial recognition of right-of-use asset	\$ <u>646,937</u>
Initial recognition of lease liability	\$ <u>646,937</u>

See accompanying notes.

National Fisheries Corporation
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Notes to Financial Statements

Year ended September 30, 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 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, 2022, the carrying amount of NFC's total cash was \$1,928,772 and the corresponding bank balances were \$1,912,500, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$372,942 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.

National Fisheries Corporation
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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 Taiyo Micronesia Corporation (TMC). The equity investment in TMC represents 750 shares of common stock and a 25% ownership interest.

In 2018, NFC invested \$75,000 in Kasar Fishing Corporation (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, 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 year ended September 30, 2022.

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.

Receivables, net recorded for the year ended September 30, 2022 are comprised of the following:

Accounts receivables	\$ 553,541
Cash advances	383,072
Undeposited funds	<u>322,900</u>
	1,259,513
Allowance for uncollectible	<u>(125,900)</u>
	<u>\$1,133,613</u>

National Fisheries Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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.

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 year ended September 30, 2022, management fees from KFC and TMC are 30% and 19%, respectively, of total operating revenues. As of September 30, 2022, receivables due from these two entities are 29% and 44%, respectively, of total receivables, net.

Recently Adopted Accounting Pronouncement

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on the beginning net position. The Company recorded right-of-use asset and corresponding lease liabilities of \$646,937 at October 1, 2021.

National Fisheries Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncement, continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The adoption of this statement during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. 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. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of this statement during the year ended September 30, 2022 did not have an effect on the accompanying financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

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.

Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*, which include guidance that are effective for future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.

National Fisheries Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

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. 101 will be effective for fiscal year ending September 30, 2024.

National Fisheries Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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.

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

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, 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.

National Fisheries Corporation
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Notes to Financial Statements, continued

3. Investment in Securities, continued

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, 2022, investments comprise Exchange-Traded Funds (EFT) 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 EFT to trade at a price that differs significantly from the value of its underlying holdings or index. The Company's investment balance in EFT is \$1,054,677 as of September 30, 2022. Investments in securities are categorized as Level 1.

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 space, and vessels under operating leases. Land and warehouse leases expire in February and March 2024, respectively. The office space lease expires in April 2025.

Topic 842 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 0.06% to 1.33% per annum upon initial adoption for the leases that will expire in 2024.

The carrying amounts of the Company's Right-of-use (ROU) asset and operating lease liabilities are as follows:

	September 30, <u>2022</u>
ROU, net	<u>\$538,752</u>
Lease liabilities	
Current	<u>\$108,501</u>
Non-Current	<u>\$430,251</u>

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Notes to Financial Statements, continued

4. Leases and Commitments, continued

The following table provides the maturities of the operating lease liabilities at September 30, 2022:

Year ending <u>September 30,</u>	
2023	\$114,199
2024	100,947
2025	80,000
2026	66,000
2027	66,000
Thereafter	<u>132,000</u>
Total future lease payments	559,146
Amounts representing interest	(<u>20,394</u>)
Present value of operating lease liabilities	<u>\$538,752</u>

For the year ended September 30, 2022, the total costs of these leases totaled \$114,292 was charged to Boat lease, Office expenses and Rent as reported in the accompanying statement 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 the year ended September 30, 2022, NFC earned \$480,000 for the management of KFC operations and is included as component of management fees in the accompanying statement of revenues, expenses and changes in net position.

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

Accounts receivables	\$169,038
Cash advances	<u>162,521</u>
	<u>\$331,558</u>

National Fisheries Corporation
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Notes to Financial Statements, continued

5. Related Party Transactions, continued

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

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

Accounts receivables	\$257,998
Cash advances	<u>243,397</u>
	<u>\$501,395</u>

6. Property and Equipment

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>139,021</u>
	389,188	43,756	---	432,944
Less accumulated depreciation	<u>(161,618)</u>	<u>(61,199)</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, 2022, 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 July 5, 2024.

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 2022-001 and 2022-002.

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

July 5, 2024

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

Schedule of Findings and Responses

Finding No. 2022-001 – Receivables

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

Condition: The Company did not maintain an adequate system of maintaining accounting files during the period and did not able to properly account and support the outstanding balance of its undeposited funds. Because of inadequacies in managing the accounting records, detailed records regarding the Company's undeposited funds from customers were not substantiated by underlying supporting documentation evidencing the validity of the funds. We noted a total of \$125,900 undeposited funds from Chuuk which have not been properly accounted by management.

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 must acquire adequate accounting assistance, must prepare monthly financial statements that are supported by its books and records, must maintain an adequate filing and retention system and must be able to demonstrate compliance with laws and regulations.

Auditee Response and Corrective Action Plan:

We acknowledge the findings, and we thank you for your assistance.

NFC recognizes our need to collaborate more within NFC team – Pohnpei and Chuuk. We need to keep our books and records updated. We have NFC network capability, allowing NFC team Pohnpei/Chuuk Staff members, to upload documents that can be accessible instantaneously. After every voyage or trip, reports including invoices, receipts, and deposit slips should be done and uploaded immediately. These documents shall be available for review and entry to the accounting system (QB) in Pohnpei. Pohnpei's accounting team will record in the books and will prepare monthly financial statements no later than the end of the following month. Hard copies of reports from the NFC Chuuk office should be sent quarterly for filing and auditing purposes. Account receivables or aging summary reports should be provided to the Chuuk office for checking and follow-up payments. NFC (Chuuk) shall send out statements of accounts to all customers quarterly and do follow-ups to make sure there are no differences in the accounts.

National Fisheries Corporation
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Schedule of Findings and Responses, continued

Finding No. 2022-002 – Bank Reconciliation

Criteria: The Company should perform monthly bank reconciliations and be able to support reconciling items and carrying values of cash.

Condition: The Company's bank reconciliation as of September 30, 2022 was not performed timely and contain \$60,000 of unreconciled items in relation to the Company's operations in Pohnpei as of that date.

Cause: The cause of this condition is primarily due to lack of control over bank reconciliations.

Effect: The effect of this condition is an inability to substantiate financial statement balances and financial statement transactions.

Recommendation: The Company must acquire adequate accounting assistance, must prepare monthly bank reconciliation reports that are supported by its books and records, must maintain an adequate filing and retention system.

Auditee Response and Corrective Action Plan:

We acknowledge the findings and thank you for your recommendation.

We will do bank reconciliations after all entries are inputted to the accounting system. We will prepare monthly bank reconciliations and have them available for quarterly meetings with the CEO, who will acknowledge and endorse the bank reconciliations. The CEO will have the report available for Board meetings when required. We will maintain hard copies in file and also upload copies to the NFC network system where documents are readily accessible by the Accounts team and/or upper management anytime.