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September 16, 2009

The Board of Directors
National Fisheries Corporation

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the National Fisheries Corporation (the Company), a component unit of the FSM National Government, as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated September 16, 2009.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation in the Company's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Company's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2008 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts, management's estimate of inventory obsolescence, which is based on management's evaluation of the inventory's realizable value, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Appendix I, a summary of misstatements corrected by management.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Company:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

For the year ended September 30, 2009, the following pronouncements will be adopted by the Company:

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

- In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Company.

For the year ended September 30, 2010, the following pronouncements will be adopted by the Company:

- In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Company.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Board of Directors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix III, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated September 16, 2009, containing certain matters involving the Company's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. Although we have included management's written responses to our comments contained in that report, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have also communicated to management, in a separate letter also dated September 16, 2009, control deficiency and other matters that we identified during our audit.

* * * * * *

This report is intended solely for the information and use of management, the Board of Directors, others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte + Touche LLP

APPENDIX I

Summary of Audit Adjustments

	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
Current-Period Misstatements									
									0
AJE <1>									0
(Dr) 3001 Retained Earnings					2				2
(Dr) 7030 Other Income								2	-2
Opening balance adjustment									0
AJE <2>									0
(Dr) 2000 AP				28,738					-28,738
(Cr) 8010 Other Expense							28,738		28,738
Correction of negative AP									0
									0
AJE <3>									0
(Dr) 4999 NFC Other Income							266,903		266,903
(Dr) 7030 Other Income							23,995		23,995
(Cr) 7999 Bad Debts								290,898	-290,898
Correction of bad debts/other income									0
									0
AJE <4>									0
(Dr) 6110 Office Expense							4,230		4,230
(Dr) 1204A Accumulated Depreciation	2,075								2,075
(Cr) 1204 Fixed Assets		5,254							-5,254
(Cr) 6401 Depreciation Expense								1,051	-1,051
Correction of fixed assets									
									0
AJE <5>									0
(Dr) 6401 Depreciation Expense							2,124		2,124
(Cr) 1206A Accumulated Depreciation		2,124							-2,124
Correction of fixed assets									
									0
AJE <6>									0
(Dr) 1207A Accumulated Depreciation	44,921								44,921
(Cr) 4999 Other Income								44,921	-44,921
Correction of fixed assets									
									0
AJE <7>									0
(Dr) 8010 Other Expense							4,368		4,368
(Cr) 6564 Social Security Contributions								4,368	-4,368
Correction of payroll expense									
									0
AJE <8>									0
(Dr) 6560 Payroll Expense							4,523		4,523
(Cr) 2100 Payroll Liabilities				4,523					-4,523
Accrual of payroll									
									0
AJE <9>									0
(Dr) 4025 Vessel Lease Revenue							4,400		4,400
(Cr) Accounts Receivable		4,400							-4,400
Correction of revenue									0
									0
									0
									0
									0
Total Misstatements Adjusted	46,996	11,778	0	33,261	2	0	339,282	341,240	0

The above misstatements do not represent fraud or illegal act.

Nicholson Solomon

APPENDIX A

Appendix A

Summary of Uncorrected Misstatements

	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
Prior-Period Misstatements – Impacting Current Period									
None.									0
									0
	0	0	0	0	0	0	0	0	0
									0
Current-Period Misstatements									0
									0
1									0
(Dr) Exp							1,592		1,592
(Cr) AP				(1,592)					(1,592)
									0
2									858
(Dr) Receivable	858								(858)
(Cr) Lease Exp								(858)	0
									0
3							973		973
(Dr) Misc Exp								(973)	(973)
(Cr) Tel Exp									0
									0
4							922		922
(Dr) Misc Exp								(922)	(922)
(Cr) Legal Fee									0
									0
5								2,035	2,035
(Dr) Vessel Lease								(2,035)	(2,035)
(Cr) Misc. Rev									0
									0
									0
									0
	858	0	0	(1,592)	0	0	3,487	(2,753)	0

The above misstatements do not represent fraud or illegal act.

Nicholson Solomon

National Fisheries Corporation
P.O. Box R
Kolonia, Pohnpei, FSM
96941
Tel. #: (691) 320-2529/320-5381
Fax #: (691) 320-2239

September 16, 2009

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of National Fisheries Corporation, Inc. (Corporation), a component unit of the Federated States of Micronesia National Government, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise the Corporation's basic financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following;

a. The fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud.

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America, except as stated in your Independent Auditors' Report. In addition:

   a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

   b. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

   c. Revenues are appropriately classified in the statement of activities.

   d. Deposits and investment securities are properly classified in category of custodial credit risk.

   e. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   f. Required supplementary information is measured and presented within prescribed guidelines.

   g. Applicable laws and regulations are followed in adopting, approving and amending budgets.

2. The Corporation has made available to you all:

   a. Minutes of the meetings and summaries of actions of the Board of Directors from October 1, 2007 to the date of this letter. Board meetings were held on the following dates:

      March 28, 2008 September 22-23, 2008

   b. Financial records and related data for all financial transactions of the Corporation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Corporation and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

3. There has been no:

   a. Action taken by the Corporation's management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

5. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, or others.

7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies.*

8. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Corporation's ability to initiate, record, process, and report financial information.

9. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

10. The Corporation has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.

Except where otherwise stated below, matters less than $5.952 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

11. There are no transactions that have been improperly recorded in the accounting records underlying the financial statements.

12. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

13. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

14. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

15. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, Accounting for Contingencies, except as disclosed in note (6) to the financial statement

16. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.

17. We believe that all expenditures that have been deferred to future periods are recoverable.

18. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Corporation's ability to initiate, record, process, and report financial information, except as stated in your reports to us.

19. We are aware of our requirement to disclose to you any change in the Corporation's internal control over financial reporting that occurred during the Corporation's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.

20. With regard to the fair value measurements and disclosures of certain assets, we believe that:

    a. The measurement methods, including the related assumptions used in determining fair value, were appropriate and were consistently applied.

    b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.

    c. No events have occurred subsequent to September 30, 2008 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

21. During the fiscal year 2008, the Corporation implemented the following pronouncements:

    - Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

    - GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues,* which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

    - GASB Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 43 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Corporation.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Corporation.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.* GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

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

22. We represent to you that, subsequent to September 30, 2008, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses).

23. The Corporation is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

24. As of September 30, 2008, the Corporation has incurred substantial losses from operations. There conditions raise substantial doubt about its ability to continue as a going concern.

25. The Corporation is substantially self-insured for all risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

26. NFC is ultimately liable for Micronesia Longline Fishing Company's (MLFC) loans payable to 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 and the MLFC debt is not recorded within the accompanying financial statements but is recorded on the financial statements of the FSM National Government.

Very truly yours,

Nicholson Solomon, President/Chief Executive Officer

Abiner Robert, Comptroller

APPENDIX A

Appendix A

Summary of Uncorrected Misstatements

	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
Prior-Period Misstatements – Impacting Current Period									
None.									0
									0
	0	0	0	0	0	0	0	0	0
									0
Current-Period Misstatements									0
									0
1									0
(Dr) Exp							1,592		1,592
(Cr) AP				(1,592)					(1,592)
									0
2									858
(Dr) Receivable	858								(858)
(Cr) Lease Exp								(858)	0
									0
3							973		973
(Dr) Misc Exp								(973)	(973)
(Cr) Tel Exp									0
									0
4							922		922
(Dr) Misc Exp								(922)	(922)
(Cr) Legal Fee									0
									0
5								2,035	2,035
(Dr) Vessel Lease								(2,035)	(2,035)
(Cr) Misc. Rev									0
									0
									0
									0
	858	0	0	(1,592)	0	0	3,487	(2,753)	0

The above misstatements do not represent fraud or illegal act.

Nicholson Solomon