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

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

Years ended September 30, 2024 and 2023
with Report of Independent Auditors

Shape the future
with confidence

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

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

Years ended September 30, 2024 and 2023

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Report of Independent Auditors

The Board of Directors
National Fisheries Corporation

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the business-type activities of National Fisheries Corporation (the Company), a component unit of the FSM National Government, as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, except for the possible effects on the accompanying 2024 financial statements of the matter described in the Basis for Qualified Opinion section of our report, 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, 2024 and 2023, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the 2024 Financial Statements

Due to unreconciled schedules and inadequacy of accounting records, the Company was unable to support the propriety of approximately $147,000 of receivables, net as of September 30, 2024. Consequently, we were unable to determine whether any adjustments to this amount were necessary and the impact is uncertain.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the 2024 financial statements and for our opinion on the 2023 financial statements.

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 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 31, 2026, 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 31, 2026

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, 2024, 2023 and 2022. MD&A is supplementary information required by the Government Accounting Standards Board Statement (GASB) 34. The preparation of the MD&A is the responsibility of the management of NFC and is designed to help the reader in understanding the accompanying financial statements and notes to the financial statements.

Background

The National Fisheries Corporation is a government owned corporation, created under Public Law No. 3-14 by the 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.

Overview of Fiscal Year 2024

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.

2024 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 $770,417 from other operating income.

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

Financial Highlights

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

1. Statement of Net Position (SNP)

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

1. Statement of Net Position (SNP) continued

Comparative Statements of Net position at September 30, 2024, 2023 and 2022 are summarized below:

	2024	2023	2022
Assets:			
Current assets	$4,814,350	$4,586,239	$4,158,292
Noncurrent	491,598	635,085	748,879
Total assets	$5,305,948	$5,221,324	$4,907,171
Liabilities:			
Current liabilities	97,917	138,373	148,037
Noncurrent liabilities	257,700	333,991	430,251
Total liabilities	355,617	472,364	578,288
Net position:			
Net investment in capital assets	491,598	635,085	748,879
Unrestricted	4,458,733	4,113,875	3,580,004
	4,950,331	4,748,960	4,328,883
Total liabilities and net position	$5,305,948	$5,221,324	$4,907,171

Assets: Company assets of $5.3 million comprised of current assets ($4.8 million or 91%) and noncurrent assets ($0.49 million or 9%).

Current assets: The $4.8 million current assets consist of cash, which accounts for $2.2 million (45%), investments in securities, which account for $1.4 million (30%), and accounts receivable and others for $1.2 million (25%).

Noncurrent assets: The noncurrent assets of $0.49 million comprised of property and equipment, net of accumulated depreciation, which amounted to $0.16 million or 32%, and right-of-use assets which amounted to $0.33 million or 68%.

Liabilities: Company liabilities of $0.36 million comprised of current liabilities which consists of accounts payable, accrued expenses, and lease liabilities which amounted to $0.10 million or 28% and noncurrent liabilities which consist of lease liabilities which amounted to $0.26 million or 72%.

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, 2024, 2023 and 2022.

	2024	2023	2022
Sales/income	$1,550,417	$1,738,156	$1,654,528
Cost of sales/bad debts	(153,142)	(203,948)	(180,521)
Gross profit	1,397,275	1,534,208	1,474,007
Operating expenses	1,380,570	1,292,296	1,186,346
Earnings from operations	16,705	241,912	287,661
Other income (expense)	184,666	178,165	(247,253)
Change in net position	201,371	420,077	40,408
Beginning net position	4,748,960	4,328,883	4,288,475
Ending net position	$4,950,331	$4,748,960	$4,328,883

Sales are from NFC corporate activities consisting of management fees and other operating revenues from charter, passenger and cargo. Total operating expenses for the year are $1.4 million. The largest is salaries and wages of $0.52 million, fuel of $0.25 million, travel and entertainment of $0.16 million, representation expense of $0.08 million, boat lease of $0.07 million, and other operating expenses.

3. Summary Statement of Cash Flows (SCF)

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

Below is the summary statements of cash flows:

	2024	2023	2022
From operating activities	$(137,935)	$ 426,920	$ 412,780
From capital and related financing activities	(63,432)	(20,525)	(43,756)
From investing activities	14,456	7,851	20,884
Net change in cash	(186,911)	414,246	389,908
Cash at beginning of year	2,343,018	1,928,772	1,538,864
Cash at year end	$ 2,156,107	$2,343,018	$1,928,772

Management's Discussion and Analysis for the year ended September 30, 2023 is outlined in NFC's report on the audit of financial statements issued on September 5, 2025. That Discussion and Analysis explains the major factors impacting the 2023 financial statements and can be obtained from the FSM Office of the National Public Auditor's website at www.fsmopa.fm.

Economic Outlook

NFC manages KFC and TMC joint ventures with Koo's Fishing Co. and TAFCO, respectively, in their operations in the FSM EEZ. TMC is liquidating in 2026, ending that joint venture. TMC started winding down in May 2026 and will finish by the end of the year, dissolving the joint venture. The cessation of the partnership will impact NFC revenues.

The partnership with KFC remains active for fishing operations. The NFC and KFC ten-year lease for the North Star operations in Chuuk ended in November 2024, when KFC took back the day-to-day management and operations of North Star. NFC plans to have a replacement ferry named North Star II. The operation of this new ferry boat and keeping with the existing joint venture with KFC to make NFC a self-supporting company over time despite recent changes.

FINANCIAL MANAGEMENT CONTACT

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

National Fisheries Corporation

(A Component Unit of the FSM National Government)

Statements of Net Position

	September 30, 2024	September 30, 2023
Assets		
Current assets:		
Cash	$2,156,107	$2,343,018
Investment in securities	1,443,248	1,216,383
Receivables, net	1,213,794	986,068
Advances to employees	1,201	1,575
Inventory	---	39,195
Total current assets	4,814,350	4,586,239
Noncurrent assets:		
Property and equipment, net	157,607	194,299
Right-of-use asset, net	333,991	440,786
Total noncurrent assets	491,598	635,085
	$5,305,948	$5,221,324
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	$ 21,626	$ 31,578
Current portion of lease liabilities	76,291	106,795
Total current liabilities	97,917	138,373
Noncurrent portion of lease liabilities	257,700	333,991
	355,617	472,364
Net position:		
Net investment in capital assets	491,598	635,085
Unrestricted	4,458,733	4,113,875
Net position	4,950,331	4,748,960
	$5,305,948	$5,221,324

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30, 2024	Year ended September 30, 2023
Revenues:		
Management fees	$ 780,000	$ 780,000
Charter	584,009	850,000
Cargo	103,472	48,956
Passengers	25,527	5,065
Other operating income	57,409	54,135
Cost of sales	(39,195)	(54,621)
Provision for uncollectible accounts	(113,947)	(149,327)
Net revenues	1,397,275	1,534,208
Operating expenses:		
Salaries and wages	518,104	459,385
Fuels	254,198	203,497
Travel and entertainment	158,619	108,149
Representations	83,152	113,869
Office expenses	79,828	75,120
Boat lease	66,000	66,000
Depreciation	36,692	36,353
Contractual services	36,514	81,473
Vessel expenses	27,241	32,345
Rent	24,246	24,000
Repairs and maintenance	23,056	17,882
Utilities	22,805	27,294
Telephone and communication	15,527	10,819
Trainings	9,881	9,290
Miscellaneous	24,707	26,820
Total operating expenses	1,380,570	1,292,296
Earnings from operations	16,705	241,912
Nonoperating income, net:		
Investment income, net	241,321	169,557
Other income	6,777	8,608
Capital grant	(63,432)	---
Total nonoperating income, net	184,666	178,165
Change in net position	201,371	420,077
Net position at beginning of year	4,748,960	4,328,883
Net position at end of year	$4,950,331	$4,748,960

See accompanying notes.

National Fisheries Corporation

(A Component Unit of the FSM National Government)

Statements of Cash Flows

	Year ended September 30, 2024	2023
Cash flows from operating activities:		
Cash received from customers	$1,142,308	$1,681,753
Cash paid to suppliers for goods and services	(762,139)	(795,448)
Cash paid to employees for services	(518,104)	(459,385)
Net cash (used in) provided by operating activities	(137,935)	426,920
Cash flow from capital and related financing activity:		
Capital grant	(63,432)	---
Acquisition of capital assets	---	(20,525)
Cash used in financing activities	(63,432)	(20,525)
Cash flows from investing activity:		
Dividends from investment in securities	14,456	7,851
Net change in cash	(186,911)	414,246
Cash at beginning of the year	2,343,018	1,928,772
Cash at end of the year	$2,156,107	$2,343,018
Reconciliation of earnings from operations to net cash flows (used in) provided by operating activities:		
Earnings from operations	$ 16,705	$ 241,912
Adjustments to reconcile earnings from operations to net cash (used in) provided by operating activities:		
Depreciation	36,692	36,353
Provision for uncollectible accounts	113,947	149,327
Other income	6,777	8,608
(Increase) decrease in assets:		
Receivables, net	(341,673)	(1,782)
Advances to employees	374	460
Inventory	39,195	---
Decrease in liabilities:		
Accounts payable and accrued liabilities	(9,952)	(7,958)
Net cash (used in) provided by operating activities	$(137,935)	$ 426,920
Supplementary disclosure of noncash investing and financing activities:		
Initial recognition of right-of-use asset	$ ---	$ 20,785
Initial recognition of lease liability	$ ---	$ 20,785

See accompanying notes.

1. Reporting Entity

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

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

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

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

2. Summary of Significant Accounting Policies

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

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

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of outstanding obligations related to those capital assets.

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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, 2024 and 2023, the carrying amount of NFC's total cash was $2,156,107 and $2,343,018, respectively, and the corresponding bank balances were $2,169,595 and $2,352,512, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2024 and 2023, bank deposits in the amount of $291,554 and $291,921, 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.

2. Summary of Significant Accounting Policies, continued

Investments and Business Development

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

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

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

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

At September 30, 2024 and 2023, investment in TMC and KFC have been reduced to zero due to shareholders' deficit. No dividends or other contributions have been received during the years ended September 30, 2024 and 2023.

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.

2. Summary of Significant Accounting Policies, continued

Receivables, continued

Receivables, net as of September 30, 2024 and 2023 are comprised of the following:

	2024	2023
Accounts receivable	$1,132,707	$ 863,700
Cash advances	151,414	192,695
Undeposited funds	4,000	4,000
	1,288,121	1,060,395
Allowance for uncollectible receivables	(74,327)	(74,327)
	$1,213,794	$ 986,068

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.

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risk

The Company provides various services such as management fees, charter, cargo and passenger trips on credit to its customers. For the years ended September 30, 2024 and 2023, management fees from KFC and TMC represent 51% and 46%, respectively, of total operating revenues. As of September 30, 2024 and 2023, receivables due from these two entities are 86% and 88%, respectively, of total receivables, net.

Recently Adopted Accounting Pronouncements

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. The implementation of this statement did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

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.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government’s accountability and address certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management’s discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained.

That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

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, 2024 and 2023, the Company has investments with issuers with more than 5% of the Company's total investments. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on these issuers.

3. Investment in Securities, continued

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

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

As of September 30, 2024 and 2023, 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. As of September 30, 2024 and 2023, the Company's investment balance in EFT is approximately $1,443,000 and $1,185,000, respectively. 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 spaces, and vessel under operating leases. Land and warehouse leases expired in February and March 2024, respectively, with a month-to-month arrangement after the expiration of these leases. The office space leases in Pohnpei and Chuuk expires in April 2025 and November 2024, respectively. The leased vessel, originally expires in October 2029, was early terminated in November 2024 (see Note 8).

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

4. Leases and Commitments, continued

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

	September 30, 2024	September 30, 2023
ROU, net	$333,991	$440,786
Lease liabilities		
Current	$ 76,291	$106,795
Non-Current	$257,700	$333,991

The following table provides the maturities of the operating lease liabilities at September 30, 2024:

Year ending September 30,	
2025	$ 80,000
2026	66,000
2027	66,000
2028	66,000
Thereafter	66,000
Total future lease payments	344,000
Amounts representing interest	(10,009)
Present value of operating lease liabilities	$333,991

For the years ended September 30, 2024 and 2023, the total costs of these leases of $114,447 and $124,999, respectively, were charged to Boat lease, Office expenses and Rent as reported in the accompanying statements of revenues, expenses and changes in net position.

5. Related Party Transactions

NFC and KFC entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. For each of the years ended September 30, 2024 and 2023, NFC earned $480,000 for the management of KFC operations and is included as component of management fees in the accompanying statements of revenues, expenses and changes in net position.

At September 30, 2024 and 2023, NFC has the following balances with KFC included as a component of receivables, net in the accompanying statements of net position as follows:

	2024	2023
Accounts receivables	$557,373	$266,219
Cash advances	45,708	43,529
	$603,081	$309,748

NFC and TMC entered into a management agreement in April 2012 wherein NFC would receive monthly management fees. For the years ended September 30, 2024 and 2023, NFC earned $300,000 for the management of TMC operations and is included as component of management fees in the accompanying statements of revenues, expenses and changes in net position.

At September 30, 2024 and 2023, NFC has the following balances with TMC included as a component of receivables, net in the accompanying statements of net position as follows

	2024	2023
Accounts receivables	$362,942	$488,040
Cash advances	77,234	66,582
	$440,176	$554,622

During the year ended September 30, 2024, NFC provided Chuuk State Government $63,432 for capital improvement purposes at the Weno dock through a memorandum of understanding dated May 2023.

6. Property and Equipment, net

Capital asset activity for the year ended September 30, 2024 follows:

	October 1, 2023	Additions	Deletions	September 30, 2024
Machinery and equipment	$221,186	$ ---	$ ---	$221,186
Office furniture and equipment	90,153	---	---	90,153
Building	139,021	---	---	139,021
	450,360	---	---	450,360
Accumulated depreciation	(256,061)	(36,692)	---	(292,753)
	$194,299	$(36,392)	$ ---	$157,607

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

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

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.

8. Subsequent Events

NFC has an operating lease agreement with KFC for the lease of a vessel until October 2029. The leased vessel operates in the state of Chuuk used for chartering, passenger and cargo services. Effective November 2024, NFC’s lease agreement for the vessel was terminated resulting in the cessation of NFC’s operations in the state of Chuuk.

In May 2026, TMC initiated liquidation process and is expected to wind up operations by December 2026. This is an ongoing process as of the audit report date and will result in the dissolution of the joint venture with NFC.

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Shape the future
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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, 2024, 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 31, 2026.

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 significant deficiencies as items 2024-001 and 2024-002.

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 31, 2026

Schedule of Findings and Responses

Finding No. 2024-001 – Document Accumulation, Management and Retention

Criteria: The Company should establish an effective system of proper accumulation and filing, management and retention of accounting files and documents.

Condition: The Company does not have an effective system of accumulation, filing and maintaining accounting documents during the period and was not able to provide supporting documentation for transactions.

Cause: The cause of this condition is primarily due to unorganized accumulation and lack of adequate filing of Company documents.

Effect: The effect of this condition is an inability to substantiate financial statement transactions and balances and possible compliance with documentation retention period requirements.

Recommendation: The Company should establish standard procedures and monitor the compliance of these in ensuring that accumulation, filing and retention of documents are observed. This will enable other Company's authorized users of the documents to access as needed the documents in the absence of other authorized users.

Auditee Response and Corrective Action Plan:

We acknowledge the finding and thank you for your recommendation.

The NFC accounting team must maintain a robust document management system by organizing both physical hard copies in secure files in locked cabinets and digital soft copies on Synology (NFC network system). These should be properly organized (by date/category). We should practice scanning and properly filing all Corporation documents. The documents should be securely backed up and also uploaded copies to Synology for easy access by Accounting and Management.

Finding No. 2024-002 – Receivables

Criteria: The Company should maintain policies and procedures for monitoring and timely reconciliation of accounts receivables.

Condition: The Company's accounts receivables from related parties, major customers and other receivables were not reconciled periodically. We noted that customer invoices are not communicated and recorded in a timely manner. Furthermore, payments received are not recorded and posted to customers' accounts timely. Lastly, we noted long outstanding receivables without timely collection efforts, evaluation of collectability or write off.

Cause: The cause of this condition is lack of timely processing and posting to proper account, periodic reconciliation and review of the customers' and accounts receivable account balances.

Effect: The effects of this condition are potential material misstatements in each customer's balances and in the accounts receivable balance and significant delays in the audit procedures.

Recommendation: The Company should establish policies and procedures for timely recording of transactions and monthly reconciliations.

Auditee Response and Corrective Action Plan:

We acknowledge the finding. We recognize our need to collaborate more within NFC Pohnpei and Chuuk team and should've shared more regular updates from Chuuk office for summary reports and accounts receivables. We must work closely with all customers to reconcile accounts and collect payments. Accounting will mandate timely recording of transactions, monthly reconciliations, and monthly financial statements, and close the book by the end of the following month. Senior management must review reports prepared by Accounting monthly and quarterly. These reports shall be ready for quarterly meetings.