

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors
National Fisheries Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Fisheries Corporation (the "Company" or "NFC"), a component unit of the FSM National Government, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Taiyo Micronesia Corporation (TMC) and Kasar Fishing Corporation (KFC), the Company's investments in which are accounted for by use of the equity method. The accompanying financial statements of the Company include its investment in the net assets of TMC of \$0 and \$132,000 as of September 30, 2020 and 2019, respectively, its investment loss from TMC of (\$132,000) and (\$1,513,750) for the years then ended, its investment in the net assets of KFC of \$0 as of September 30, 2020 and 2019, respectively, and its investment loss from KFC of \$0 and (\$547,241) for the years then ended. TMC's financial statements were prepared in accordance with accounting principles generally accepted in Japan and KFC's financial statements were prepared in accordance with the Enterprise Accounting Standards and related interpretations. Those statements of TMC and KFC for the years ended December 31, 2020 and 2019 were audited by other auditors, whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of TMC and KFC, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for TMC and KFC, prior to these conversion adjustments, is based on the reports of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Company's equity investments and equity method income in the accompanying financial statements taking into consideration the differences in fiscal years.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Because of the inadequacy of accounting records, the Company was unable to identify the propriety of approximately \$438,000 and \$66,000 of balances due from joint ventures and a Company branch office, respectively, that form part of receivables as of September 30, 2020. The impact of this matter is uncertain.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

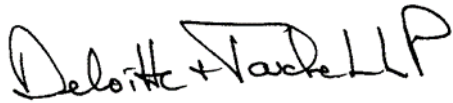
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2022, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control over financial reporting and compliance.

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

April 21, 2022

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

Management's Discussion and Analysis
September 30, 2020 and 2019

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2020 and 2019. MD&A is supplementary information required by the Government Accounting Standards Board Statement 34 (GASB 34). The preparation of the MD&A is the responsibility of the management of NFC, and is designed to help the reader in understanding the accompanying financial statements and notes to the financial statements.

Background

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

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 2020

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.

2020 revenue sources of NFC operations are \$980k of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During this year, NFC also generated \$831k from other operating income.

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

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:

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Management's Discussion and Analysis
September 30, 2020 and 2019

1. Statement of Net Position (SNP)

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

Comparative Statements of Net position at September 30, 2020, 2019 and 2018 are summarized below:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current assets	\$ 3,114,976	\$ 2,338,364	\$ 1,839,875
Noncurrent	<u>277,812</u>	<u>375,691</u>	<u>3,081,287</u>
Total assets	\$ <u>3,392,788</u>	\$ <u>2,714,055</u>	\$ <u>4,921,162</u>
Liabilities:			
Current liabilities	\$ <u>125,647</u>	\$ <u>23,155</u>	\$ <u>28,512</u>
Net position:			
Net investment in capital assets	277,812	243,691	113,051
Unrestricted	<u>2,989,329</u>	<u>2,447,209</u>	<u>4,779,599</u>
	<u>3,267,141</u>	<u>2,690,900</u>	<u>4,892,650</u>
Total liabilities and net position	\$ <u>3,392,788</u>	\$ <u>2,714,055</u>	\$ <u>4,921,162</u>

Assets: Company assets of \$3.392 million comprised \$3.114 million or 92% of current assets and \$0.277 million or 8% of noncurrent assets.

Current assets: The \$3.114 million current assets consist of cash, which accounts for \$1.402 million or 45%, investments in securities, which account for \$1.116 million or 36%, and accounts receivable and others for \$596k or 19%.

Noncurrent assets: The noncurrent assets of \$278k comprised \$277k or 100% of the Company's property and equipment, net of accumulated depreciation.

Liabilities: NFC's liabilities of \$126k are all current consisting of a \$21k accrued liabilities and \$105k accounts payable.

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Management's Discussion and Analysis
September 30, 2020 and 2019

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, 2020, 2019 and 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sales/income	\$ 1,814,334	\$ 1,049,561	\$ 1,019,899
Cost of sales/bad debts	<u>(36,288)</u>	<u>(19,278)</u>	<u>-</u>
Gross profit	1,778,046	1,030,283	1,019,899
Operating expenses	<u>1,113,347</u>	<u>692,538</u>	<u>674,677</u>
Earnings from operations	664,699	337,745	345,222
Other income	<u>(88,458)</u>	<u>(2,539,945)</u>	<u>1,305,214</u>
Change in net position	576,241	(2,201,750)	1,650,436
Beginning net position	<u>2,690,900</u>	<u>4,892,650</u>	<u>3,242,214</u>
Ending net position	\$ <u>3,267,141</u>	\$ <u>2,690,900</u>	\$ <u>4,892,650</u>

Sales are from NFC corporate operational activities. Total operating expenses for the year are 1.113 million. The largest is salaries and wages of \$454k, fuel of 189k, representation expenses of \$103k, office expense of \$86k, boat lease of \$76k, travel and entertainment of \$53k and other operating expenses.

3. Summary Statement of Cash Flows (SCF)

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

Below is the summary statements of cash flows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
From operating activities	\$ 439,198	\$ 173,431	\$ 568,192
From capital and related financing activities	(57,121)	(648,394)	(54,542)
From investing activities	<u>0</u>	<u>275,245</u>	<u>124,993</u>
Net change in cash	382,077	(199,718)	638,643
Cash at beginning of year	<u>1,020,125</u>	<u>1,219,843</u>	<u>581,200</u>
Cash at year end	\$ <u>1,402,202</u>	\$ <u>1,020,125</u>	\$ <u>1,219,843</u>

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Management's Discussion and Analysis
September 30, 2020 and 2019

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in NFC's report on the audit of financial statements, which was dated January 8, 2021. That Discussion and Analysis explains the major factors impacting the 2018 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 a Taiwanese purse seiner companies, Koo's Fishing Co., Ltd. and TAFCO, and formed Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC), respectively, a purse seiner companies to operate and fish in the FSM EEZ and areas under the FSMA regional agreement. Said joint venture operations are expected to generate sufficient added income to render NFC a self supporting company in the years to come.

FINANCIAL MANAGEMENT CONTACT

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

NATIONAL FISHERIES CORPORATION
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Statements of Net Position
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets:		
Cash	\$ 1,402,202	\$ 1,020,125
Investment in securities	1,116,471	1,072,929
Receivables	555,172	236,103
Advances to employees	172	-
Inventory	<u>40,959</u>	<u>9,207</u>
Total current assets	3,114,976	2,338,364
Equity investment	-	132,000
Property and equipment, net	<u>277,812</u>	<u>243,691</u>
	<u>\$ 3,392,788</u>	<u>\$ 2,714,055</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 105,054	\$ 2,812
Accrued liabilities	<u>20,593</u>	<u>20,343</u>
Total current liabilities	<u>125,647</u>	<u>23,155</u>
Commitment and contingencies		
Net position:		
Net investment in capital assets	277,812	243,691
Unrestricted	<u>2,989,329</u>	<u>2,447,209</u>
Net position	<u>3,267,141</u>	<u>2,690,900</u>
	<u>\$ 3,392,788</u>	<u>\$ 2,714,055</u>

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Revenues:		
Management fees	\$ 980,000	\$ 980,000
Charter	506,528	-
Cargo	178,763	-
Passengers	37,031	-
Services	33,976	-
Other operating income	78,036	69,561
Less: Cost of sales	(36,288)	(19,278)
Net revenues	<u>1,778,046</u>	<u>1,030,283</u>
Operating expenses:		
Salaries and wages	454,281	307,966
Fuel	189,324	-
Representation	102,503	105,904
Office expense	86,452	40,237
Boat lease	76,000	-
Travel and entertainment	52,705	106,821
Rent	29,200	24,500
Utilities	26,691	28,728
Depreciation	23,000	17,754
Repairs and maintenance	17,635	11,684
Telephone and communication	16,682	14,232
Contractual services	797	24,181
Training	-	5,620
Miscellaneous	38,077	4,911
Total operating expenses	<u>1,113,347</u>	<u>692,538</u>
Earnings from operations	<u>664,699</u>	<u>337,745</u>
Nonoperating revenues (expenses), net:		
Investment loss	(88,458)	(2,041,700)
Contribution to FSM National Government	-	(500,000)
Other income, net	-	2,205
Total other expenses, net	<u>(88,458)</u>	<u>(2,539,495)</u>
Change in net position	576,241	(2,201,750)
Net position at beginning of year	<u>2,690,900</u>	<u>4,892,650</u>
Net position at end of year	<u>\$ 3,267,141</u>	<u>\$ 2,690,900</u>

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 1,458,977	\$ 860,141
Cash paid to suppliers for goods and services	(565,576)	(381,681)
Cash paid to employees for services	(454,203)	(305,029)
Net cash provided by operating activities	<u>439,198</u>	<u>173,431</u>
Cash flows from capital and related financing activities:		
Contribution to FSM National Government	-	(500,000)
Acquisition of capital assets	(57,121)	(148,394)
Net cash used in capital and related financing activities	<u>(57,121)</u>	<u>(648,394)</u>
Cash flows from investing activities:		
Cash dividends and interest received on investments	-	775,245
Net purchases, sales and maturities of investments	-	(500,000)
Net cash provided by investing activities	<u>-</u>	<u>275,245</u>
Net change in cash	382,077	(199,718)
Cash at beginning of year	<u>1,020,125</u>	<u>1,219,843</u>
Cash at end of year	\$ <u><u>1,402,202</u></u>	\$ <u><u>1,020,125</u></u>
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	\$ 664,699	\$ 337,745
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	23,000	17,754
Other income, net	-	2,205
Decrease (increase) in assets:		
Receivable	(319,069)	(170,142)
Advances to employees	(172)	433
Inventory	(31,752)	(9,207)
Increase (decrease) in liabilities:		
Accounts payable	102,242	(7,861)
Accrued liabilities	250	2,504
Net cash provided by operating activities	\$ <u><u>439,198</u></u>	\$ <u><u>173,431</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2020 and 2019

(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 are 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.

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.

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses 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, 2020 and 2019, the carrying amount of NFC's total cash was \$1,402,202 and \$1,020,125, respectively, and the corresponding bank balances were \$1,422,675 and \$1,042,653, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$426,761 and \$264,401, respectively, were FDIC insured. NFC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. NFC has not experienced any losses in such accounts and management believes it is not exposed to any significant custodial credit risk on its deposits.

Investments and Business Development

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

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Investment and Business Development, Continued

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 TMC 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.

Receivables

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

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 nonvesting accumulating rights to receive sick pay benefits.

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

NFC's primary source of revenue is derived from management fees from the venture businesses. Management fees are determined based on the monthly billing from the venture businesses and considered earned every month. Other revenue is recorded when earned and measurable.

As of September 30, 2020, management fees from TMC are 28% and 51%, respectively, of total operating revenues. As of September 30, 2019, management fees from KFC are 27% and 48%, respectively, of total operating revenues. As of September 30, 2020 and 2019, receivables due from these two entities are 58% and 99%, respectively, of total receivables.

NFC started providing vessel lease services in Chuuk during the fiscal year ended 2020. Revenue is derived from vessel lease services provided to customers in Chuuk. Fees are determined based on invoices and revenue is recorded when earned and measurable.

New Accounting Standards

During the year ended September 30, 2020, the Company implemented the following pronouncement:

- GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

The implementation of the statement did not have a material effect on the Company's financial statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. 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. 84 will be effective for fiscal year ending September 30, 2021.

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. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, 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. 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. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. 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. 90 will be effective for fiscal year ending September 30, 2021.

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 January 2020, GASB issued statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. 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. 93 will be effective for fiscal year ending September 30, 2022.

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 June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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(3) Commitments

NFC leases a warehouse from the Pohnpei Port Authority, a component unit of the State of Pohnpei. NFC is to pay \$10,512 per year and the lease expires in March 2022.

<u>Year ending September 30,</u>	
2021	\$ 10,512
2022	<u>5,256</u>
	\$ <u>15,768</u>

NFC leases a vessel from KFC. NFC is to pay \$66,000 per year and the lease expires in October 2029.

<u>Year ending September 30,</u>	
2021	\$ 66,000
2022	66,000
2023	66,000
2024	66,000
2025	66,000
Thereafter	<u>231,000</u>
	\$ <u>561,000</u>

(4) Related Party Transactions

NFC and KFC entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. NFC received \$480,000 in fiscal years 2020 and 2019 for management of KFC operations.

NFC and TMC entered into a management agreement in April 2012 wherein NFC would receive monthly management fees. NFC received \$500,000 in fiscal years 2020 and 2019 for management of TMC operations.

NFC contributed \$500,000 to the FSM National Government in fiscal year 2019.

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2020 and 2019 follows:

	<u>October 1,</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30,</u> <u>2020</u>
Machinery and equipment	\$ 191,458	\$ 51,915	\$ -	\$ 243,373
Office furniture and equipment	61,808	5,206	-	67,014
Building	<u>102,929</u>	<u>-</u>	<u>-</u>	<u>102,929</u>
	356,195	57,121	-	413,316
Less accumulated depreciation	<u>(112,504)</u>	<u>(23,000)</u>	<u>-</u>	<u>(135,504)</u>
	\$ <u>243,691</u>	\$ <u>34,121</u>	\$ <u>-</u>	\$ <u>277,812</u>

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(5) Property and Equipment, Continued

	October 1, <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2019</u>
Machinery and equipment	\$ 160,181	\$ 31,277	\$ -	\$ 191,458
Office furniture and equipment	47,620	14,188	-	61,808
Building	<u>-</u>	<u>102,929</u>	<u>-</u>	<u>102,929</u>
	207,801	148,394	-	356,195
Less accumulated depreciation	<u>(94,750)</u>	<u>(17,754)</u>	<u>-</u>	<u>(112,504)</u>
	<u>\$ 113,051</u>	<u>\$ 130,640</u>	<u>\$ -</u>	<u>\$ 243,691</u>

(6) 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.

(7) 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, 2019, 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.

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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.

NATIONAL FISHERIES CORPORATION
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Notes to Financial Statements
September 30, 2020 and 2019

(7) Investment in Securities, Continued

As of September 30, 2020 and 2019, investments comprise Exchange-Traded Funds 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 Exchange-Traded Products to trade at a price that differs significantly from the value of its underlying holdings or index. The Company's investment balance in Exchange-Traded Funds is \$1,116,471 and \$1,072,929, respectively, as of September 30, 2020 and 2019. Investments in securities are categorized as Level 1.

(8) Equity Investments

Changes in NFC's equity investment in TMC during the years ended September 30, 2020 and 2019 follows:

Investment balance as of October 1, 2018	\$ 1,720,750
2019 dividends declared	(75,000)
Pro rata share of TMC 2019 net loss	<u>(1,513,750)</u>
Investment balance as of September 30, 2019	132,000
2020 dividends declared	-
Share of TMC 2020 net loss	<u>(132,000)</u>
Investment balance as of September 30, 2020	\$ <u><u>-</u></u>

Changes in NFC's equity investment in KFC during the years ended September 30, 2020 and 2019 follows:

Investment balance as of October 1, 2018	\$ 1,247,486
2019 dividends declared	(700,245)
Share of KFC 2019 net loss	<u>(547,241)</u>
Investment balance as of September 30, 2019	-
2020 dividends declared	-
Share of KFC 2020 net loss	<u>-</u>
Investment balance as of September 30, 2020	\$ <u><u>-</u></u>

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Notes to Financial Statements
September 30, 2020 and 2019

(8) Equity Investments, Continued

Below is TMC's summary financial information as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets	\$ <u>47,298,000</u>	\$ <u>49,125,000</u>
Liabilities	60,250,000	48,597,000
Equity	<u>(12,952,000)</u>	<u>528,000</u>
Total liabilities and equity	\$ <u>47,298,000</u>	\$ <u>49,125,000</u>
Income	\$ 61,178,000	\$ 70,904,000
Cost of goods sold	<u>(66,215,000)</u>	<u>(70,524,000)</u>
Gross (loss) profit	(5,037,000)	380,000
Selling, general and administrative expenses	(4,839,000)	(5,321,000)
Non-operating income	136,000	44,000
Non-operating expenses	(3,012,000)	(1,158,000)
Extraordinary losses	<u>(726,000)</u>	<u>-</u>
Net loss	\$ <u>(13,478,000)</u>	\$ <u>(6,055,000)</u>

Below is KFC's summary financial information as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets	\$ <u>34,755,392</u>	\$ <u>46,042,288</u>
Liabilities	45,800,403	51,688,633
Equity	<u>(11,045,011)</u>	<u>(5,646,345)</u>
Total liabilities and equity	\$ <u>34,755,392</u>	\$ <u>46,042,288</u>
Income	\$ 38,021,426	\$ 40,498,500
Cost of goods sold	<u>(36,656,015)</u>	<u>(38,935,605)</u>
Gross profit	1,365,411	1,562,895
Operating expenses	(6,083,171)	(6,525,154)
Non-operating income	117,117	48,737
Non-operating expenses	<u>(798,023)</u>	<u>(2,921,784)</u>
Net loss	\$ <u>(5,398,666)</u>	\$ <u>(7,835,306)</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
National Fisheries Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of National Fisheries Corporation (the "Company"), a component unit of the FSM National Government, which comprise the statement of net position as of September 30, 2020, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2022.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 weakness as item 2020-001 and significant deficiency as item 2020-002.

Compliance and Other Matters

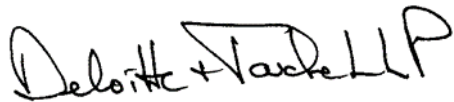
As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Company's Response to Findings

The Company's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Deloitte + Tacke LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

April 21, 2022

NATIONAL FISHERIES CORPORATION
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Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001 – Receivables

Criteria: The Company should maintain an adequate system of accounting and should be able to reconcile its general ledger with subsidiary ledgers. Because of inadequacies in the accounting records, detailed records regarding the Company's receivables from joint ventures were not substantiated by underlying supporting documentation and confirmations evidencing the validity of receivables. We noted an approximately \$438,000 aggregated variances in audit confirmations. We further noted an approximately \$66,000 variance between NFC's interfund receivables and payables between trial balances for Pohnpei and Chuuk. The variance has not been reconciled by management.

Condition: The Company did not maintain an adequate system of accounting during the period and did not reconcile the receivables with joint ventures. The Company did not reconcile the variance noted between trial balances for Pohnpei and Chuuk.

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 document 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 throughout the auditing period.

We will improve our team's collaborative efforts and be more proactive in updating our accounts in our accounting system. We will prepare monthly financial statements and make sure all entries are in before we close the books periodically. We will prepare invoices and statement of accounts (SOA) monthly to each vendor to make sure all receivables are accounted for and our books are the same. Once we collect receivables, record it in our books and make deposit right away. We will follow up on receivables from vendors to make sure no disagreements in the future.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-002 – 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, 2020 was not performed timely are approximately \$36,000 and \$19,000 of unreconciled items in relation to the Company's operations in Chuuk and Pohnpei, respectively, 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, financial statement transactions and compliance with laws and regulations.

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 and must be able to demonstrate compliance with laws and regulations.

Auditee Response and Corrective Action Plan: We acknowledge the finding and will make sure it will not be an issue from now and on. We will prepare monthly bank reconciliation reports and keep it in file. Have a soft copy and also maintain hard copies in our files for future use.