NATIONAL FISHERIES CORPORATION

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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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, 2021 and 2020, 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 as of September 30, 2021 and 2020, its investment loss from TMC of $0 and ($132,000), respectively, for the years then ended, its investment in the net assets of KFC of $0 as of September 30, 2021 and 2020, and its investment loss from KFC of $0 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, 2021 and 2020 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 (loss) 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.

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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 $304,000 and $65,000 of balances due from joint ventures and a Company branch office, respectively, that form part of receivables as of September 30, 2021 and 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, 2021 and 2020, 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2023, 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.

Deloitte & Touche LLP

March 3, 2023

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, 2021 and 2020. 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 2021

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.

2021 revenue sources of NFC operations consist of $888k of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During this year, NFC also generated $853k 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:

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, 2021, 2020 and 2019 are summarized below:

	2021	2020	2019
Assets:			
Current assets	$ 4,128,347	$ 3,114,976	$ 2,338,364
Noncurrent	227,570	277,812	375,691
Total assets	$ 4,355,917	$ 3,392,788	$ 2,714,055
Liabilities:			
Current liabilities	$ 67,442	$ 125,647	$ 23,155
Net position:			
Net investment in capital assets	227,570	277,812	243,691
Unrestricted	4,060,905	2,989,329	2,447,209
	4,288,475	3,267,141	2,690,900
Total liabilities and net position	$ 4,355,917	$ 3,392,788	$ 2,714,055

Assets: Company assets of $4.356 million comprised $4.128 million or 95% current assets and $0.228 million or 5% noncurrent assets.

Current assets: The $4.128 million of current assets consists of cash, which accounts for $1.539 million or 39%, investments in securities, which account for $1.323 million or 32%, and accounts receivable and others of $1.266 million or 31%.

Noncurrent assets: The noncurrent assets of $228k comprise $228k or 100% of the Company's property and equipment, net of accumulated depreciation.

Liabilities: NFC's liabilities of $67k are all current consisting of $9k of accrued liabilities and $58k of accounts payable.

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, 2021, 2020 and 2019.

	2021	2020	2019
Sales/income	$ 1,740,685	$ 1,814,334	$ 1,049,561
Cost of sales/bad debts	(41,454)	(36,288)	(19,278)
Gross profit	1,699,231	1,778,046	1,030,283
Operating expenses	884,696	1,113,347	692,538
Earnings from operations	814,535	664,699	337,745
Other income (loss)	206,799	(88,458)	(2,539,945)
Change in net position	1,021,334	576,241	(2,201,750)
Beginning net position	3,267,141	2,690,900	4,892,650
Ending net position	$ 4,288,475	$ 3,267,141	$ 2,690,900

Sales are from NFC corporate operational activities. Total operating expenses for the year are $885k. The largest is salaries and wages of $391k, fuel of $144k, representation expenses of $106k, boat lease of $66k, office expenses of $82k 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 are the summary statements of cash flows:

	2021	2020	2019
From operating activities	$ 143,811	$ 439,198	$ 173,431
From capital and related financing activities	(7,149)	(57,121)	(648,394)
From investing activities	-	-	275,245
Net change in cash	136,662	382,077	(199,718)
Cash at beginning of year	1,402,202	1,020,125	1,219,843
Cash at year end	$ 1,538,864	$ 1,402,202	$ 1,020,125

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in NFC's report on the audit of financial statements, which was dated April 21, 2022. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be obtained from the FSM office of the National Public Auditor's website at www.fsmopa.fm.

Economic Outlook

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

FINANCIAL MANAGEMENT CONTACT

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.

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Statements of Net Position
September 30, 2021 and 2020

		2021		2020
ASSETS				
Current assets:				
Cash	$	1,538,864	$	1,402,202
Investment in securities		1,323,270		1,116,471
Receivables		1,222,396		555,172
Advances to employees		4,622		172
Inventory		39,195		40,959
Total current assets		4,128,347		3,114,976
Property and equipment, net		227,570		277,812
	$	4,355,917	$	3,392,788
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$	58,342	$	105,054
Accrued liabilities		9,100		20,593
Total current liabilities		67,442		125,647
Commitments and contingencies				
Net position:				
Net investment in capital assets		227,570		277,812
Unrestricted		4,060,905		2,989,329
Net position		4,288,475		3,267,141
	$	4,355,917	$	3,392,788

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, 2021 and 2020

	2021	2020
Revenues:		
Management fees	$ 888,100	$ 980,000
Charter	589,132	506,528
Cargo	152,730	178,763
Passengers	30,691	37,031
Services	9,200	33,976
Other operating income	70,832	78,036
Less: Cost of sales	(41,454)	(36,288)
Net revenues	1,699,231	1,778,046
Operating expenses:		
Salaries and wages	391,328	454,281
Fuel	144,272	189,324
Representation	105,836	102,503
Boat lease	66,000	76,000
Office expense	62,431	86,452
Depreciation	29,242	23,000
Rent	26,600	29,200
Utilities	21,939	26,691
Telephone and communication	15,813	16,682
Repairs and maintenance	6,600	17,635
Contractual services	6,045	797
Travel and entertainment	2,340	52,705
Miscellaneous	6,250	38,077
Total operating expenses	884,696	1,113,347
Earnings from operations	814,535	664,699
Nonoperating revenues (expenses), net:		
Investment gain (loss), net	206,799	(88,458)
Total other expenses, net	206,799	(88,458)
Change in net position	1,021,334	576,241
Net position at beginning of year	3,267,141	2,690,900
Net position at end of year	$ 4,288,475	$ 3,267,141

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	$ 1,032,007	$ 1,458,977
Cash paid to suppliers for goods and services	(480,925)	(565,576)
Cash paid to employees for services	(407,271)	(454,203)
Net cash provided by operating activities	143,811	439,198
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,149)	(57,121)
Net cash used in capital and related financing activities	(7,149)	(57,121)
Net change in cash	136,662	382,077
Cash at beginning of year	1,402,202	1,020,125
Cash at end of year	$ 1,538,864	$ 1,402,202
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	$ 814,535	$ 664,699
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	29,242	23,000
Transfer of capital assets	28,149	-
Decrease (increase) in assets:		
Receivables	(667,224)	(319,069)
Advances to employees	(4,450)	(172)
Inventory	1,764	(31,752)
Increase (decrease) in liabilities:		
Accounts payable	(46,712)	102,242
Accrued liabilities	(11,493)	250
Net cash provided by operating activities	$ 143,811	$ 439,198

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

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.

(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, 2021 and 2020, the carrying amount of NFC's total cash was $1,538,864 and $1,402,202, respectively, and the corresponding bank balances were $1,490,755 and $1,422,675, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits in the amount of $328,990 and $426,761, 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.

(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 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.

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.

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.

(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, 2021, management fees from TMC and KFC are 24% and 28%, respectively, of total operating revenues. As of September 30, 2020, management fees from TMC and KFC are 28% and 27%, respectively, of total operating revenues. As of September 30, 2021 and 2020, receivables due from these two entities are 75% and 58%, 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

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed 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.

During the year ended September 30, 2021, the Company implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.

- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Commitments

NFC leases a warehouse from the Pohnpei Port Authority, a component unit of the State of Pohnpei. NFC is to pay $10,380 per year and the lease expires in March 2024. Future minimum commitments under this lease are as follows:

Year ending September 30,	
2022	$ 10,446
2023	10,380
2024	5,190
	$ 26,016

NFC leases a vessel from KFC. NFC is to pay $66,000 per year and the lease expires in October 2029. Future minimum commitments under this lease are as follows:

Year ending September 30,	
2022	$ 66,000
2023	66,000
2024	66,000
2025	66,000
2026	66,000
Thereafter	165,000
	$ 495,000

(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 2021 and 2020 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 $408,100 and $500,000, respectively, in fiscal years 2021 and 2020 for management of TMC operations.

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2021 and 2020 follows:

	October 1, 2020	Additions	Deletions	September 30, 2021
Machinery and equipment	$ 243,373	$ -	$ (31,277)	$ 212,096
Office furniture and equipment	67,014	7,149	-	74,163
Building	102,929	-	-	102,929
	413,316	7,149	(31,277)	389,188
Less accumulated depreciation	(135,504)	(29,242)	3,128	(161,618)
	$ 277,812	$ (22,093)	$ (28,149)	$ 227,570

(5) Property and Equipment, Continued

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

(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, 2021, 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.

(7) Investment in Securities, Continued

As of September 30, 2021 and 2020, 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 $1,323,270 and $1,116,471, respectively, as of September 30, 2021 and 2020. 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, 2021 and 2020 follows:

NFC's equity investment in TMC was $0 as of September 30, 2021 and 2020. NFC recorded a pro rata share of TMC 2020 net loss in the amount of $132,000 during the year ended September, 30, 2020.

NFC's equity investment in KFC was $0 as of September 30, 2021 and 2020.

Below is TMC's summary financial information as of December 31, 2021 and 2020:

	2021	2020
Assets	$ 33,450,000	$ 47,298,000
Liabilities	50,026,000	60,250,000
Equity	(16,576,000)	(12,952,000)
Total liabilities and equity	$ 33,450,000	$ 47,298,000
Income	$ 39,971,000	$ 61,178,000
Cost of goods sold	(43,276,000)	(66,215,000)
Gross (loss) profit	(3,305,000)	(5,037,000)
Selling, general and administrative expenses	(2,986,000)	(4,839,000)
Non-operating income	4,811,000	136,000
Non-operating expenses	(528,000)	(3,012,000)
Extraordinary losses	(1,615,000)	(726,000)
Net loss	$ (3,623,000)	$ (13,478,000)

(8) Equity Investments, Continued

Below is KFC's summary financial information as of December 31, 2021 and 2020:

	2021	2020
Assets	$ 22,466,210	$ 34,755,392
Liabilities	32,878,509	45,800,403
Equity	(10,412,299)	(11,045,011)
Total liabilities and equity	$ 22,466,210	$ 34,755,392
Income	$ 44,163,928	$ 38,021,426
Cost of goods sold	(37,646,979)	(36,656,015)
Gross profit	6,516,949	1,365,411
Operating expenses	(6,453,108)	(6,083,171)
Non-operating income	1,015,489	117,117
Non-operating expenses	(446,618)	(798,023)
Net earnings (loss)	$ 632,712	$ (5,398,666)

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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, 2021, 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 March 3, 2023.

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 a material weakness as item 2021-001 and a significant deficiency as item 2021-002.

Deloitte.

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.

Deloitte & Touche LLP

March 3, 2023

Finding No. 2021-001 – Receivables

Criteria: The Company should maintain an adequate system of accounting and should be able to reconcile its general ledger with subsidiary ledgers.

Condition: The Company did not maintain an adequate system of accounting during the period and did not reconcile the receivables with joint ventures. 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 approximately $304,000 in aggregated variances in audit confirmations. We further noted an approximate $65,000 variance between NFC's interfund receivables and payables between trial balances for Pohnpei and Chuuk. The variances have not been reconciled by management. 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 documented maintenance systems.

Effect: The effect of this condition is an inability to substantiate financial statement balances, financial statement transactions and compliance with laws and regulations.

Identification as a Repeat Finding: 2020-001

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.

We will try to improve our team's collaborative efforts and be more proactive in updating our books and records. We will prepare monthly financial statements no later than the end of the following month. We will be collecting hard copies of reports from NFC North Star Chuuk Office every beginning of the month for the prior month so we can record and make sure all entries are in before we close the books. In that way, we can update accounts receivables accordingly. We will find another option for joint ventures to pay their bills if signatory is absent instead of allowing prepayments to NFC to make payments on their behalf so there won't be any disagreements of accounts receivables or payables later on. We will bill vendors monthly to make sure all receivables are accounted for and once receive payment, record it in the books and make deposit instantly. Do follow ups from vendors to make sure no differences on the accounts.

Finding No. 2021-002 – 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, 2021 was not performed timely and contain approximately $26,000 and $60,000 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 and financial statement transactions.

Identification as a Repeat Finding: 2020-002

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

Auditee Response and Corrective Action Plan: We acknowledge the findings and will try to make it a habit of completing bank reconciliations once all transactions are in the system. We will prepare monthly bank reconciliations and keep it ready for quarterly meetings with CEO. We will have a soft copy and also maintain hard copies in the files for future use.