NATIONAL FISHERIES CORPORATION

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

Deloitte.

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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, 2019 and 2018, 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 $132,000 and $1,720,750 as of September 30, 2019 and 2018, respectively, its investment income from TMC of ($1,513,750) and $6,750 for the years then ended, its net assets of KFC of $0 and $1,247,486 as of September 30, 2019 and 2018, respectively, and its investment income from KFC of ($547,241) and $1,297,498 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, 2019 and 2018 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 audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of National Fisheries Corporation as of September 30, 2019 and 2018, and the changes in its net position and its 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 January 8, 2021, 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

January 8, 2021

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2019 and 2018. 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 2019

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.

2019 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 $70k 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, 2019, 2018 and 2017 are summarized below:

	2019	2018	2017
Assets:			
Current assets	$ 2,338,364	$ 1,839,875	$ 1,274,942
Noncurrent	375,691	3,081,287	1,986,317
Total assets	$ 2,714,055	$ 4,921,162	$ 3,261,259
Liabilities:			
Current liabilities	$ 23,155	$ 28,512	$ 19,045
Net position:			
Net investment in capital assets	243,691	113,051	72,317
Unrestricted	2,447,209	4,779,599	3,169,897
	2,690,900	4,892,650	3,242,214
Total liabilities and net position	$ 2,714,055	$ 4,921,162	$ 3,261,259

Assets: Company assets of $2.714 million comprised $2.338 million or 86% of current assets and $0.376 million or 14% of noncurrent assets.

Current assets: The $2.338 million current assets consist of cash, which accounts for $1.020 million or 44%, investments in securities, which account for $1.073 million or 46%, and accounts receivable and others for $245k or 10%.

Noncurrent assets: The noncurrent assets of $376k comprised $244k or 65% of the Company's property and equipment, net of accumulated depreciation and $132k or 35% of equity investment.

Liabilities: NFC's liabilities of $23k are all current consisting of a $20k accrued liabilities and $2.8k 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, 2019, 2018 and 2017.

	2019	2018	2017
Sales/income	$ 1,049,561	$ 1,019,899	$ 850,443
Cost of sales/bad debts	(19,278)	-	(90,000)
Gross profit	1,030,283	1,019,899	760,443
Operating expenses	692,538	674,677	538,914
Earnings from operations	337,745	345,222	221,529
Other income	(2,539,495)	1,305,214	3,828,353
Change in net position	(2,201,750)	1,650,436	4,049,882
Beginning net position	4,892,650	3,242,214	(807,668)
Ending net position	$ 2,690,900	$ 4,892,650	$ 3,242,214

Sales are from NFC corporate operational activities. Total operating expenses for the year are $693k. The largest is salaries and wages of $308k, travel and entertainment expense of $107k, representation expenses of $106k, office expense of $40k, utilities expense of $28k, rent expenses of $25k 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:

	2019	2018	2017
From operating activities	$ 173,431	$ 568,192	$ 128,622
From capital and related financing activities	(648,394)	(54,542)	-
From investing activities	275,245	124,993	(375,001)
Net change in cash	(199,718)	638,643	(264,379)
Cash at beginning of year	1,219,843	581,200	827,579
Cash at year end	$ 1,020,125	$ 1,219,843	$ 581,200

4. Debt and Capital Asset Activities

   The Company purchased vehicles and office equipment during the year ended September 30, 2019. For additional information on capital assets, please refer to Note 5 to the financial statements. For additional information concerning notes payable, please refer to Note 6 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in NFC's report on the audit of financial statements, which was dated June 25, 2019. That Discussion and Analysis explains the major factors impacting the 2017 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, 2019 and 2018

		2019		2018
ASSETS				
Current assets:				
Cash	$	1,020,125	$	1,219,843
Investment in securities		1,072,929		553,638
Receivables		236,103		65,961
Advances to employees		-		433
Inventory		9,207		-
Total current assets		2,338,364		1,839,875
Equity investment		132,000		2,968,236
Property and equipment, net		243,691		113,051
	$	2,714,055	$	4,921,162
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$	2,812	$	10,673
Accrued liabilities		20,343		17,839
Total current liabilities		23,155		28,512
Commitment and contingencies				
Net position:				
Net investment in capital assets		243,691		113,051
Unrestricted		2,447,209		4,779,599
Net position		2,690,900		4,892,650
	$	2,714,055	$	4,921,162

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, 2019 and 2018

	2019	2018
Revenues:		
Management fees	$ 980,000	$ 980,000
Other operating income	69,561	39,899
Less: Cost of sales	(19,278)	-
Net revenues	1,030,283	1,019,899
Operating expenses:		
Salaries and wages	307,966	257,750
Travel and entertainment	106,821	96,431
Representation	105,904	170,916
Office expense	40,237	46,918
Utilities	28,728	27,359
Rent	24,500	24,275
Contractual services	24,181	10,444
Depreciation	17,754	13,808
Telephone and communication	14,232	14,004
Repairs and maintenance	11,684	6,460
Training	5,620	4,020
Miscellaneous	4,911	2,292
Total operating expenses	692,538	674,677
Earnings from operations	337,745	345,222
Nonoperating revenues (expenses), net:		
Investment (loss) income	(2,041,700)	1,208,763
Contribution to FSM National Government	(500,000)	-
Other income, net	2,205	96,451
Total other (expense) income, net	(2,539,495)	1,305,214
Change in net position	(2,201,750)	1,650,436
Net position at beginning of year	4,892,650	3,242,214
Net position at end of year	$ 2,690,900	$ 4,892,650

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION

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Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 860,141	$ 1,119,753
Cash paid to suppliers for goods and services	(381,681)	(297,149)
Cash paid to employees for services	(305,029)	(254,412)
Net cash provided by operating activities	173,431	568,192
Cash flows from capital and related financing activities:		
Contribution to FSM National Government	(500,000)	-
Acquisition of capital assets	(148,394)	(54,542)
Net cash used in capital and related financing activities	(648,394)	(54,542)
Cash flows from investing activities:		
Cash dividends and interest received on investments	775,245	229,527
Net purchases, sales and maturities of investments	(500,000)	(104,534)
Net cash provided by investing activities	275,245	124,993
Net change in cash	(199,718)	638,643
Cash at beginning of year	1,219,843	581,200
Cash at end of year	$ 1,020,125	$ 1,219,843
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	$ 337,745	$ 345,222
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	17,754	13,808
Other income, net	2,205	96,451
Decrease (increase) in assets:		
Receivable	(170,142)	99,854
Advances to employees	433	3,390
Inventory	(9,207)	-
Increase (decrease) in liabilities:		
Accounts payable	(7,861)	9,519
Accrued liabilities	2,504	(52)
Net cash provided by operating activities	$ 173,431	$ 568,192

See accompanying notes to financial statements.

(1) Reporting Entity

The National Fisheries Corporation (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.

(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, 2019 and 2018, the carrying amount of NFC's total cash was $1,020,125 and $1,219,843, respectively, and the corresponding bank balances were $1,042,653 and $1,236,002, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of $264,401 and $259,764, 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 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.

There is no outstanding balance of the allowance for doubtful accounts as of September 30, 2019 and 2018.

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, 2019 and 2018, management fees from KFC are 48% and 47%, respectively, of total operating revenues. As of September 30, 2019 and 2018, management fees from TMC are 51% and 49%, respectively, of total operating revenues. At September 30, 2019 and 2018, receivables due from these two entities are 99% and 97%, respectively, of total receivables.

New Accounting Standards

During the year ended September 30, 2019, NFC implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on NFC's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(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.

Year ending September 30,	
2020	$ 10,512
2021	10,512
2022	5,256
	$ 26,280

(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 2019 and 2018 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 2019 and 2018 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, 2019 and 2018 follows:

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

	October 1, 2017	Additions	Deletions	September 30, 2018
Machinery and equipment	$ 109,709	$ 50,472	$ -	$ 160,181
Office furniture and equipment	43,550	4,070	-	47,620
	153,259	54,542	-	207,801
Less accumulated depreciation	(80,942)	(13,808)	-	(94,750)
	$ 72,317	$ 40,734	$ -	$ 113,051

(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.

(7) Investment in Securities, Continued

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.

As of September 30, 2019 and 2018, 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 $1,072,929 and $553,638, respectively, as of September 30, 2019 and 2018. 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, 2019 and 2018 follows:

Investment balance as of October 1, 2017	$ 1,914,000
2018 dividends declared	(200,000)
Pro rata share of TMC 2018 net income	6,750
Investment balance as of September 30, 2018	1,720,750
2019 dividends declared	(75,000)
Pro rata share of TMC 2018 net loss	(1,513,750)
Investment balance as of September 30, 2019	$ 132,000

(8) Equity Investments, Continued

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

Investment balance as of October 1, 2017	$ -
2018 investment paid	75,000
2018 dividends declared	-
Pro rata share of KFC 2017 accumulated deficit	(125,012)
Pro rata share of KFC 2018 net income	1,297,498
Investment balance as of September 30, 2018	$ 1,247,486
2019 dividends declared	(700,245)
Share of KFC 2019 net loss	(547,241)
Investment balance as of September 30, 2019	$ -

Below is TMC's summary financial information as of December 31, 2019 and 2018:

	2019	2018
Assets	$ 49,125,000	$ 50,788,000
Liabilities	48,597,000	43,905,000
Equity	528,000	6,883,000
Total liabilities and equity	$ 49,125,000	$ 50,788,000
Income	$ 70,904,000	$ 66,693,000
Cost of goods sold	(70,524,000)	(60,928,000)
Gross profit	380,000	5,765,000
Selling, general and administrative expenses	(5,321,000)	(5,050,000)
Non-operating income	44,000	614,000
Non-operating expenses	(1,158,000)	(1,302,000)
Net (loss) income	$ (6,055,000)	$ 27,000

(8) Equity Investments, Continued

Below is KFC's summary financial information as of December 31, 2019 and 2018:

	2019	2018
Assets	$ 46,042,288	$ 43,755,900
Liabilities	51,688,633	38,765,958
Equity	(5,646,345)	4,989,942
Total liabilities and equity	$ 46,042,288	$ 43,755,900
Income	$ 40,498,500	$ 46,528,798
Cost of goods sold	(38,935,605)	(34,868,746)
Gross profit	1,562,895	11,660,052
Operating expenses	(6,525,154)	(5,114,150)
Non-operating income	48,737	1,818
Non-operating expenses	(2,921,784)	(1,357,730)
Net (loss) income	$ (7,835,306)	$ 5,189,990

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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, 2019, 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 January 8, 2021.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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

January 8, 2021