NATIONAL FISHERIES CORPORATION

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 and 2016

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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, 2017 and 2016, 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), the Company's investment in which is 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 $1,914,000 and $1,331,750 as of September 30, 2017 and 2016, respectively, and its investment income from TMC of $731,353 and $564,750 for the years then ended. Those statements for the years ended December 31, 2017 and 2016, which were prepared in accordance with accounting principles generally accepted in Japan, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of TMC, 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, prior to these conversion adjustments, is based on the report of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Company's equity investment 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 report 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, 2017 and 2016, 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 June 11, 2018, 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

June 11, 2018

This section of the National Fisheries Corporation's (NFC or the Company) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2017 and 2016. MD&A is supplementary information required by the Governmental 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 NFC 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. It is for this purpose that NFC initially engaged itself with its Subsidiaries; Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), Kosrae Sea Ventures, Inc. (KSVI) and Micronesia Longline Fishing Co. (MLFC). However, due to the drastic decline in the number of vessels utilizing YFTI and CFTI, NFC was forced to venture into actual operation of longline fishing vessels, trading of fishing supplies and an aircraft business, during the mid-1990s and early 2000s. All the above subsidiaries ceased operations since late 1990s.

Because of the unavailability of financial data from NFC subsidiaries, balances from these investees were excluded from NFC financial statements.

Overview of Fiscal Year 2017

The accounts of NFC are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises.

For the current year, NFC corporate office activities include consolidated activities from management and support services to its two (2) joint venture corporations.

2017 revenue sources of NFC operations are $808k of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During this year, NFC also generated $42k from other operating income.

For the past four (4) 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 Governmental 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. Statements 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, 2017, 2016 and 2015 are summarized below:

	2017	2016	2015 (As Restated)
Assets:			
Current assets	$ 1,274,942	$ 894,384	$ 737,777
Noncurrent	1,986,317	1,414,285	885,282
Total assets	$ 3,261,259	$ 2,308,669	$ 1,623,059
Liabilities:			
Current liabilities	$ 19,045	$ 3,116,337	$ 3,247,347
Total liabilities	19,045	3,116,337	3,247,347
Net position:			
Net investment in capital assets	72,317	82,535	43,282
Unrestricted	3,169,897	(890,203)	(1,667,570)
	3,242,214	(807,668)	(1,624,288)
Total liabilities and net position	$ 3,261,259	$ 2,308,669	$ 1,623,059

Assets: Company assets of $3.261 million comprised $1.275 million or 39% of current assets and $1.986 million or 61% of noncurrent assets.

Current assets: The $1.275 million current assets consist of cash, which accounts for $581k or 46%, investments in securities, which account for $524k or 41%, and accounts receivable and advances of $170k or 13%.

Noncurrent assets: The noncurrent assets of $1.986 million comprised $1.914 million or 96% of equity investment and $72k or 4% of the Company's property and equipment, net of accumulated depreciation.

Liabilities: NFC's liabilities of $19k are all current and consist of $18k of accrued liabilities and $1k of accounts payable.

2. Summary Statements 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, 2017, 2016 and 2015.

	2017	2016	2015 (As Restated)
Management fees and other operating income	$ 850,443	$ 717,686	$ 468,637
Bad debts	(90,000)	-	-
Net revenues	760,443	717,686	468,637
Operating expenses	538,914	480,046	414,512
Earnings from operations	221,529	237,640	54,125
Nonoperating revenues (expenses),net	3,828,353	578,980	50,049
Change in net position	4,049,882	816,620	104,174
Beginning net position	(807,668)	(1,624,288)	(1,728,462)
Ending net position	$ 3,242,214	$ (807,668)	$ (1,624,288)

Sales are from NFC corporate operational activities. Total operating expenses for the year are $539k. The largest expense is salaries and wages of $222k, travel and entertainment expense of $84k, representation expenses of $78k, office expense of $57k, rent expenses of $37k, utilities expense of $24k, and other operating expenses.

3. Summary Statements 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:

	2017	2016	2015
From operating activities	$ 128,622	$ 238,739	$ 26,260
From capital and related financing activities	-	(172,030)	(146,839)
From investing activities	(375,001)	75,000	175,000
Net change in cash	(264,379)	141,709	54,421
Cash at beginning of year	827,579	685,870	631,449
Cash at year end	$ 581,200	$ 827,579	$ 685,870

4. Debt and Capital Asset Activities

   A $3,100,000 long-term debt was converted to a grant from FSM National Government by FSM Public Law No. 20-66. The Company wrote off the balance and recorded the revenue during the year ended September 30, 2017 based on management's communication with FSM National Government. No significant capital asset activities occurred during the year ended September 30, 2017. 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, 2016 is set forth in NFC's report on the audit of financial statements, which was dated May 27, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained from the FSM office of the National Public Auditor's website at www.fsmopa.fm.

Economic Outlook

The Company has incurred substantial losses from its regular operations including investments with Micronesia Longline Fishing Company (MLFC), Kosrae Sea Ventures, Inc. (KSVI), Chuuk Fresh Tuna, Inc. (CFTI), and Yap Fresh Tuna, Inc. (YFTI). The accumulated losses of NFC from its investments have severely affected NFC's regular operations. These conditions raise substantial doubts about the Company's ability to continue as a going concern business entity. Given that the investments were no longer in operation and no financial records are available for too long, the NFC Board and management, plan to take the necessary steps to remove them from the NFC books. Moreover, FSM National Government stopped providing a subsidy to NFC in recent years.

NFC management recently established a joint venture with Taiwanese 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. These 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, FM96941.

NATIONAL FISHERIES CORPORATION

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Statements of Net Position

September 30, 2017 and 2016

		2017		2016
ASSETS				
Current assets:				
Cash	$	581,200	$	827,579
Investment in securities		524,104		-
Receivables		165,815		65,441
Advances to employees		3,823		1,364
Total current assets		1,274,942		894,384
Equity investment		1,914,000		1,331,750
Property and equipment, net		72,317		82,535
	$	3,261,259	$	2,308,669
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$	1,154	$	426
Accrued liabilities		17,891		15,911
Total current liabilities		19,045		16,337
Long-term debt		-		3,100,000
Total liabilities		19,045		3,116,337
Commitment and contingencies				
Net position:				
Net investment in capital assets		72,317		82,535
Unrestricted		3,169,897		(890,203)
Net position		3,242,214		(807,668)
	$	3,261,259	$	2,308,669

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, 2017 and 2016

	2017	2016
Revenues:		
Management fees	$ 808,333	$ 682,500
Other operating income	42,110	35,186
Less: Bad debts	(90,000)	-
Net revenues	760,443	717,686
Operating expenses:		
Salaries and wages	222,457	192,752
Travel and entertainment	83,889	82,229
Representation	78,093	49,663
Office expense	57,023	34,436
Rent	36,970	36,600
Utilities	24,071	22,921
Telephone and communication	12,005	12,882
Depreciation	10,218	7,777
Contractual services	3,105	17,447
Repairs and maintenance	2,983	16,109
Training	2,300	5,350
Miscellaneous	5,800	1,880
Total operating expenses	538,914	480,046
Earnings from operations	221,529	237,640
Nonoperating revenues (expenses), net:		
FSM National Government forgiveness of debt	3,100,000	-
Investment income	731,353	564,750
Other (expense) income, net	(3,000)	14,230
Total other income, net	3,828,353	578,980
Change in net position	4,049,882	816,620
Net position at beginning of year	(807,668)	(1,624,288)
Net position at end of year	$ 3,242,214	$ (807,668)

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION

(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 660,069	$ 702,245
Cash paid to suppliers for goods and services	(308,511)	(276,110)
Cash paid to employees for services	(222,936)	(187,396)
Net cash provided by operating activities	128,622	238,739
Cash flows from capital and related financing activities:		
Repayment of loan from FSM National Government	-	(125,000)
Acquisition of capital assets	-	(50,146)
Proceeds from sale of capital assets	-	3,116
Net cash used in capital and related financing activities	-	(172,030)
Cash flows from investing activities:		
Cash dividends and interest received on investments	149,103	75,000
Net purchases, sales and maturities of investments	(524,104)	-
Net cash (used in) provided by investing activities	(375,001)	75,000
Net change in cash	(246,379)	141,709
Cash at beginning of year	827,579	685,870
Cash at end of year	$ 581,200	$ 827,579
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	$ 221,529	$ 237,640
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation	10,218	7,777
Bad debts	90,000	-
Other (income) expense, net	(3,000)	14,230
(Increase) decrease in assets:		
Receivable	(190,374)	(15,441)
Advances to employees	(2,459)	543
Increase (decrease) in liabilities:		
Accounts payable	728	(10,823)
Accrued liabilities	1,980	4,813
Net cash provided by operating activities	$ 128,622	$ 238,739

Non-cash capital financing activities:

$3,100,000 of long-term debt was converted to a grant from FSM National Government by FSM Public Law No. 20-66 and the Company recorded forgiveness of debt during the year ended September 30, 2017.

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, 2017 and 2016, the carrying amount of NFC's total cash was $581,200 and $827,579, respectively, and the corresponding bank balances were $606,197 and $839,251, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $471,096 and $278,467, 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.

NFC has previously been directly involved in the management of certain joint ventures through management and marketing agreements entered into with the respective parties. The investment in Micronesia Longline Fishing Company (MLFC), Yap Fishing Corporation (YFC), Yap Fresh Tuna, Inc. (YFTI), Chuuk Fresh Tuna, Inc. (CFTI), and Kosrae Sea Venture Inc. (KSVI) are accounted for using the equity method and, accordingly, the carrying values of these investments have been reduced to $0. In 2017 and 2016, financial statements for these joint ventures were not available. Management has asserted that it is unable to control these joint ventures and does not believe that it is liable for any additional losses, if any, of these entities that may occur.

(2) Summary of Significant Accounting Policies, Continued

Investment and Business Development, Continued

On March 3, 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.

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

During the year ended September 30, 2017, the Company recorded bad debts in the amount of $90,000 for an unauthorized wire transfer and wrote off the total amount. There is no outstanding balance of the allowance for doubtful accounts as of September 30, 2017.

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.

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.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition, Continued

As of September 30, 2017 and 2016, management fees from Kasar Fishing Corporation (KFC) are 41% and 32%, respectively, of total operating revenues. As of September 30, 2017 and 2016, management fees from TMC are 54% and 63%, respectively, of total operating revenues. At September 30, 2017 and 2016, receivables due from these two entities are 81% and 90%, respectively, of total receivables.

New Accounting Standards

During the year ended September 30, 2017, NFC implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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 2015, GASB issued Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replace the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provide guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued 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. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the 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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits. The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. 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 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.

(3) Commitments

NFC leases a warehouse from the Pohnpei Port Authority, a component unit of the State of Pohnpei. NFC is to pay $10,301 per year and the lease expires in March 2019.

Year ending September 30,	
2018	$ 10,301
2019	5,151
	$ 15,452

(4) Related Party Transactions

NFC has entered into various transactions with the FSM National Government. Various loans have been obtained from the FSM National Government. These loans are disclosed in Note 6.

NFC and KFC entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. NFC received $350,000 and $232,500 in fiscal years 2017 and 2016, respectively, 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 $458,333 and $450,000, in fiscal years 2017 and 2016, respectively, for management of TMC operations.

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2017 and 2016 follows:

	October 1, 2016	Additions	Deletions	September 30, 2017
Machinery and equipment	$ 109,709	$ -	$ -	$ 109,709
Office furniture and equipment	43,550	-	-	43,550
	153,259	-	-	153,259
Less accumulated depreciation	(70,724)	(10,218)	-	(80,942)
	$ 82,535	$ (10,218)	$ -	$ 72,317

(5) Property and Equipment, Continued

	October 1, 2015	Additions	Deletions	September 30, 2016
Machinery and equipment	$ 70,560	$ 50,146	$ (10,997)	$ 109,709
Office furniture and equipment	43,550	-	-	43,550
	114,110	50,146	(10,997)	153,259
Less accumulated depreciation	(70,828)	(7,777)	7,881	(70,724)
	$ 43,282	$ 42,369	$ (3,116)	$ 82,535

(6) Long-Term Debt

A $3,100,000 long-term debt was converted to a grant from FSM National Government by FSM Public Law No. 20-66 and the Company wrote-off the balance and recorded related forgiveness of debt income during the year ended September 30, 2017.

Long-term debt consists of the following at September 30, 2016:

Loan payable to the FSM National Government due in annual installments of $44,153, non-interest bearing, collateralized by NFC's shares in YFC, with a term of 16 years, beginning March 1994, ending March 2010.	$ 750,640
Loan payable to the FSM National Government due in annual installments of $86,639, non-interest bearing, with a term of 13 years, beginning July 1994, ending July 2007.	1,212,940
Loan payable to the FSM National Government due in annual installments of $23,363, non-interest bearing, with a term of 16 years, beginning September 1994, ending September 2010.	397,176
Loan payable to FSM National Government due in annual installments of $29,412, non-interest bearing, with a term of 17 years, beginning October 1995, ending October 2011.	500,000
Loan payable to the FSM National Government due in annual installments of $5,000, non-interest bearing, with a term of 20 years, beginning April 1995, ending April 2014.	100,000
Loan payable to the FSM National Government due in annual installments of $1,962, non-interest bearing, with a term of 20 years, beginning April 1995, ending April 2014.	39,244

(6) Long-Term Debt, Continued

Loan payable to the FSM National Government due in annual installments of $5,000, non-interest bearing, with a term of 20 years, beginning November 1994, ending April 2013.	100,000
	$ 3,100,000

During the year ended September 30, 2016, NFC repaid $125,000.

The original debt was $3,600,000. Changes in debt during the years ended September 30, 2017 and 2016 are as follows:

Balance at Beginning of Year 2017	Additions	Reductions	Balance at End September 30, 2017
$ 3,100,000	$ -	$ (3,100,000)	$ -

Balance at Beginning of Year 2016	Additions	Reductions	Balance at End September 30, 2016
$ 3,225,000	$ -	$ 125,000	$ 3,100,000

(7) Contingencies

NFC is party to various legal proceedings arising from operations. External legal counsel represents that the ultimate outcome of the lawsuits cannot be predicted at this time; therefore, no provision for any related liability has been made in the financial statements.

NFC is ultimately liable for a Micronesia Longline Fishing Company (MLFC) loan payable to the Asian Development Bank. MLFC defaulted on this loan; however, the FSM National Government (FSMNG) has made required debt service payments on behalf of NFC and it is expected that the FSMNG will continue to make these payments as the related debt has been recorded on its books. No provision for this matter has been made in the accompanying financial statements.

(8) 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.

(8) 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, 2017, 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, 2017, 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 invested in Exchange-Traded Funds during the year ended September 30, 2017 and the investment balance is $524,104 as of September 30, 2017. Investments in securities are categorized as Level 1.

(9) Equity Investment in TMC

Changes in NFC's equity investment in TMC during the years ended September 30, 2017 and 2016 follows:

Investment balance as of October 1, 2015	$ 842,000
2016 dividends declared	(75,000)
Pro rata share of TMC 2016 income	564,750
Investment balance as of September 30, 2016	1,331,750
2017 dividends declared	(125,000)
Pro rata share of TMC 2017 net income	707,250
Investment balance as of September 30, 2017	$ 1,914,000

(9) Equity Investment in TMC, Continued

Below is the investee's summary financial information as of December 31, 2017 and 2016:

	2017	2016
Assets	$ 49,612,000	$ 32,722,000
Liabilities	41,956,000	27,395,000
Equity	7,656,000	5,327,000
Total liabilities and equity	$ 49,612,000	$ 32,722,000
Income	$ 60,800,000	$ 55,771,000
Cost of goods sold	(52,068,000)	(46,407,000)
Gross profit	8,732,000	9,364,000
Selling, general and administrative expenses	(4,726,000)	(4,570,000)
Non-operating income	109,000	64,000
Non-operating expenses	(1,286,000)	(2,600,000)
Extraordinary gain	302,000	-
Extraordinary loss	(302,000)	-
Net income	$ 2,829,000	$ 2,258,000

(10) Subsequent Event

Long-term debt in the amount of $3,100,000 was converted to a grant from FSM National Government by FSM Public Law No. 20-66 which was passed in January 2018 (note 6).

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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, 2017, 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 June 11, 2018.

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.

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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

June 11, 2018