



NATIONAL FISHERIES CORPORATION
AN AGENCY OF THE GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA
P.O. BOX R, KOLONIA, POHNPEI, FSM 96941
TEL. NO. (691) 320-2529 FAX NO. (691) 320-2239

May 25, 2017

Deloitte & Touche
P.O. Box 753
Kolonias, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of the National Fisheries Corporation (the "Company" or "NFC"), a component unit of the FSM National Government, as of September 30, 2016 and 2015 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, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of the Company's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. 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
 - To prevent and detect fraud
- c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

We understand that Taiyo Micronesia Corporation's (TMC) financial statements as of December 31, 2016 and 2015 were audited by other auditors, whose report has been furnished to you. Your opinion will directly identify the percentage of investment in TMC to

total assets and equity earnings from TMC to total earnings and will reference to the report issued by the other auditors. We are not aware of any events or conditions relating to TMC through the date of this letter that would affect the Company's September 30, 2016 financial statements.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. Net position components (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved.
 - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - f. Capital assets are properly capitalized, reported and depreciated
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
 - a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. All financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There have been no:

- a. Action taken by the Company's management that contravenes the provisions of federal and Federated States of Micronesia (FSM) laws and regulations or of contracts and grants applicable to the Company and for all funds administered by the Company.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. The Company has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Company and do not believe that the financial statements are materially misstated as a result of fraud.
 6. We have no knowledge of any fraud or suspected fraud affecting the Company involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.
 7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, or others.
 8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
 9. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Company's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Company is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
 10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Company's ability to initiate, record, process, and report financial information.
 11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
 12. Significant assumptions used by us in making accounting estimates are reasonable.
 13. The Company plans to increase revenue from management fees and pay back loan from FSM National Government, which is intended to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time, and believes that it is likely that those plans can be effectively implemented. Note 8 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including principal conditions or events and management's plans.

Except where otherwise stated below, matters less than \$5,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

14. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
15. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. Regarding related parties:
 - a. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
 - c. 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 to the financial statements.
 - d. NFC and Kasar Fishing Corporation (KFC) entered into a management agreement in August 2009 wherein NFC would receive monthly management fees. NFC received \$232,500 and \$125,000 in fiscal years 2016 and 2015, respectively, for management of KFC operations.
 - e. NFC and Taiyo Micronesia Corporation (TMC) entered into a management agreement in April 2012 wherein NFC would receive monthly management fees. NFC received \$450,000 and \$325,000, in fiscal years 2016 and 2015, respectively, for management of TMC operations.
17. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.

We are not aware of any estimates at September 30, 2016 that may change and that the effect of the change would be material to the financial statements.

18. There are no:
 - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements

- b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, Claims and Judgments.
19. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
20. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Company.
21. The Company is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
22. We have advised you that we have not received any awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
23. The Company has obligated, expended, received, and used public funds of the Company in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal or local law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal or local law.
24. Money or similar assets handled by the Company on the local governments have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
25. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Company has been discovered.
26. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
28. We have disclosed to you that no change in the Company's internal control over financial reporting has occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
29. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been

appropriately reduced to their estimated net realizable value.

30. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Company and do not include any items consigned to it or any items billed to customers.
31. We believe that all expenditures that have been deferred to future periods are recoverable.
32. No corporation or agency of the Federal Government or the FSM National Government has reported a material instance of noncompliance to us.
33. During fiscal year 2016, NFC implemented the following pronouncements
 - GASB Statement No. 72, Fair Value Measurement and Application, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
 - GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
 - GASB Statement No. 79, Certain External Investment Pools and Pool Participants, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued 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). The provisions in Statement No. 74 are effective

for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces 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 provides 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 August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued 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. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

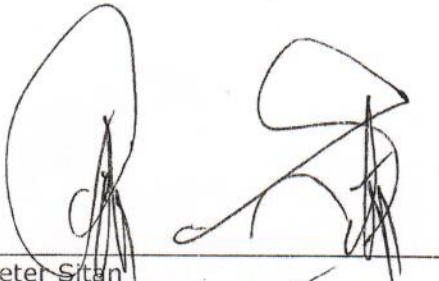
In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. 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.

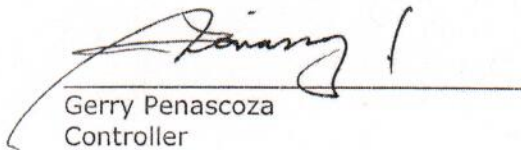
In March 2016, GASB issued Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations 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 provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial

statements.

34. The Company 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. The Company has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.
35. No events have occurred after September 30, 2016, but before April 25, 2017, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Handwritten signature of Peter Sitan, consisting of a large, stylized 'P' followed by a series of vertical lines and a smaller, more complex signature.

Peter Sitan
Chief Executive Officer

Handwritten signature of Gerry Penascoza, featuring a large, stylized 'G' followed by a series of vertical lines and a smaller, more complex signature.

Gerry Penascoza
Controller