

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

---

**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**

---

**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(RESTATED)**

## **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, 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.

### **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 \$ 1,331,750 and \$842,000 as of September 30, 2016 and 2015, respectively, and its investment income from TMC of \$564,750 and \$49,750 for the years then ended. Those statements for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, 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.

## **Emphasis of Matter**

### *Restatement of 2015 Financial Statements*

As described in Note 8 to the financial statements, the Company has elected to restate its 2015 financial statements to reflect the restatement of TMC's financial statements. Our opinion is not modified with respect to this matter.

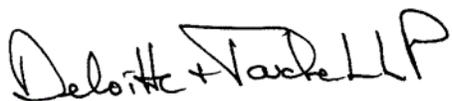
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 7 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 May 27, 2017, 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 Company's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

May 27, 2017

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

Management's Discussion and Analysis  
September 30, 2016 and 2015

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD&A) for the fiscal years ended September 30, 2016 and 2015. 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. 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 investee's were excluded from NFC financial statements.

**Overview of Fiscal Year 2016**

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.

2016 revenue sources of NFC operations are \$682,500 of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During this year, NFC also generated \$35k from other operating income.

For the past three (3) 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:

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

Management's Discussion and Analysis  
September 30, 2016 and 2015

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, 2016, 2015 and 2014 are summarized below:

	<u>2016</u>	<u>2015</u> (As Restated)	<u>2014</u> (As Restated)
<b>Assets:</b>			
Current assets	\$ 894,384	\$ 737,777	\$ 702,393
Noncurrent	<u>1,414,285</u>	<u>885,282</u>	<u>995,208</u>
Total assets	\$ <u>2,308,669</u>	\$ <u>1,623,059</u>	\$ <u>1,697,601</u>
<b>Liabilities:</b>			
Current liabilities	\$ 16,337	\$ 3,247,347	\$ 3,426,063
Noncurrent	<u>3,100,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3,116,337</u>	<u>3,247,347</u>	<u>3,426,063</u>
<b>Net position:</b>			
Net investment in capital assets	82,535	43,282	27,958
Unrestricted	<u>(890,203)</u>	<u>(1,667,570)</u>	<u>(1,756,420)</u>
	<u>(807,668)</u>	<u>(1,624,288)</u>	<u>(1,728,462)</u>
Total liabilities and net position	\$ <u>2,308,669</u>	\$ <u>1,623,059</u>	\$ <u>1,697,601</u>

Assets: Company assets of \$2.309 million comprised \$894k or 39% of current assets and \$1.414 million or 61% of noncurrent assets.

Current assets: The major portion of the \$894k current assets is cash, which accounts for \$828k or 93% and accounts receivable and advances for \$67k or 7%.

Noncurrent assets: The noncurrent assets of \$1.414 million comprised \$1.332 million or 94% of investment and \$82k or 6% of the Company's property and equipment, net of accumulated depreciation.

Liabilities: NFC's liabilities of \$3.116 million comprised a \$3.1 million loan from the National Government, which comprises 99% of NFC total liabilities, and other accounts payable, deferred revenue and accrued liabilities of \$16k.

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

Management's Discussion and Analysis  
September 30, 2016 and 2015

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, 2016, 2015 and 2014.

	<u>2016</u>	<u>2015</u> (As Restated)	<u>2014</u> (As Restated)
Sales/income	\$ 717,686	\$ 468,637	\$ 501,992
Cost of sales/bad debts	<u>-</u>	<u>-</u>	<u>-</u>
Gross profit	717,686	468,637	501,992
Operating expenses	<u>480,046</u>	<u>414,512</u>	<u>366,675</u>
Earnings (loss) from operations	237,640	54,125	135,317
Other income (expense)	<u>578,980</u>	<u>50,049</u>	<u>496,328</u>
Increase (decrease) in net position	816,620	104,174	631,645
Beginning net position	<u>(1,624,288)</u>	<u>(1,728,462)</u>	<u>(2,360,107)</u>
Ending net position	\$ <u>(807,668)</u>	\$ <u>(1,624,288)</u>	\$ <u>(1,728,462)</u>

Sales are from NFC corporate operational activities. Total operating expenses for the year are \$480k. The largest is salaries and wages of \$193k, travel and entertainment expense of \$82k, representation expenses of \$50k, rent expenses of \$37k, office expense of \$34k, utilities expense of \$23k, and other operating expenses.

3. Summary Statement of Cash Flows (SCF)

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

Below is the summary statements of cash flows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
From operating activities	\$ 238,739	\$ 26,260	\$ 242,436
From investing activities	78,116	175,000	325,000
From capital and related financing activities	<u>(175,146)</u>	<u>(146,839)</u>	<u>(253,233)</u>
Net change in cash	141,709	54,421	314,203
Cash at beginning of year	<u>685,870</u>	<u>631,449</u>	<u>317,246</u>
Cash at year end	\$ <u>827,579</u>	\$ <u>685,870</u>	\$ <u>631,449</u>

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

Management's Discussion and Analysis  
September 30, 2016 and 2015

4. Debt and Capital Asset Activities

No significant debt or capital asset activities occurred during the year ended September 30, 2016. 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, 2015 is set forth in NFC's report on the audit of financial statements, which was dated April 29, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be obtained from the FSM Office of the National Public Auditor's website at [www.fsmopa.fm](http://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), Yap Fresh Tuna, Inc. (YFTI). 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 necessary steps to remove them from NFC's books.

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.

Long-term plans for development include expanding the operations of KFC and TMC by adding more purse seiner fishing vessels by the end of 2016 as well as ventures into other fishing operations with other interested foreign fishing companies.

**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**  
**(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Statements of Net Position  
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> (As Restated)
<u>ASSETS</u>		
Current assets:		
Cash	\$ 827,579	\$ 685,870
Receivables	65,441	50,000
Advances to employees	<u>1,364</u>	<u>1,907</u>
Total current assets	894,384	737,777
Equity investment	1,331,750	842,000
Property and equipment, net	<u>82,535</u>	<u>43,282</u>
	<u>\$ 2,308,669</u>	<u>\$ 1,623,059</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Notes payable	\$ -	\$ 3,225,000
Accounts payable	426	11,249
Accrued liabilities	<u>15,911</u>	<u>11,098</u>
Total current liabilities	16,337	3,247,347
Long-term debt	<u>3,100,000</u>	<u>-</u>
Total liabilities	<u>3,116,337</u>	<u>3,247,347</u>
Commitment and contingencies		
Net position:		
Net investment in capital assets	82,535	43,282
Unrestricted	<u>(890,203)</u>	<u>(1,667,570)</u>
Net position	<u>(807,668)</u>	<u>(1,624,288)</u>
	<u>\$ 2,308,669</u>	<u>\$ 1,623,059</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> (As Restated)
Management fees	\$ 682,500	\$ 450,000
Other operating income	<u>35,186</u>	<u>18,637</u>
Net revenue	<u>717,686</u>	<u>468,637</u>
Operating expenses:		
Salaries and wages	192,752	195,937
Travel and entertainment	82,229	38,300
Representation	49,663	53,936
Rent	36,600	36,600
Office expense	34,436	28,344
Utilities	22,921	18,683
Contractual services	17,447	710
Repairs and maintenance	16,109	10,568
Telephone and communication	12,882	13,219
Depreciation and amortization	7,777	6,515
Training	5,350	-
Miscellaneous	<u>1,880</u>	<u>11,700</u>
Total operating expenses	<u>480,046</u>	<u>414,512</u>
Earnings from operations	<u>237,640</u>	<u>54,125</u>
Other income:		
Investment income	564,750	49,750
Other income, net	<u>14,230</u>	<u>299</u>
Total other income, net	<u>578,980</u>	<u>50,049</u>
Change in net position	816,620	104,174
Net position at beginning of year	<u>(1,624,288)</u>	<u>(1,728,462)</u>
Net position at end of year	<u>\$ (807,668)</u>	<u>\$ (1,624,288)</u>

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 702,245	\$ 481,855
Cash paid to suppliers for goods and services	(276,110)	(257,630)
Cash paid to employees for services	(187,396)	(197,965)
Net cash provided by operating activities	238,739	26,260
Cash flows from capital and related financing activities:		
Repayment of loan from FSM National Government	(125,000)	(125,000)
Acquisition of capital assets	(50,146)	(21,839)
Proceeds from sale of capital assets	3,116	-
Net cash used in capital and related financing activities	(172,030)	(146,839)
Cash flows from investing activities:		
Cash dividends received on investment	75,000	175,000
Net cash provided by investing activities	75,000	175,000
Net change in cash	141,709	54,421
Cash at beginning of year	685,870	631,449
Cash at end of year	\$ 827,579	\$ 685,870
Reconciliation of earnings from operations to net cash flows provided by operating activities:		
Earnings from operations	\$ 237,640	\$ 54,125
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Depreciation and amortization	7,777	6,515
Other expense, net	14,230	299
(Increase) decrease in assets:		
Accounts receivable	(15,441)	20,944
Advances to employees	543	(1,907)
Increase (decrease) in liabilities:		
Accounts payable	(10,823)	(45,869)
Unearned revenue	-	(7,726)
Accrued liabilities	4,813	(121)
Net cash provided by operating activities	\$ 238,739	\$ 26,260

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(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 the 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, 2016 and 2015, the carrying amount of NFC's total cash was \$827,579 and \$685,870, respectively, and the corresponding bank balances were \$839,251 and \$494,746, respectively, all of which were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$278,467 and \$258,710, 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 2016 and 2015, 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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(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.

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, vehicles, 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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

As of September 30, 2016 and 2015, management fees from Kasar Fishing Corporation (KFC) are 32% and 28%, respectively, of total operating revenues. As of September 30, 2016 and 2015, management fees from TMC are 63% and 72%, respectively, of total operating revenues. At September 30, 2016 and 2015, receivables due from these two entities are 90% and 100%, respectively, of total receivables.

New Accounting Standards

During the year ended September 30, 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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

(3) Commitments

Lease

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 expired in March 2017.

(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 \$232,500 and \$125,000 in fiscal years 2016 and 2015, 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 \$450,000 and \$325,000, in fiscal years 2016 and 2015, respectively, for management of TMC operations.

(5) Property and Equipment

Capital asset activity for the years ended September 30, 2016 and 2015 follows:

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

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

Notes to Financial Statements  
September 30, 2016 and 2015

(5) Property and Equipment, Continued

	October 1, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2015</u>
Machinery and equipment	\$ 48,721	\$ 21,839	\$ -	\$ 70,560
Office furniture and equipment	<u>43,550</u>	<u>-</u>	<u>-</u>	<u>43,550</u>
	92,271	21,839	-	114,110
Less accumulated depreciation	<u>(64,313)</u>	<u>(6,515)</u>	<u>-</u>	<u>(70,828)</u>
	\$ <u>27,958</u>	\$ <u>15,324</u>	\$ <u>-</u>	\$ <u>43,282</u>

(6) Notes Payable

Notes payable consist of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
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	\$ 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	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	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	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	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	39,244

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

Notes to Financial Statements  
September 30, 2016 and 2015

(6) Notes Payable, Continued

	<u>2016</u>	<u>2015</u>
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	100,000
Loan payable to the FSM National Government with no terms.	<u>          -</u>	<u>  125,000</u>
	<b>\$ <u>3,100,000</u></b>	<b>\$ <u>3,225,000</u></b>

All related debt was reclassified as noncurrent during the year ended September 30, 2016 as the FSM National Government will not demand repayment of the debt during the year ended September 30, 2017.

During the years ended September 30, 2016 and 2015, NFC repaid \$125,000 each.

Original balance of debt was \$3,600,000. Changes in debt during the years ended September 30, 2016 and 2015 are as follows:

Balance at Beginning of Year 2016	<u>Additions</u>	<u>Reductions</u>	Balance at End of Year 2016
\$ <u>3,225,000</u>	\$ <u>          -</u>	\$ <u>  125,000</u>	\$ <u>3,100,000</u>
Balance at Beginning of Year 2015	<u>Additions</u>	<u>Reductions</u>	Balance at End of Year 2015
\$ <u>3,350,000</u>	\$ <u>          -</u>	\$ <u>  125,000</u>	\$ <u>3,225,000</u>

(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 Micronesia Longline Fishing Company's (MLFC) loan payable to the Asian Development Bank. MLFC has defaulted on this loan; however, the FSM National Government has been making required debt service payments on behalf of NFC and it is not possible to predict the ultimate outcome of this matter. No provision for this matter has been made in the accompanying financial statements. The MLFC debt is, instead, recorded in the financial statements of the FSM National Government.

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

Notes to Financial Statements  
September 30, 2016 and 2015

(8) Equity Investment in TMC

Changes in NFC's equity investment in TMC during the years ended September 30, 2016 and 2015 follows:

Investment balance as of October 1, 2014	\$ 890,113
2015 dividends declared	(175,000)
Restatement due to restatement of TMC's financial statements	76,887
Pro rata share of TMC 2015 income	<u>50,000</u>
Investment balance as of September 30, 2015, as restated	842,000
2016 dividends declared	(75,000)
Pro rata share of TMC 2016 net income	<u>564,750</u>
Investment balance as of September 30, 2016	\$ <u>1,331,750</u>

NFC restated its 2015 financial statements to reflect the restatement of TMC's financial statements as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
As of September 30, 2014:			
Net position	\$ <u>(1,805,599)</u>	\$ <u>77,137</u>	\$ <u>(1,728,462)</u>
For the year ended September 30, 2015:			
Investment earnings, net	\$ <u>50,000</u>	\$ <u>(250)</u>	\$ <u>49,750</u>
Change in net position	\$ <u>104,424</u>	\$ <u>(250)</u>	\$ <u>104,174</u>
As of September 30, 2015:			
Equity investment	\$ <u>765,113</u>	\$ <u>76,887</u>	\$ <u>842,000</u>
Total assets	\$ <u>1,546,172</u>	\$ <u>76,887</u>	\$ <u>1,623,059</u>
Net position	\$ <u>(1,701,175)</u>	\$ <u>76,887</u>	\$ <u>(1,624,288)</u>

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

Notes to Financial Statements  
September 30, 2016 and 2015

(8) Equity Investment in TMC, Continued

Below is the investee's summary financial information as of December 31, 2016 and 2015:

	<u>2016</u>	2015 (As restated)
Assets	\$ <u>32,722,000</u>	\$ <u>34,848,000</u>
Liabilities	27,395,000	31,480,000
Equity	<u>5,327,000</u>	<u>3,368,000</u>
Total liabilities and equity	\$ <u>32,722,000</u>	\$ <u>34,848,000</u>
Income	\$ 55,771,000	\$ 35,277,000
Cost of goods sold	<u>(46,407,000)</u>	<u>(31,754,000)</u>
Gross profit	9,364,000	3,523,000
Selling, general and administrative expenses	(4,570,000)	(3,053,000)
Non-operating income	64,000	81,000
Non-operating expenses	<u>(2,600,000)</u>	<u>(351,000)</u>
Net income	\$ <u>2,258,000</u>	\$ <u>200,000</u>

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

The Board of Directors  
National Fisheries Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Fisheries Corporation (the "Company"), a component unit of the FSM National Government, which comprise the statement of net position as of September 30, 2016, 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 May 27, 2017.

### **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.

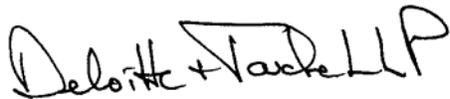
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

May 27, 2017

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

Summary Schedule of Prior Year Findings  
Year Ended September 30, 2016

There are no prior year findings unresolved as of September 30, 2016.