

**NATIONAL FISHERIES CORPORATION
FEDERATED STATES OF MICRONESIA
AND SUBSIDIARIES**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2000 AND 1999

INDEPENDENT AUDITORS' REPORT

The Board of Directors
National Fisheries Corporation:

We have audited the accompanying consolidated balance sheets of the National Fisheries Corporation (NFC) and subsidiaries, a component unit of the Federated States of Micronesia National Government, as of September 30, 2000 and 1999, and the related consolidated statements of revenues, expenses and changes in fund deficiency and cash flows for the years then ended. These financial statements are the responsibility of NFC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following three paragraphs, we conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

NFC's intercompany receivables and payables were not reconciled by \$610,288 and \$259,953 as of September 30, 2000 and 1999, respectively. Since the amount did not eliminate in consolidation, it has been included in accounts payable within the accompanying balance sheet. Additionally, NFC does not have records aggregating the value of intercompany sales/cost of sales and therefore, no elimination has been proposed for the amount, if any, which should be eliminated. The nature of NFC's intercompany records do not permit application of alternative audit procedures with respect to proper identification and recordation of intercompany transactions and the ultimate impact of these matters on the accompanying financial statements is uncertain.

The September 30, 2000 and 1999 financial statements of Chuuk Fresh Tuna, Inc. (CFTI) and Kosrae Sea Ventures, Inc. (KSVI), subsidiaries of NFC, have not been audited and the ultimate impact on the accompanying financial statements is unknown.

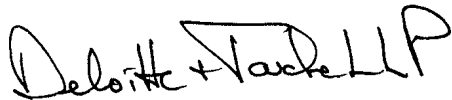
In 2000 and 1999, financial statements supporting NFC's investment in Yap Fishing Corporation and Yap Fresh Tuna, Inc. were not available for inspection.

In our opinion, except for the effects of adjustments, if any, had intercompany transactions been eliminated, had financial statements to support NFC's investment in Yap Fishing Corporation and Yap Fresh Tuna, Inc. been provided and had audited financial statements of Chuuk Fresh Tuna, Inc. and Kosrae Sea Ventures, Inc. been provided, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of NFC as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that NFC will continue as a going concern. As discussed in note 9 to the financial statements, NFC has incurred substantial losses from operations. These conditions raise substantial doubt about its ability to continue as a going concern.

Our audit of the 2000 consolidated financial statements of NFC was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The combining and consolidating balance sheets (pages 10 and 13) and the combining and consolidating statements of revenues, expenses and changes in fund deficiency (pages 11, 12, 14 and 15) are presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and are not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements of National Fisheries Corporation as of and for the years ended September 30, 2000 and 1999, and in our opinion, except for the effects, if any, of the matters discussed in paragraphs three to five above, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2001, on our consideration of the NFC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

November 20, 2001

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2000 and 1999

ASSETS	2000	1999
Current assets:		
Cash	\$ 1,245,551	\$ 176,766
Accounts receivable (note 2)	513,935	774,008
Advances receivable	7,089	1,439
Inventory	484,442	401,656
Prepays and other assets	210,990	251,012
Total current assets	2,462,007	1,604,881
Property and equipment, net (note 5)	10,720,182	11,752,657
	\$ 13,182,189	\$ 13,357,538
 <u>LIABILITIES AND FUND DEFICIENCY</u>		
Liabilities:		
Current portion of notes payable (note 6)	\$ 2,394,797	\$ 2,569,407
Accounts payable	1,009,633	2,010,228
Interest payable	536,237	335,906
Lease payable	992,228	992,228
Accrued liabilities	221,319	152,897
Total current liabilities	5,154,214	6,060,666
Notes payable, net of current portion (note 6)	9,584,216	9,644,438
Total liabilities	14,738,430	15,705,104
Minority interest in consolidated subsidiaries	788,372	942,122
Fund deficiency:		
Contributed capital	6,814,028	7,000,447
Deficit	(9,158,641)	(10,290,135)
Total fund deficiency	(2,344,613)	(3,289,688)
Commitments and contingencies (notes 7, 8 and 10)	\$ 13,182,189	\$ 13,357,538

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Changes in Fund Deficiency
Years Ended September 30, 2000 and 1999

	2000	1999
Sales	\$ 12,677,488	\$ 10,430,015
Cost of sales	11,409,938	10,685,861
Gross profit (loss)	1,267,550	(255,846)
Operating expenses:		
Salaries and wages	973,460	924,387
Depreciation and amortization	620,417	712,406
Rent	217,568	248,962
Bad debts	92,316	250,251
Telephone and communication	84,239	134,305
Utilities	72,421	92,794
Contractual services	65,072	97,137
Representation	47,931	11,845
Travel and entertainment	40,842	65,006
Office expense	34,332	26,677
Payroll and other taxes	24,392	31,051
Repairs and maintenance	19,683	31,901
Insurance	14,733	23,698
Miscellaneous	157,252	214,013
Total operating expenses	2,464,658	2,864,433
Loss from operations	(1,197,108)	(3,120,279)
Other income (expense):		
FSM National Government operating subsidies (note 3)	1,269,212	521,642
Other external funding (note 8)	653,083	515,245
Other income, net	389,695	248,149
(Loss) gain on foreign exchange	(2,824)	3,091
Interest income	5,229	2,340
Interest expense	(325,962)	(210,945)
Total other income, net	1,988,433	1,079,522
Net earnings (loss) before minority interest in loss of consolidated subsidiaries	791,325	(2,040,757)
Minority interest in loss of consolidated subsidiaries	153,750	321,629
Net earnings (loss)	945,075	(1,719,128)
Add: depreciation on fixed assets acquired with contributed capital which reduces contributed capital	186,419	225,929
Deficit at beginning of year	(10,290,135)	(8,796,936)
Deficit at end of year	(9,158,641)	(10,290,135)
Contributed capital at beginning of year	7,000,447	7,218,876
Add: capital grants received during the year	-	7,500
Less: depreciation on contributed fixed assets	(186,419)	(225,929)
Contributed capital at end of year	6,814,028	7,000,447
Fund deficiency at end of year	\$ (2,344,613)	\$ (3,289,688)

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Loss from operations	\$ (1,197,108)	\$ (3,120,279)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation expense	620,417	712,406
Bad debts	92,316	250,251
(Increase) decrease in assets:		
Accounts receivable	167,757	(175,670)
Advances receivable, net	(5,650)	13,409
Prepays and other assets	40,022	14,656
Inventory	(82,786)	37,533
Increase (decrease) in liabilities:		
Accounts payable	(1,000,595)	788,712
Accrued liabilities	68,422	(71,736)
Lease payable	-	(217,190)
Net cash used for operating activities	<u>(1,297,205)</u>	<u>(1,767,908)</u>
Cash flows from noncapital financing activities:		
FSM National Government operating subsidies	1,269,212	521,642
Other external funding	653,083	515,245
Net cash provided by noncapital financing activities	<u>1,922,295</u>	<u>1,036,887</u>
Cash flows from capital and related financing activities:		
Additions to long-term debt	185,678	1,055,235
Fixed assets acquired/disposed	412,058	(598,653)
Repayments of long-term debt	(420,510)	-
Interest paid	(125,631)	(103,647)
Contributed capital	-	7,500
Net cash provided by capital and related financing activities	<u>51,595</u>	<u>360,435</u>
Cash flows from investing activities:		
Interest income, foreign exchange gain and other income	392,100	253,580
Net cash provided by investing activities	<u>392,100</u>	<u>253,580</u>
Net increase (decrease) in cash	1,068,785	(117,006)
Cash at beginning of year	<u>176,766</u>	<u>293,772</u>
Cash at end of year	<u>\$ 1,245,551</u>	<u>\$ 176,766</u>

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies

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 the National Fisheries Corporation 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 activities. These activities include technical and infrastructure services, manpower training and other related activities promoting commercial fisheries development.

The NFC is a component unit (proprietary fund type) of the FSM National Government. The financial statements of the NFC are incorporated into those of the FSM National Government. Debts and obligations of the 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.

Principles of Consolidation

The consolidated financial statements include the accounts of NFC and its 50% owned subsidiaries, Chuuk Fresh Tuna, Inc., Micronesia Longline Fishing Co., and Kosrae Sea Venture, Inc. All significant intercompany transactions and balances have not been eliminated in the accompanying financial statements.

Basis of Accounting and Basis of Presentation

National Fisheries Corporation operates as a proprietary fund type component unit of the FSM National Government. This fund type is used to account for those operations that are financed and operated in a manner similar to a private business. Because of its fund type, NFC uses the accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. NFC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Allowance for Doubtful Accounts

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 collectibility of these accounts and prior collection experience. The allowance is established through a provision for uncollectible receivables charged to expenses.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies, Continued

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 a period of between 3 to 15 years depending on the nature of the asset.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," no liability is recorded for nonvesting accumulating rights to receive such pay benefits.

Corporate Equity

The NFC is organized as a public corporation and consequently is not authorized to issue stock. The NFC has received both grants and loans from the FSM National Government. Grants specifically appropriated for investment in joint ventures are recorded as contributed capital while NFC's operating grants are accounted for as operating transfers-in. Appropriations intended to be repaid are recorded as liabilities.

Investment and Business Development

NFC, in prior years, has invested in various joint ventures with respective agencies in the four states which are directly involved in the exploitation and development of the FSM's fisheries industry. The NFC involvement in these joint ventures varies in nature. NFC's participation in both the Caroline Fisheries Corporation and Yap Fishing Corporation is limited primarily to NFC's representation on each Board of Directors.

In the case of the Chuuk Fresh Tuna, Inc., and Kosrae Sea Ventures, Inc., the NFC is directly involved in the management of the joint ventures through management and marketing agreements entered into with the respective parties. NFC has a similar agreement with the Kosrae Sea Venture Inc. and Micronesia Longline Fishing Co. NFC owns approximately 50% of each of the above joint ventures. NFC also owns 50% of Yap Fresh Tuna, Inc. (YFTI). In prior years, YFTI was consolidated with NFC as NFC management, through a management contract, had effective control. Subsequently, YFTI has been controlled by another party and therefore, YFTI is no longer included in the consolidated entity. The investment in YFTI is carried at "\$0" as such was its carrying value at September 30, 1998. No financial information for the years ended September 30, 2000 and 1999 portraying YFTI activities has been provided management for inclusion in the accompanying financial presentation.

In addition to the above, the NFC also manages various longline fishing vessels for municipal governments in the FSM. It is expected that the NFC will be involved in similar arrangements with additional entities in the future.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2000 and 1999

(1) Summary of Significant Accounting Policies, Continued

Cash

For the purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand, savings accounts and time certificates of deposit with initial maturities of ninety days or less. NFC does not require collateralization of its cash in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits; therefore any amounts in excess of these limits are uncollateralized. As of September 30, 2000 and 1999, \$300,000 and \$176,766, respectively, are subject to FDIC coverage.

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 disclosures 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.

Inventory

Inventory of fishing supplies is valued at the lower of cost (first-in, first-out) or market.

(2) Accounts Receivable

Accounts receivable in 2000 and 1999 are net of an allowance for doubtful accounts of \$1,102,754 and \$1,171,538, respectively.

(3) Related Party Transactions

The Company has entered into various transactions with the FSM National Government. These transactions are as follows:

- Operating subsidies of \$1,269,212 and \$521,642 were received in 2000 and 1999, respectively.
- Various loans have been obtained from the FSM National Government or the FSM Development Bank, a component unit of the FSM National Government. These loans are disclosed in note 6.
- Contributed capital additions.

(4) Investment in Unconsolidated Subsidiaries

At September 30, 2000 and 1999, NFC holds a 22% interest in an unconsolidated joint venture, the Yap Fishing Corporation (YFC). Financial statements for YFC for fiscal years 2000 and 1999 are not available. YFC is currently in receivership (See note 7). However, due to YFC's current financial state, management has written down this investment to reflect a "nil" balance.

During fiscal year 1999, the National Fisheries Corporation (NFC), State of Yap and Overseas Private Investment Corporation (OPIC) negotiated settlement of the refinancing of the OPIC debt to YFC (see note 6). The principal due has been agreed to be \$4,011,535. The liability remains joint and several between the State and NFC. The NFC's share of the loan is 22.23%. The interest rate is 5.87% with repayment terms of three and one half year (see note 6).

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2000 and 1999

(5) Property and Equipment, Net

Detail of property and equipment, net as of September 30, 2000 and 1999, is as follows:

	<u>2000</u>	<u>1999</u>
Fish processing plants	\$ 5,765,282	\$ 5,765,282
Machinery and equipment	2,085,903	2,079,507
Fishing vessels - purchased	4,630,660	4,878,412
Fishing vessels - donated	3,012,370	3,012,370
Donated assets for MMFA	1,190,884	1,190,884
Fishing equipment - purchased	117,409	117,409
Fishing equipment - donated	117,085	117,085
Fishing supplies - purchased	199,296	199,296
Fishing supplies - donated	407,388	407,388
Office furniture/equipment - purchased	411,190	330,911
Office furniture/equipment - donated	28,333	28,333
Vehicles	71,060	129,535
Buildings and improvements	-	19,190
Container van	-	20,489
	18,036,860	18,296,091
Less accumulated depreciation	(7,316,678)	(6,543,434)
	<u>\$ 10,720,182</u>	<u>\$ 11,752,657</u>

(6) Notes Payable

Notes payable of NFC consist of the following at September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</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

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements September 30, 2000 and 1999

(6) Notes Payable, Continued

	<u>2000</u>	<u>1999</u>
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
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.	500,000	500,000
Loan payable to Aero Micronesia, Inc., a Saipan based company, due in 36 monthly installments of \$7,834 at the interest rate of 8% beginning May 13, 1997.	23,196	60,834
Loan payable to OPIC, payable in three and half years with interest of 5.87% commencing January 1999 (see note 4).	<u>510,496</u>	<u>893,368</u>
Total NFC debt	<u>4,133,692</u>	<u>4,554,202</u>

Chuuk Fresh Tuna, Inc.

Chuuk Fresh Tuna, Inc. has obtained various loans from the FSM Development Bank, which is an affiliated entity of the National Fisheries Corporation. As of September 30, 2000 and 1999, the loans are as follows:

Due date March, 2010, interest at 5%, due in quarterly installments of principal and interest of \$38,666.	1,914,341	1,914,341
Due date March 2010, interest at 5%, due in quarterly installments of principal and interest of \$29,536.	1,171,171	1,171,171
Due date October 2000, interest at 7%, due in monthly installments of principal and interest of \$3,410.	150,457	150,457
Due date February 1999, interest at 7.63%, due in quarterly installments of principal and interest of \$16,441.	103,290	103,290
Due date February 2000, interest at 7.4%, due in quarterly installments of principal and interest of \$40,781.	<u>555,266</u>	<u>555,266</u>
Total Chuuk Fresh Tuna, Inc. debt	<u>3,894,525</u>	<u>3,894,525</u>

Micronesia Long-Line Fishing Corp.

Due to FSM National Government under a loan received through the Asian Development Bank, interest at 1%, ten year grace period and then repayable over forty years.	<u>3,950,796</u>	<u>3,765,118</u>
Total debt of NFC and subsidiaries	11,979,013	12,213,845
Less current portion	<u>(2,394,797)</u>	<u>(2,569,407)</u>
Long-term debt, net of current portion	\$ <u>9,584,216</u>	\$ <u>9,644,438</u>

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2000 and 1999

(6) Notes Payable, Continued

Future maturities of the above payables are as follows:

2001	\$ 2,394,797
2002	450,777
2003	195,529
2004	195,529
2005	195,529
Thereafter	<u>8,546,852</u>
	\$ <u>11,979,013</u>

Notes payable of Chuuk Fresh Tuna, Inc. are collateralized by chattel mortgages on all machinery and equipment, the assignment of leases and chattel mortgages on facilities and an assignment of all gross income.

NFC does not have sufficient information from its affiliates to enable a presentation of the future interest expense associated with the above notes to maturity.

(7) Contingencies

Litigation

NFC is party to several legal proceedings arising from operations. External legal counsel represents that the ultimate outcome of the lawsuits cannot be predicted at this time but may impact the financial statements if payment is required. No provision for any related liability is made in the financial statements.

(8) Commitments

The NFC charters airplanes to transport fish. Previously, NFC leased airplanes under an agreement requiring maintenance reserves. Certain of these reserves were reversed in fiscal year 1999.

During 1996, the NFC entered into a grant award which provides the lower of \$700,000 or 70 million yen in a fiscal year to assist in covering airfreight related costs. NFC received \$653,083 and \$515,245 during fiscal years 2000 and 1999, respectively. The agreement is annually renewable over a period of five years.

(9) Going Concern

For the years ended September 30, 2000 and 1999, the Company has incurred substantial losses from operations. This condition raises substantial doubt about the Company's ability to continue as a going concern. The Company, as a component unit of the FSM National Government, is dependent on the FSM National Government for its cash flows.

(10) Risk Management

National Fisheries Corporation is substantially self-insured for all risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Balance Sheet - NFC
September 30, 2000 and 1999

ASSETS	Corporate	Fishing Operations	Chartered Boats	Airfreight Operations	Transshipment Operations	Baitfish Services	Total	
							2000	1999
Current assets:								
Cash	\$ 14,269	\$ 184,489	\$ 1,209	\$ 246,156	\$ 147,456	\$ 67,089	\$ 660,668	\$ 92,221
Accounts receivable, net	27,637	20,631	5,868	126,461	25,418	121,303	327,318	667,609
Advances receivable, net	-	3,075	-	-	444	-	3,519	881
Inventory	-	11,043	-	-	-	89,673	100,716	106,973
Intercompany receivable, net	606,125	(785,362)	(20,007)	118,463	877,492	28,986	825,697	477,320
Prepays and other assets	1,597	-	19,901	-	-	10,500	31,998	26,925
Total current assets	649,628	(566,124)	6,971	491,080	1,050,810	317,551	1,949,916	1,371,929
Investments	780,894	-	-	-	-	-	780,894	933,205
Fixed assets, net	235,312	1,807,903	-	75,300	2,291	-	2,120,806	2,404,354
	<u>\$ 1,665,834</u>	<u>\$ 1,241,779</u>	<u>\$ 6,971</u>	<u>\$ 566,380</u>	<u>\$ 1,053,101</u>	<u>\$ 317,551</u>	<u>\$ 4,851,616</u>	<u>\$ 4,709,488</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)								
Current liabilities:								
Notes payable	\$ 946,102	\$ 636,473	\$ -	\$ 23,196	\$ -	\$ -	\$ 1,605,771	\$ 1,447,881
Accounts payable	33,657	44,159	209,400	321,470	209,071	12,740	830,497	1,276,111
Lease payable	-	-	-	992,228	-	-	992,228	992,228
Accrued liabilities	1	-	-	25,837	33,763	-	59,601	42,942
Total current liabilities	979,760	680,632	209,400	1,362,731	242,834	12,740	3,488,097	3,759,162
Notes payable, net of current portion	1,351,454	676,467	-	500,000	-	-	2,527,921	3,106,321
Total liabilities	2,331,214	1,357,099	209,400	1,862,731	242,834	12,740	6,016,018	6,865,483
Fund equity (deficiency):								
Contributed capital	7,409,999	1,279,904	-	-	166,960	-	8,856,863	9,043,282
Retained earnings (deficit)	(8,075,379)	(1,395,224)	(202,429)	(1,296,351)	643,307	304,811	(10,021,265)	(11,199,277)
Total fund equity (deficiency)	(665,380)	(115,320)	(202,429)	(1,296,351)	810,267	304,811	(1,164,402)	(2,155,995)
	<u>\$ 1,665,834</u>	<u>\$ 1,241,779</u>	<u>\$ 6,971</u>	<u>\$ 566,380</u>	<u>\$ 1,053,101</u>	<u>\$ 317,551</u>	<u>\$ 4,851,616</u>	<u>\$ 4,709,488</u>

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Statement of Revenues, Expenses and Changes in Fund Equity - NFC
Years Ended September 30, 2000 and 1999

	Corporate	Fishing Operations	Chartered Boats	Airfreight Operations	Transshipment Operations	Baitfish Services	Total	
							2000	1999
Sales	\$ -	\$ 337,636	\$ 1,088,629	\$ 4,662,257	\$ 88,642	\$ 1,002,922	\$ 7,180,086	\$ 6,512,945
Cost of sales	-	229,182	947,154	4,799,224	-	746,130	6,721,690	6,401,740
Gross profit (loss)	-	108,454	141,475	(136,967)	88,642	256,792	458,396	111,205
Operating expenses:								
Salaries and wages	130,774	90,112	185,712	136,724	36,907	29,768	609,997	633,901
Depreciation and amortization	43,693	213,719	-	-	6,983	961	265,356	331,467
Bad debt expense	-	-	-	92,316	-	-	92,316	250,251
Rent	64,283	13,621	-	50,681	5,733	9,900	144,218	173,908
Telephone and communication	33,843	2,141	-	27,822	3,895	1,886	69,587	101,823
Contractual services	33,648	450	-	17,412	-	-	51,510	75,984
Travel and entertainment	15,189	6,183	-	13,519	1,260	-	36,151	55,049
Utilities	-	-	-	10,680	-	22,567	33,247	32,176
Repairs and maintenance	-	16,392	-	-	111	2,439	18,942	29,031
Payroll and other taxes	4,684	3,667	-	3,710	2,330	-	14,391	19,454
Office expense	2,881	753	-	22,618	164	577	26,993	18,700
Insurance	6,650	702	-	6,405	799	-	14,556	17,975
Representation	2,817	-	-	-	-	-	2,817	332
Miscellaneous	6,514	30,813	32,121	29,969	13,327	1,945	114,689	158,772
Total operating expenses	344,976	378,553	217,833	411,856	71,509	70,043	1,494,770	1,898,823
Operating income (loss)	(344,976)	(270,099)	(76,358)	(548,823)	17,133	186,749	(1,036,374)	(1,787,618)
Other income (expense):								
FSM appropriation	712,509	-	-	556,703	-	-	1,269,212	521,642
Other external funding	-	-	-	653,083	-	-	653,083	515,245
Other income (expense), net	16,956	4,422	-	(79,197)	413,941	470	356,592	262,397
Gain on foreign exchange	-	(2,824)	-	-	-	-	(2,824)	3,091
Interest income	301	15	-	2,246	-	-	2,562	1,122
Interest expense	(59,521)	-	-	(38,826)	-	-	(98,347)	(5,201)
Loss on investment in subsidiary	(152,311)	-	-	-	-	-	(152,311)	(381,513)
Total other income (expense), net	517,934	1,613	-	1,094,009	413,941	470	2,027,967	916,783

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Statement of Revenues, Expenses and Changes in Fund Equity - NFC, Continued
Years Ended September 30, 2000 and 1999

	Corporate	Fishing Operations	Chartered Boats	Airfreight Operations	Transshipment Operations	Baitfish Services	Total	
							2000	1999
Net income (loss)	172,958	(268,486)	(76,358)	545,186	431,074	187,219	991,593	(870,835)
Add: Depreciation on fixed assets acquired by capital contributions that reduce contributed capital	39,655	146,764	-	-	-	-	186,419	225,929
Retained earnings (deficit) at beginning of year	<u>(8,287,992)</u>	<u>(1,273,502)</u>	<u>(126,071)</u>	<u>(1,841,537)</u>	<u>212,233</u>	<u>117,592</u>	<u>(11,199,277)</u>	<u>(10,554,371)</u>
Retained earnings (deficit) at end of year	<u>(8,075,379)</u>	<u>(1,395,224)</u>	<u>(202,429)</u>	<u>(1,296,351)</u>	<u>643,307</u>	<u>304,811</u>	<u>(10,021,265)</u>	<u>(11,199,277)</u>
Contributed capital:								
Contributed capital at beginning of year	7,449,654	1,426,668	-	-	166,960	-	9,043,282	9,269,211
Less: Depreciation on fixed assets acquired by capital contributions that reduce contributed capital	<u>(39,655)</u>	<u>(146,764)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(186,419)</u>	<u>(225,929)</u>
Contributed capital at end of year	<u>7,409,999</u>	<u>1,279,904</u>	<u>-</u>	<u>-</u>	<u>166,960</u>	<u>-</u>	<u>8,856,863</u>	<u>9,043,282</u>
Fund equity (deficiency) at end of year	<u>\$ (665,380)</u>	<u>\$ (115,320)</u>	<u>\$ (202,429)</u>	<u>\$ (1,296,351)</u>	<u>\$ 810,267</u>	<u>\$ 304,811</u>	<u>\$ (1,164,402)</u>	<u>\$ (2,155,995)</u>

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet
September 30, 2000

<u>ASSETS</u>	National Fisheries Corporation	Chuuk Fresh Tuna, Inc.	Kosrae Sea Venture, Inc.	Micronesia Longline Fishing Co.	Combined Balance	Consolidating Entries		Consolidated Balance 2000
						Debit	Credit	
Current assets:								
Cash	\$ 660,668	\$ (376)	\$ 1,395	\$ 583,864	\$ 1,245,551	\$ -	\$ -	\$ 1,245,551
Accounts receivable, net	327,318	55,418	18,290	112,909	513,935	-	-	513,935
Advances receivable, net	3,519	2,985	585	-	7,089	-	-	7,089
Inventory	100,716	-	-	383,726	484,442	-	-	484,442
Intercompany receivables, net	825,697	(196,161)	(19,248)	-	610,288	-	610,288	-
Prepays and other assets	31,998	112,865	1,349	64,778	210,990	-	-	210,990
Total current assets	1,949,916	(25,269)	2,371	1,145,277	3,072,295	-	610,288	2,462,007
Investments	780,894	-	-	-	780,894	152,311	933,205	-
Fixed assets, net	2,120,806	5,784,583	479,290	2,335,503	10,720,182	-	-	10,720,182
	<u>\$ 4,851,616</u>	<u>\$ 5,759,314</u>	<u>\$ 481,661</u>	<u>\$ 3,480,780</u>	<u>\$ 14,573,371</u>	<u>\$ 152,311</u>	<u>\$ 1,543,493</u>	<u>\$ 13,182,189</u>
<u>LIABILITIES AND FUND EQUITY</u>								
Liabilities:								
Current portion of notes payable	\$ 1,605,771	\$ 789,026	\$ -	\$ -	\$ 2,394,797	\$ -	\$ -	\$ 2,394,797
Accounts payable	830,497	187,810	473,374	128,240	1,619,921	610,288	-	1,009,633
Interest payable	-	24,051	-	512,186	536,237	-	-	536,237
Lease payable	992,228	-	-	-	992,228	-	-	992,228
Accrued liabilities and others	59,601	96,096	3,328	62,294	221,319	-	-	221,319
Total current liabilities	3,488,097	1,096,983	476,702	702,720	5,764,502	610,288	-	5,154,214
Notes payable, net of current portion	2,527,921	3,105,499	-	3,950,796	9,584,216	-	-	9,584,216
Total liabilities	6,016,018	4,202,482	476,702	4,653,516	15,348,718	610,288	-	14,738,430
Minority interest in subsidiaries	-	-	-	-	-	153,750	942,122	788,372
Fund equity (deficiency):								
Contributed capital	8,856,863	3,100,000	1,700,000	1,039,480	14,696,343	7,882,315	-	6,814,028
Deficit	(10,021,265)	(1,543,168)	(1,695,041)	(2,212,216)	(15,471,690)	-	6,313,049	(9,158,641)
Total fund equity (deficiency)	(1,164,402)	1,556,832	4,959	(1,172,736)	(775,347)	7,882,315	6,313,049	(2,344,613)
	<u>\$ 4,851,616</u>	<u>\$ 5,759,314</u>	<u>\$ 481,661</u>	<u>\$ 3,480,780</u>	<u>\$ 14,573,371</u>	<u>\$ 8,646,353</u>	<u>\$ 7,255,171</u>	<u>\$ 13,182,189</u>

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 2000

	National Fisheries Corporation	Chuuk Fresh Tuna, Inc.	Kosrae Sea Venture, Inc.	Micronesia Longline Fishing Co.	Combined Balance	Consolidating Entries		Consolidated Balance 2000
						Debit	Credit	
Sales	\$ 7,180,086	\$ 288,855	\$ 415,898	\$ 4,792,649	\$ 12,677,488	\$ -	\$ -	\$ 12,677,488
Cost of Sales	<u>6,721,690</u>	<u>106,895</u>	<u>295,602</u>	<u>4,285,751</u>	<u>11,409,938</u>	<u>-</u>	<u>-</u>	<u>11,409,938</u>
Gross profit (loss)	<u>458,396</u>	<u>181,960</u>	<u>120,296</u>	<u>506,898</u>	<u>1,267,550</u>	<u>-</u>	<u>-</u>	<u>1,267,550</u>
Operating Expenses:								
Salaries and wages	609,997	94,534	43,748	225,181	973,460	-	-	973,460
Depreciation and amortization	265,356	292,966	52,812	9,283	620,417	-	-	620,417
Rent	144,218	19,485	-	53,865	217,568	-	-	217,568
Bad debts	92,316	-	-	-	92,316	-	-	92,316
Telephone and communication	69,587	1,582	236	12,834	84,239	-	-	84,239
Utilities	36,151	28,996	-	7,274	72,421	-	-	72,421
Contractual services	51,510	5,392	-	8,170	65,072	-	-	65,072
Representation	2,817	245	44,869	-	47,931	-	-	47,931
Travel and entertainment	33,247	-	634	6,961	40,842	-	-	40,842
Office expense	26,993	811	-	6,528	34,332	-	-	34,332
Payroll and other taxes	14,391	3,125	26	6,850	24,392	-	-	24,392
Repairs and maintenance	18,942	741	-	-	19,683	-	-	19,683
Insurance	14,556	177	-	-	14,733	-	-	14,733
Miscellaneous	<u>114,689</u>	<u>9,515</u>	<u>6,753</u>	<u>26,295</u>	<u>157,252</u>	<u>-</u>	<u>-</u>	<u>157,252</u>
Total operating expenses	<u>1,494,770</u>	<u>457,569</u>	<u>149,078</u>	<u>363,241</u>	<u>2,464,658</u>	<u>-</u>	<u>-</u>	<u>2,464,658</u>
Operating loss	<u>(1,036,374)</u>	<u>(275,609)</u>	<u>(28,782)</u>	<u>143,657</u>	<u>(1,197,108)</u>	<u>-</u>	<u>-</u>	<u>(1,197,108)</u>

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses and Changes in Fund Equity, Continued
Year Ended September 30, 2000

	National Fisheries Corporation	Chuuk Fresh Tuna, Inc.	Kosrae Sea Venture, Inc.	Micronesia Longline Fishing Co.	Combined Balance	Consolidating Entries		Consolidated Balance 2000
						Debit	Credit	
Other income (expense):								
FSM appropriation	1,269,212	-	-	-	1,269,212	-	-	1,269,212
Other external funding	653,083	-	-	-	653,083	-	-	653,083
Other income (expenses), net	356,592	(2,089)	1,863	33,329	389,695	-	-	389,695
Loss on foreign exchange	(2,824)	-	-	-	(2,824)	-	-	(2,824)
Interest income	2,562	-	-	2,667	5,229	-	-	5,229
Interest expense	(98,347)	-	-	(227,615)	(325,962)	-	-	(325,962)
Loss on investment in subsidiary	(152,311)	-	-	-	(152,311)	-	152,311	-
Total other income (expense), net	2,027,967	(2,089)	1,863	(191,619)	1,836,122	-	152,311	1,988,433
Net earnings (loss) before minority interest in subsidiary loss	991,593	(277,698)	(26,919)	(47,962)	639,014	-	152,311	791,325
Minority interest in subsidiary loss	-	-	-	-	-	-	153,750	153,750
Net earnings (loss)	991,593	(277,698)	(26,919)	(47,962)	639,014	-	306,061	945,075
Add: Depreciation on fixed assets acquired by capital contributions that reduces contributed capital	186,419	-	-	-	186,419	-	-	186,419
Deficit at beginning of year	(11,199,277)	(1,265,470)	(1,668,122)	(2,164,254)	(16,297,123)	-	6,006,988	(10,290,135)
Deficit at end of year	(10,021,265)	(1,543,168)	(1,695,041)	(2,212,216)	(15,471,690)	-	6,313,049	(9,158,641)
Contributed capital:								
Contributed capital at beginning of year	9,043,282	3,100,000	1,700,000	1,039,480	14,882,762	7,882,315	-	7,000,447
Less: Depreciation on fixed assets acquired by capital contributions that reduces contributed capital	(186,419)	-	-	-	(186,419)	-	-	(186,419)
Contributed capital at end of year	8,856,863	3,100,000	1,700,000	1,039,480	14,696,343	7,882,315	-	6,814,028
Total fund equity (deficiency)	\$ (1,164,402)	\$ 1,556,832	\$ 4,959	\$ (1,172,736)	\$ (775,347)	\$ 7,882,315	\$ 6,313,049	\$ (2,344,613)

See accompanying independent auditors' report.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE ENGAGEMENT TO AUDIT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
National Fisheries Corporation:

We have audited the financial statements of the National Fisheries Corporation (NFC), as of and for the year ended September 30, 2000, and have issued our report thereon dated November 20, 2001, which report was qualified due to our inability to examine evidence regarding investments in and disclosures related to investees and our inability to ensure that intercompany balances have been appropriately eliminated. We conducted our audit in accordance with 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.

Compliance

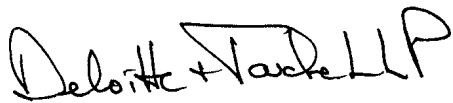
As part of obtaining reasonable assurance about whether NFC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NFC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect NFC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs in finding numbers 2000-1 to 2000-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe finding numbers 2000-1 through 2000-3 to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of NFC, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

November 20, 2001

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Intercompany Transactions

Finding No. 2000-1

Criteria: NFC should ensure that intercompany transactions are properly reconciled and eliminated from the consolidated financial statements.

Condition: NFC's intercompany receivables and payables were not reconciled by \$610,288 as of September 30, 2000. Since the amount did not eliminate in consolidation, it has been included in accounts payable within the balance sheet. Additionally, NFC does not have records aggregating the value of intercompany sales/cost of sales and therefore, no elimination has been proposed for the amount, if any, which should be eliminated. The nature of NFC's intercompany records do not permit application of alternative audit procedures with respect to proper identification and recordation of intercompany transactions and the ultimate impact of these matters on the accompanying financial statements is uncertain.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a potential misstatement of the financial statements.

Prior Year Status: This condition was reported in the National Fisheries Corporation audits for fiscal years 1997, 1998 and 1999.

Recommendation: We recommend that NFC ensure that intercompany transactions are properly reconciled and eliminated in the consolidated financial statements.

Auditee Response dated February 27, 2002:

The balance of the unreconciled intercompany balance from 2000 audit was \$672,351, after reviewing and adjusting the discrepancies we were not able to eliminate the whole amount and a balance of \$259,953 was left unreconciled. The main source of this is the non-reclassification of the accounts payable on KSVI's books. All of the accounts receivable of NFC from KSVI were reclassified while the corresponding accounts payable on KSVI's books were not reclassified since KSVI was not audited.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Investee's Financial Statements

Finding No. 2000-2

Criteria: NFC should ensure that its investees are audited at the end of each fiscal year.

Condition: The September 30, 2000, financial statements of Chuuk Fresh Tuna, Inc. and Kosrae Sea Ventures, Inc., subsidiaries of NFC, have not been audited and the ultimate impact on the financial statements is uncertain.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is the potential misstatement of the financial statements at September 30, 2000.

Prior Year Status: This condition was reported in the National Fisheries Corporation audits for fiscal years 1997, 1998, and 1999.

Recommendation: We recommend that NFC ensure that its investees provide audited financial statements.

Auditee Response dated February 27, 2002:

This has been an audit finding since 1996 and the reason for the non-compliance is the same, most of the investees cannot afford to pay for their own audit fees and unfortunately NFC is also in the same financial state. NFC will recommend to the corresponding States to finance the audit of the investees. As of the last Board Meeting, our representative from Chuuk Mr. Joe Suka, will initiate the request for Chuuk State to include CFTI on its audit for next year and we have also requested FSM Auditors Office for KSVI's audit.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Absence of Investee's Financial Statements

Finding No. 2000-3

Criteria: NFC should ensure that its equity investments are properly valued.

Condition: Financial statements supporting NFC's investment in Yap Fishing Corporation (YFC) and Yap Fresh Tuna, Inc. were not available for inspection.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is a potential material misstatement of the financial statements.

Prior Year Status: This condition (relative to YFC) was reported in the National Fisheries Corporation audits for fiscal years 1997 1998, and 1999.

Recommendation: We recommend that NFC ensure that its investees provide audited financial statements.

Auditee Response dated February 27, 2002:

Yap Fishing Corporation (YFC) has long ceased operating, 1995 to be exact, that is why we cannot provide any financial statements since the company is technically close and it is no longer reflected in our financial statements since 1995. Yap Fresh Tuna Inc. (YFTI) has been losing substantially for the last seven years due to very minimal operations, it has loss so much that the net value of our investment was reduced to nil.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Equity Investments

Finding No. 2000-4

Criteria: Equity investments should be reconciled at the end of the fiscal year.

Condition: We found that the general ledger account balance for equity investments was not reconciled during the year.

Cause: The cause of this condition is unknown.

Effect: The misstatements have been corrected through the audit process.

Prior Year Status: This condition was reported in the National Fisheries Corporation audits for fiscal years 1997 1998, and 1999.

Recommendation: We recommend that NFC ensure that equity investments are reconciled at the end of each fiscal year.

Auditee Response dated February 27, 2002:

This was mainly because of the late submission of financial statements of the investee.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Employee Personnel File

Finding No. 2000-5

Criteria: Personnel files should be maintained and controlled by management.

Condition: There were two employees that did not have personnel files maintained for them.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that records, when needed for performance evaluations, inspections and for other purposes, will not be available.

Prior Year Status: This condition was reported in the National Fisheries Corporation audit for fiscal year 1999.

Recommendation: Management should ensure that personnel files are maintained for all employees. Management should also maintain physical control of these files.

Auditee Response dated February 27, 2002:

All of our personnel files are kept inside the Vice Presidents Office, the missing personnel files may have just been on routing for evaluation or review, nonetheless, personnel files will be reviewed thoroughly and will be corrected if necessary.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Employee Timesheets

Finding No. 2000-6

Criteria: Timesheets should be verified and approved by supervisors prior to processing payroll.

Condition: During fiscal year 2000, a number of timesheets were not signed to indicate approval by a supervisor.

Cause: The cause of this condition may be that procedures and policies regarding employee timesheets were not adhered to.

Effect: There is a potential for timesheets to contain incorrect data. There is also a potential for unauthorized timesheets to be processed.

Prior Year Status: This condition was reported in the National Fisheries Corporation audit for fiscal year 1999.

Recommendation: Management should ensure that procedures and policies relative to employee timesheets are strictly adhered to. Timesheets should be properly prepared for each employee timecard based on approved time in/out. Management should also designate personnel to perform a recalculation of employee timesheets. Supervisors in charge should always evidence their approval of all employee timesheets. Management should also ensure that timesheets are maintained on file.

Auditee Response dated February 27, 2002:

Problem noted and currently all timesheets are being verified by supervisors before being processed for payroll.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2000

Fixed Assets

Finding No. 2000-7

Criteria: NFC should ensure that detail for fixed assets is available for inspection.

Condition: We are not able to verify the existence of donated equipment amounting to \$300,024.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is nil as the book value of such fixed assets is \$0.

Recommendation: We recommend that NFC ensure that detailed fixed assets records are available to support general ledger balance.

Auditee Response dated February 27, 2002:

The assets in question here were the ones in Yap. During the last Board Meeting it has been resolved that these fixed assets be taken out from NFC's books since they were turned over to COM.