

POHNPEI FISHERIES CORPORATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Fisheries Corporation:

We have audited the accompanying balance sheet of Pohnpei Fisheries Corporation, a component unit of Pohnpei State Government, as of September 30, 2000 and were engaged to audit the accompanying balance sheets of Pohnpei Fisheries Corporation as of September 30, 1999 and 1998, and the related statements of revenues, expenses and changes in fund deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraphs, 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 *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 audits provide a reasonable basis for our opinion.

Pohnpei Fisheries Corporation did not conduct physical counts of its inventory as of September 30, 2000, 1999 and 1998. We were unable to determine, by means of other audit procedures, if material variances exist between actual inventory on hand and the amount recorded at September 30, 2000, 1999 and 1998.

Unreconciled variances of \$269,648 and \$213,222 exist between the accounts payable subsidiary ledger and general ledger as of September 30, 1999 and 1998, respectively. Inadequacies in the accounting system did not permit the application of alternative audit procedures to assure ourselves as to the propriety of accounts payable balances as of September 30, 1999 and 1998.

We were unable to ascertain the propriety of net accounts receivable of \$100,196 and \$317,804 as of September 30, 1999 and 1998, respectively, nor could we obtain sufficient evidence in support of these amounts through the application of other auditing procedures.

We were unable to satisfy ourselves as to whether certain revenues for charges for goods and services, totaling \$873,738 and \$1,121,052, were properly stated for the years ended September 30, 1999 and 1998, respectively. The state of the Corporation's accounting records did not permit the application of alternative auditing procedures with respect to revenues for the years then ended.

We were unable to satisfy ourselves through the application of auditing procedures whether certain expenses were properly stated for the years ended September 30, 1999 and 1998, respectively. The state of the Corporation's accounting records did not permit the application of alternative auditing procedures with respect to these expenses for the years then ended.

Additionally, we were unable to obtain minutes of meetings of the Board of Directors or management which may have occurred during the years ended September 30, 2000, 1999 and 1998.

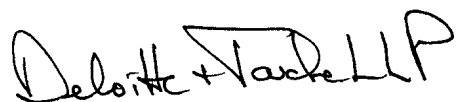
In our opinion, except for adjustments, if any, which may be required had we been able to verify the propriety of inventory of September 30, 2000, and if we had been able to obtain minutes of meetings of the Board of Directors or management which may have occurred during the year ended September 30, 2000, the accompanying September 30, 2000 balance sheet presents fairly, in all material respects, the financial position of Pohnpei Fisheries Corporation, as of September 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

Because of the matters discussed in paragraphs three through five above regarding inventory balances at September 30, 2000 and 1999 and accounts receivable and accounts payable balances at September 30, 1999, which enter materially into the determination of results of operations and cash flows for the year ended September 30, 2000, we do not express an opinion on the accompanying statement of revenues, expenses and changes in fund deficiency and cash flows for the year ended September 30, 2000.

Due to the matters specified in the preceding paragraphs, we are unable to express, and we do not express an opinion on the accompanying balance sheets as of September 30, 1999 and 1998, and the related statements of revenues, expenses and changes in fund deficiency and cash flows for the years then ended.

The accompanying financial statements have been prepared assuming the Corporation will continue as a going concern. As discussed in note 9 to the financial statements, the Corporation has incurred losses from operations and has accumulated a deficit of \$5,091,942. These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. Management's plans concerning these matters are also described in note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2001 on our consideration of the Pohnpei Fisheries Corporation'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.

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October 12, 2001

POHNPEI FISHERIES CORPORATION

Balance Sheets
September 30, 2000, 1999 and 1998

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current assets:			
Cash and equivalents	\$ 39,395	\$ -	\$ -
Accounts receivable, net (note 2)	38,230	100,196	317,804
Inventory, at cost (note 3)	<u>98,329</u>	<u>129,268</u>	<u>113,056</u>
Total current assets	175,954	229,464	430,860
Property and equipment, net (note 4)	<u>3,279,268</u>	<u>3,904,582</u>	<u>4,530,492</u>
	<u>\$ 3,455,222</u>	<u>\$ 4,134,046</u>	<u>\$ 4,961,352</u>
<u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>			
Current liabilities:			
Bank overdrafts	\$ -	\$ 9,031	\$ 22,576
Current installments of long-term debt (note 5)	1,109,028	1,102,498	1,121,916
Accounts payable (note 7)	<u>1,521,938</u>	<u>1,797,824</u>	<u>1,434,284</u>
Total current liabilities	2,630,966	2,909,353	2,578,776
Long-term debt, excluding current installments (note 5)	<u>2,462,888</u>	<u>2,477,229</u>	<u>2,497,162</u>
Total liabilities	<u>5,093,854</u>	<u>5,386,582</u>	<u>5,075,938</u>
Fund equity (deficiency):			
Contributed capital	3,453,310	3,809,971	4,166,632
Deficit	<u>(5,091,942)</u>	<u>(5,062,507)</u>	<u>(4,281,218)</u>
Total fund equity (deficiency)	<u>(1,638,632)</u>	<u>(1,252,536)</u>	<u>(114,586)</u>
Contingencies (notes 8 and 9)	<u>\$ 3,455,222</u>	<u>\$ 4,134,046</u>	<u>\$ 4,961,352</u>

See accompanying notes to financial statements.

POHNPEI FISHERIES CORPORATION

Statements of Revenues, Expenses, and Changes in Fund Deficiency
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
Revenues:			
Charges for goods and services	\$ 528,944	\$ 873,738	\$ 1,121,052
Cost of sales	978,670	1,571,852	2,753,888
Gross loss	(449,726)	(698,114)	(1,632,836)
General and administrative expenses:			
Salaries and wages	240,585	309,954	367,132
Taxes	10,335	22,116	16,232
Communications	2,083	9,940	24,850
Repair and maintenance	1,533	3,722	12,866
Professional services	544	5,365	79,915
Marketing expenses	338	1,542	3,685
Training	250	-	-
Rent	40	455	1,404
Travel and entertainment	-	1,336	-
Bad debts	-	100,432	249,864
Other	26,914	35,006	70,110
Total general and administrative expenses	282,622	489,868	826,058
Loss from operations	(732,348)	(1,187,982)	(2,458,894)
Nonoperating revenues (expenses):			
Interest expense, net	(6,217)	(29,968)	(107,005)
Government subsidy	308,000	80,000	691,737
Miscellaneous income	44,469	-	743
Net loss	(386,096)	(1,137,950)	(1,873,419)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	356,661	356,661	1,515,820
Increase in deficit	(29,435)	(781,289)	(357,599)
Deficit at beginning of year	(5,062,507)	(4,281,218)	(3,923,619)
Deficit at end of year	(5,091,942)	(5,062,507)	(4,281,218)
Contributed capital at beginning of year	3,809,971	4,166,632	5,682,452
Less: depreciation on contributed assets	(356,661)	(356,661)	(1,515,820)
Contributed capital at end of year	3,453,310	3,809,971	4,166,632
Total fund deficiency at end of year	\$ (1,638,632)	\$ (1,252,536)	\$ (114,586)

See accompanying notes to financial statements.

POHNPEI FISHERIES CORPORATION

Statements of Cash Flows
Years Ended September 30, 2000, 1999 and 1998

	2000	1999	1998
Cash flows from operating activities:			
Cash received from customers	\$ 590,910	\$ 990,914	\$ 707,335
Cash paid to suppliers and employees	(876,893)	(961,150)	(1,149,691)
Net cash (used in) provided by operating activities	(285,983)	29,764	(442,356)
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(4,031)	(26,901)	(21,061)
Net cash used in capital and related financing activities	(4,031)	(26,901)	(21,061)
Cash flows from noncapital financing activities:			
Increase (decrease) in bank overdraft	(9,031)	(13,545)	22,576
Proceeds from notes payable	-	-	40,000
Repayments of note payable	(7,812)	(39,350)	(200,660)
Cash received from Pohnpei State subsidies	308,000	80,000	691,737
Payment of interest expense	(6,217)	(29,968)	(107,005)
Miscellaneous income	44,469	-	743
Net cash provided by (used in) noncapital financing activities	329,409	(2,863)	447,391
Net increase (decrease) in cash and equivalents	39,395	-	(16,026)
Cash and equivalents at beginning of year	-	-	16,026
Cash and equivalents at end of year	\$ 39,395	\$ -	\$ -
<u>Reconciliation of loss from operations to net cash</u>			
<u>cash (used in) provided by operating activities:</u>			
Loss from operations	\$ (732,348)	\$ (1,187,982)	\$ (2,458,894)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:			
Depreciation	272,685	296,149	342,346
Depreciation - contributed assets	356,661	356,661	1,515,820
Bad debt	-	100,432	249,864
Changes in working capital:			
Decrease (increase) in accounts receivable	61,966	117,176	(413,717)
Decrease in prepaid expenses and other assets	-	-	33,617
(Decrease) increase in accounts payable	(275,886)	363,540	285,810
Decrease (increase) in inventory	30,939	(16,212)	2,798
Net cash (used in) provided by operating activities	\$ (285,983)	\$ 29,764	\$ (442,356)

See accompanying notes to financial statements.

POHNPEI FISHERIES CORPORATION

Notes to Financial Statements
September 30, 2000, 1999 and 1998

(1) Summary of Significant Accounting Policies

Reporting Entity

The Pohnpei Fisheries Corporation (the Corporation) was established in 1992 by Pohnpei State Law 3L-28-93. The purpose of the Corporation is to operate and manage the fish processing plant, boats owned by the plant and the cold storage facility. The Corporation is a component unit of the Pohnpei State Government.

The affairs of the Corporation are managed by a seven-member board, appointed by Pohnpei State Government. Daily operation of the Corporation is delegated to a chief executive officer, who is hired by and serves at the pleasure of the Board.

Fund Structure and Basis of Accounting

The accounts of the Corporation are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises. The purpose of a proprietary fund - component unit is to provide periodic determination of revenues, expenses and net income, with maintenance of capital. Proprietary funds are accounted for on the flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. This is in contrast to "governmental" fund type accounting, which has a measurement focus on the sources and uses of funds, and includes only current assets and current liabilities on the balance sheet.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Corporation uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related liabilities are incurred, regardless of when cash is received or payment is made.

Accounting Standards

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. The Corporation has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Cash and Equivalents

For the purposes of the balance sheets and the statements of cash flows, cash and equivalents are defined as cash in checking accounts and certificates of deposit with initial maturities of ninety days or less.

POHNPEI FISHERIES CORPORATION

Notes to Financial Statements
September 30, 2000, 1999 and 1998

(1) Summary of Significant Accounting Policies, Continued

Management 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.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense is calculated by the straight-line method over the estimated useful life of the assets.

Inventories

Materials and product inventory are substantially carried at the lower of cost (weighted average method) or market.

(2) Receivables

Receivables are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts is estimated using the valuation method. Accounts determined to be uncollectible are charged against the allowance. Uncollectibility of accounts is determined by management based on the financial condition and responsiveness of the debtors to the Corporation's collection efforts.

A summary of accounts receivable-trade at September 30, 2000, 1999 and 1998, is presented below:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Accounts receivable-trade	\$ 341,328	\$ 527,912	\$ 645,088
Allowance for doubtful accounts	(303,098)	(427,716)	(327,284)
Accounts receivable, net	\$ <u>38,230</u>	\$ <u>100,196</u>	\$ <u>317,804</u>

(3) Inventory

A summary of inventory on hand as of September 30, 2000, 1999 and 1998, is presented below:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Raw materials inventory	\$ 19,077	\$ -	\$ -
Finished goods inventory	71,655	-	-
Packaged materials	<u>7,597</u>	<u>129,268</u>	<u>113,056</u>
	\$ <u>98,329</u>	\$ <u>129,268</u>	\$ <u>113,056</u>

POHNPEI FISHERIES CORPORATION

Notes to Financial Statements
September 30, 2000, 1999 and 1998

(4) Property and Equipment

A summary of the Corporation's property and equipment at September 30, 2000, 1999 and 1998, is as follows:

	<u>Estimated Useful Life</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Contributed assets	3 - 15 years	\$ 11,820,052	\$ 11,820,052	\$ 11,820,052
Machinery and equipment	3 - 7 years	1,816,518	1,811,542	1,811,542
Refrigerated containers	3 years	-	53,592	53,592
Buildings	10 years	282,463	282,463	282,463
Vehicles	5 - 10 years	50,400	50,400	50,400
Furniture and fixtures	3 - 5 years	29,362	27,768	27,768
Construction in progress	-	-	122,089	95,190
Other fixed assets	-	<u>115,817</u>	<u>-</u>	<u>-</u>
		14,114,612	14,167,906	14,141,007
Accumulated depreciation		<u>(10,835,344)</u>	<u>(10,263,324)</u>	<u>(9,610,515)</u>
Property and equipment, net		\$ <u>3,279,268</u>	\$ <u>3,904,582</u>	\$ <u>4,530,492</u>

Contributed assets represent the fish processing complex and other assets transferred from Pohnpei State Government during fiscal year 1996.

(5) Notes Payable

A summary of notes payable as of September 30, 2000, 1999 and 1998 is as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
FSM Development Bank loan, uncollateralized, interest at 7%, due in monthly installments, beginning December 10, 1996, of \$8,695, revised to \$3,000 beginning June 10, 1998, including interest thereon.	\$ 55,473	\$ 63,285	\$ 90,657
Notes payable to Pohnpei State Government for amounts borrowed under a medium-term note program, with repayments not to begin until the Corporation has accumulated retained earnings of at least \$2,000,000.	2,450,000	2,450,000	2,450,000
Notes payable to Caroline Fisheries Corporation, interest at 9%, due in 32 monthly installments of \$13,683 for the first four months and \$39,582 monthly thereafter commencing in June 1997.	979,793	979,793	979,793
Notes payable to Luen Thai Fisheries Venture, collateralized by equipment, interest at 9%, due in 12 monthly installments, beginning January, 1998, of \$3,993, including interest thereon.	-	-	11,978

POHNPEI FISHERIES CORPORATION

Notes to Financial Statements
September 30, 2000, 1999 and 1998

(5) Notes Payable, Continued

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Notes payable to FSM National Government, collateralized by mortgage on fishing vessel, without interest, due in equal quarterly installments over ten years, beginning October 8, 1998, of \$1,166.	46,650	46,650	46,650
Notes payable to Pohnpei Economic Development Authority, uncollateralized and without interest, due in equal monthly installments beginning April 30, 1998 of \$20,000.	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
	3,571,916	3,579,728	3,619,078
Less current installments	(1,109,028)	(1,102,499)	(1,121,916)
	<u>\$ 2,462,888</u>	<u>\$ 2,477,229</u>	<u>\$ 2,497,162</u>

As the payments on the notes payable to Caroline Fisheries Corporation, FSM National Government and Pohnpei Economic Development Authority are in default, the entire principal balance has been classified as current.

Future maturities of the above September 30, 2000 notes payable are as follows:

2001	\$ 1,109,028
2002	-
2003	-
2004	-
Thereafter	<u>2,462,888</u>
	<u>\$ 3,571,916</u>

(6) Contributions/Transferred Assets

The Pohnpei Fisheries Corporation utilizes a fish processing plant and other assets that were previously owned by Pohnpei State Government. During fiscal year 1996, title to the plant and other assets with a book value of \$8,338,881 as of September 30, 1996, was transferred to the Corporation. However, real estate underlying the Corporation's facility is owned by Pohnpei State Government.

(7) Accounts Payable

The Pohnpei Fisheries Corporation has recorded payables of \$769,614, \$545,616, \$661,077 and \$277,125, \$667,513 and \$216,002 as of September 30, 2000, 1999 and 1998 due to the Pohnpei State Economic Development Authority and Pohnpei Utilities Corporation, respectively, which are related component units of Pohnpei State Government.

POHNPEI FISHERIES CORPORATION

Notes to Financial Statements
September 30, 2000, 1999 and 1998

(8) Risk Management

The Corporation purchases commercial insurance to cover its potential risks from workmen's compensation liability. The Corporation is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(9) Going Concern

As of September 30, 2000, the Corporation has accumulated a deficit of \$5,091,942. Management will attempt to return to profitability by securing a steady supply of fish and by reducing its cost of operations.

(10) Subsequent Event

In September 2001, the Corporation returned a fishing vessel with a cost of \$46,650 to the FSM National Government in cancellation of a note payable of the same amount.



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

The Board of Directors
Pohnpei Fisheries Corporation:

We have audited the financial statements of the Pohnpei Fisheries Corporation a component unit of Pohnpei State Government, as of and for the years ended September 30, 2000, 1999 and 1998, and have issued our report thereon dated October 12, 2001, in which we qualified our opinion on the 2000 balance sheet due to our inability to examine evidence regarding inventories and disclaimed an opinion on the 1999 and 1998 balance sheets and on the statements of revenues and changes in fund deficit and cash flows for the years ended September 30, 2000, 1999 and 1998 due to our inability to examine evidence regarding inventories, and accounts payable and receivable balances. 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

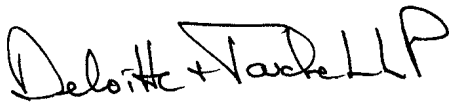
As part of obtaining reasonable assurance about whether Pohnpei Fisheries Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material 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 Pohnpei Fisheries Corporation'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 Pohnpei Fisheries Corporation'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 00-1 to 00-12.

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 00-2, 00-4, 00-5, 00-7, 00-9 and 00-12 to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management of Pohnpei Fisheries Corporation, 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.

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October 12, 2001

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-1 - Payroll

Criteria:

Payroll Change Forms should be properly filed in employee's personnel files to substantiate authorized payroll changes.

Condition:

For two out of seventy-five payroll documents tested, Payroll Change Forms cannot be located to substantiate pay rates.

Cause:

The Company is of the opinion that such forms could have been improperly filed.

Effect:

No financial statement effect results from this condition. However, this condition may cause unauthorized payroll transactions to occur.

Recommendation:

All personnel change forms should be properly filed in respective employee personnel folders.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-2 - Disbursements

Criteria:

All cash disbursements should be supported by a corresponding invoice or equivalent and a purchase order, as applicable. Documents supporting transactions should be filed systematically in an orderly fashion to allow easy retrieval.

Condition:

For three and nine out of twenty-five and twenty-five (12% and 36%) checks tested for the years ended September 30, 1999 and 1998, respectively, neither a carbon copy of the check nor the cancelled check could be located. Furthermore, twelve and fourteen (48% and 56%) disbursements tested for the years ended September 30, 1999 and 1998, respectively, did not have attached invoices or other validating documents.

Cause:

The cause of this condition appears to be absence of an effective document filing system and/or lack of controls of disbursements.

Effect:

No financial statement effect results from this condition.

Recommendation:

We recommend that the Company establish and implement internal control policies and procedures to ensure that all disbursements are substantiated. Furthermore, we recommend that all accounting records be properly filed and organized to facilitate timely retrieval.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-3 - Board Allowance

Criteria:

The payment of Board meeting allowance should be properly supported by minutes of meetings and said allowance should be paid only to those who attended the meeting.

Condition:

PFC is not able to provide records relating to Board meeting attendance for the three years ended September 30, 2000. Director's expenses of \$1,300 were paid during that period.

Cause:

The cause of this condition appears to be the absence of documents to support these expenses.

Effect:

No financial statement effect results from this condition.

Recommendation:

We recommend that PFC require the attendance sheet duly certified by the Chairman and minutes of meetings prior to payment of meeting allowance.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-4 - Official Receipts

Criteria:

Pre-numbered cash receipts should be prepared whenever cash or checks are received.

Condition:

During fiscal year 1998 through May 2000, no cash receipt was issued unless requested by customers.

Cause:

The cause of this condition is unknown.

Effect:

A possible misstatement of the Company's cash and sales could result from this finding.

Recommendation:

We recommend that pre-numbered cash receipts be issued for all cash or checks received.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-5 - Bank Reconciliation

Criteria:

Monthly bank reconciliations should be performed for all cash accounts in a timely manner.

Condition:

Monthly bank reconciliations were not performed for the payroll account for the years ended September 30, 1998 and 1999.

Cause:

The cause of this condition is unknown.

Effect:

A possible misstatement of cash transactions could result from this condition.

Recommendation:

We recommend that monthly bank reconciliations be performed for all cash accounts in a timely manner.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-6 - Employee Allotments

Criteria:

Employee allotment accounts should be periodically reconciled.

Condition:

Employee allotment accounts were not reconciled during fiscal years 1998 through 2000. As of September 30, 1998 and 1999, employee allotment accounts aggregated a debit balance of \$15,300 and \$20,686 respectively. Allotment accounts normally carry credit or zero balances. This condition indicates that either these balances are due from employees or numerous mispostings or other errors are being processed through the account.

Cause:

The cause of this condition is unknown.

Effect:

The employee allotments account may be materially misstated.

Recommendation:

We recommend periodic reconciliation of the employee allotment accounts so that balances reflect actual unpaid employee allotments.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-7 - Physical Inventory Count

Criteria:

An annual physical inventory count should be conducted so that the book balance can be adjusted to actual count, and any shortage and shrinkage can be recorded and evaluated.

Condition:

A physical count was not conducted for the years ended September 30, 2000, 1999 and 1998.

Cause:

The cause of this condition is unknown.

Effect:

Inventory balance may be materially misstated.

Recommendation:

We recommend that a periodic, at least annual, inventory count is performed.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-8 - Fixed Assets

Criteria:

Fixed asset purchases should be capitalized when they are received and put into use. Furthermore, PFC should periodically account for fixed assets recorded in the books to ensure that all assets are in proper working condition, and that misappropriation of assets has not occurred.

Condition:

Several assets purchased during the fiscal years 1997, 1998 and 1999 were still included as Construction in Progress after 1 year or longer. No support was available regarding receipt of the assets.

Cause:

The cause of this condition is unknown.

Effect:

An immaterial understatement of depreciation expense and an immaterial overstatement of fixed assets could result from this condition.

Recommendation:

We recommend that a fixed assets existence verification be conducted periodically. Further, we recommend that the Construction In Progress account only be used for those assets not yet placed into service.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-9 - Accounts Payable

Criteria:

Reconciliation between the accounts payable general ledger and subsidiary ledger should be performed periodically. Any difference should be investigated and appropriate adjustment made.

Condition:

Material differences exist between the accounts payable general ledger and subsidiary ledger balances as of September 30, 1999 and 1998.

Cause:

The cause of this condition is unknown.

Effect:

The propriety of accounts payable is unknown.

Recommendation:

We recommend that a periodic reconciliation between the two balances be performed. Any adjustments made through the general ledger module should also be posted to the subsidiary ledger.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs
Years Ended September 30, 2000, 1999 and 1998

Finding No. 00-10 - Social Security and Withholding Taxes

Criteria:

A quarterly return of social security and income tax withheld from employees should be filed and paid on or before the statutory deadlines.

Condition:

During fiscal years 1998 through the 1st quarter of calendar year 2000, PFC did not make timely deposits of taxes withheld from employee wages. As a result, PFC is burdened with excessive fines/penalty charges as well as interest charges on the unpaid taxes.

Cause:

The cause of this condition appears to be insufficient cash flow.

Effect:

PFC faces additional payment of penalty and interest charges that could have been avoided.

Recommendation:

We recommend that PFC promptly file its quarterly tax returns and make sufficient payments so that penalty and interest charges are minimized.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs Years Ended September 30, 2000, 1999 and 1998

Finding No. 11 - Revenues

Criteria:

Supporting documents such as order forms, service delivery sheets, and other applicable forms should be attached to sales invoices generated by the system and filed systematically to allow easy retrieval.

Condition:

For one and four out of twenty five and twenty five (4% and 16%) sales invoices tested for the years ended September 30, 1999 and 1998, respectively, neither an invoice nor any supporting documents could be located.

Cause:

The cause of this condition is unknown.

Effect:

An immaterial overstatement/understatement of revenue could be the result of this condition.

Recommendation:

We recommend that all invoices be accompanied by supporting documents and be filed systematically.

POHNPEI FISHERIES CORPORATION

Schedule of Findings and Questioned Costs Years Ended September 30, 2000, 1999 and 1998

Finding No. 12 - Disbursement

Criteria:

All cash disbursements should be properly documented to support validity of recorded operating expenses.

Condition:

Twelve and fourteen (48% and 56%) of twenty-five and twenty-five disbursement checks tested for the years ended September 30, 1999 and 1998, respectively, did not have attached invoices or other supporting documents. As a result, we were not able to verify the validity of operating expenses of \$4,319 and \$1,049 (13% of 23%), which amount to \$72,419 and \$138,771 after extrapolation, for the years ended September 30, 1999 and 1998, respectively.

Cause:

The cause of this condition appears to be absence of an effective document filing system and/or lack of controls of disbursements.

Effect:

No financial statement effect results from this condition.

Recommendation:

We recommend that the Company establish and implement internal control policies and procedures to ensure that all disbursements are substantiated. Furthermore, we recommend that all accounting records be properly filed and organized to facilitate timely retrieval.

Pohnpei Fisheries Corporation

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November 20, 2001

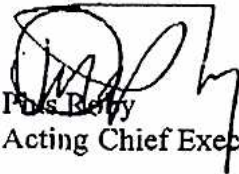
Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96911

Gentlemen:

The management of Pohnpei Fisheries Corporation concurs to your findings and questioned cost form 00-1 to 00-12. However, management have corrected these problems and implemented better internal control and accounting procedures.

Management also wishes to take this opportunity to thank Deloitte and Touche LLP for conducting the audit for fiscal years 1998, 1999, and 2000 and hoping that audit will be conducted continuously in the following fiscal years.

Sincerely,



Pds Betty
Acting Chief Executive Officer



Renedgardo S. Merencillo
Controller