

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2002 AND 2001

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, 2002 and 2001, 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 audits.

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 audits provide a reasonable basis for our opinion.

NFC's intercompany receivables and payables were not reconciled by \$551,613 as of September 30, 2001. 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, 2002 and 2001 financial statements of Chuuk Fresh Tuna, Inc. (CFTI), Kosrae Sea Ventures, Inc. (KSVI), Micronesia Longline Fishing Company (MLFC) and Yap Fresh Tuna, Inc. (YFTI), investees of NFC, have not been audited and the ultimate impact on the accompanying financial statements is unknown.

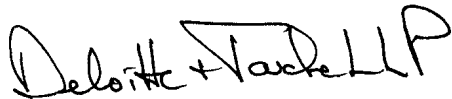
Financial statements supporting NFC's investment in Yap Fishing Corporation at September 30, 2002 and 2001, and Yap Fresh Tuna, Inc. and Micronesia Longline Fishing Company (MLFC) at September 30, 2001, were not available for inspection.

In our opinion, except for the effects of adjustments, if any, had intercompany transactions been reconciled and eliminated, had financial statements to support NFC's investment in Yap Fishing Corporation, Yap Fresh Tuna, Inc. and Micronesia Longline Fishing Company 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, 2002 and 2001, 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. This condition raises substantial doubt about its ability to continue as a going concern.

Our audit of the 2002 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 11 and 13) and the combining and consolidating statements of revenues, expenses and changes in fund deficiency (pages 12 and 14) 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, 2002 and 2001, and in our opinion, except for the effects, if any, of the matters discussed in paragraphs three to five, 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 February 5, 2003, 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.

February 5, 2003

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash	\$ 688,543	\$ 630,374
Accounts receivable, net (note 2)	418,245	536,728
Advances receivable	10,435	6,849
Inventory	949,293	186,533
Due from affiliates (note 3)	230,770	-
Prepays and other assets	<u>119,642</u>	<u>127,151</u>
Total current assets	2,416,928	1,487,635
Property and equipment, net (note 5)	<u>8,680,803</u>	<u>7,405,563</u>
	<u>\$ 11,097,731</u>	<u>\$ 8,893,198</u>
<u>LIABILITIES AND DEFICIT</u>		
Liabilities:		
Current portion of notes payable (note 6)	\$ 2,507,411	\$ 2,567,130
Accounts payable	1,106,144	1,156,496
Interest payable	24,051	24,051
Lease payable	992,228	992,228
Accrued liabilities	<u>296,209</u>	<u>122,013</u>
Total current liabilities	4,926,043	4,861,918
Notes payable, net of current portion (note 6)	<u>10,464,272</u>	<u>5,182,643</u>
Total liabilities	<u>15,390,315</u>	<u>10,044,561</u>
Minority interest in consolidated subsidiaries	<u>494,333</u>	<u>633,645</u>
Deficit (note 11)	<u>(4,786,917)</u>	<u>(1,785,008)</u>
Commitments and contingencies (notes 7, 8, 9 and 10)	<u>\$ 11,097,731</u>	<u>\$ 8,893,198</u>

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Changes in Deficit
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Sales	\$ 7,522,658	\$ 5,403,138
Cost of sales	<u>6,854,081</u>	<u>5,239,418</u>
Gross profit	<u>668,577</u>	<u>163,720</u>
Operating expenses:		
Salaries and wages	1,097,991	534,131
Depreciation and amortization	583,932	582,008
Rent	190,899	145,923
Bad debt	75,360	142,318
Telephone and communication	56,729	44,853
Utilities	49,001	46,354
Contractual services	44,133	8,965
Representation	35,918	21,440
Travel and entertainment	32,978	43,511
Office expense	27,894	22,865
Payroll and other taxes	14,795	17,858
Repairs and maintenance	4,453	21,207
Insurance	-	14,506
Miscellaneous	<u>128,475</u>	<u>77,857</u>
Total operating expenses	<u>2,342,558</u>	<u>1,723,796</u>
Loss from operations	<u>(1,673,981)</u>	<u>(1,560,076)</u>
Other income (expense):		
FSM National Government operating subsidies (note 3)	538,822	418,212
Other external funding (note 8)	-	574,475
Other income, net	62,231	178,780
Recovery of bad debts	186,900	-
Loss on foreign exchange	-	(512)
Interest income	3,190	3,736
Interest expense	(255,806)	(36,430)
Loss on disposal of fixed assets	<u>-</u>	<u>(346,043)</u>
Total other income, net	<u>535,337</u>	<u>792,218</u>
Net loss before minority interest in loss of consolidated subsidiaries	(1,138,644)	(767,858)
Minority interest in loss of consolidated subsidiaries	<u>139,312</u>	<u>154,727</u>
Net loss	(999,332)	(613,131)
Deficit at beginning of year (note 11)	<u>(3,787,585)</u>	<u>(1,171,877)</u>
Deficit at end of year	<u><u>\$ (4,786,917)</u></u>	<u><u>\$ (1,785,008)</u></u>

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows Years Ended September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Loss from operations	\$ (1,673,981)	\$ (1,560,076)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation expense	1,097,991	582,008
Bad debts	-	142,318
Loss on disposal of fixed assets	-	346,043
Other	(139,312)	(154,727)
(Increase) decrease in assets:		
Accounts receivable	214,379	(165,111)
Advances receivable, net	(3,586)	240
Inventory	(351,211)	297,909
Due from affiliates	(230,770)	-
Prepays and other assets	44,996	83,839
Increase (decrease) in liabilities:		
Accounts payable	(289,198)	146,863
Accrued liabilities	82,882	(611,492)
Net cash used in operating activities	(1,247,810)	(892,186)
Cash flows from noncapital financing activities:		
FSM National Government operating subsidies	538,822	418,212
Other external funding	204,733	574,475
Net cash provided by noncapital financing activities	743,555	992,687
Cash flows from capital and related financing activities:		
Additions to long-term debt	636,942	-
Fixed assets acquired/disposed	(111,765)	3,314,619
Repayments of long-term debt	-	(4,229,240)
Recovery of bad debts	186,900	-
Interest expense and others	(255,807)	(36,942)
Net cash provided by (used in) capital and related financing activities	456,270	(951,563)
Cash flows from investing activities:		
Interest income, foreign exchange gain and other income	-	235,885
Net decrease in cash	(47,985)	(615,177)
Cash at beginning of year (note 11)	736,528	1,245,551
Cash at end of year	\$ 688,543	\$ 630,374

See accompanying notes to financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2002 and 2001

(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. and Kosrae Sea Venture, Inc. There are significant intercompany transactions and balances that 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, 2002 and 2001

(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 the estimated useful lives of the assets, ranging from 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.

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 Yap Fishing Corporation is limited primarily to NFC's representation on the 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 a zero balance as such was its carrying value at September 30, 1998. No financial information for the years ended September 30, 2002 and 2001 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.

Cash

For the purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand, in 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, 2002 and 2001, \$300,000 is subject to FDIC coverage.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies, Continued

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 2002 and 2001 are net of an allowance for doubtful accounts of \$672,963 and \$933,470, 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 \$ 538,822 and \$418,212 were received in 2002 and 2001, 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.

As of September 30, 2002, NFC had \$230,770 due from Yap Fresh Tuna, Inc. (YFTI), a related party.

(4) Investment in Unconsolidated Subsidiaries

At September 30, 2002 and 2001, NFC holds a 22% interest in an unconsolidated joint venture, the Yap Fishing Corporation (YFC). Financial statements for YFC for fiscal years 2002 and 2001 are not available. YFC is currently in receivership. 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 years (see note 6).

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2002 and 2001

(5) Property and Equipment, Net

Detail of property and equipment, net as of September 30, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Fish processing plants	\$ 5,765,282	\$ 5,765,282
Machinery and equipment	1,995,965	1,995,965
Fishing vessels - purchased	4,103,181	1,335,605
Fishing vessels - donated	2,351,454	2,351,454
Donated assets for MMFA	464,099	464,099
Fishing equipment - purchased	98,657	98,657
Fishing equipment - donated	-	24,948
Fishing supplies - purchased	125,405	199,296
Office furniture/equipment - purchased	308,808	375,331
Warehouse tools and equipment	15,246	-
Vehicles	<u>63,760</u>	<u>12,745</u>
	15,291,857	12,623,382
Less accumulated depreciation	<u>(6,611,054)</u>	<u>(5,217,819)</u>
	<u>\$ 8,680,803</u>	<u>\$ 7,405,563</u>

(6) Notes Payable

Notes payable of NFC consist of the following at September 30, 2002 and 2001:

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, 2002 and 2001

(6) Notes Payable, Continued

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 OPIC, payable in three and half years with interest of 5.87% commencing January 1999 (see note 4).	<u>-</u>	<u>255,247</u>
Total debt	<u>3,600,000</u>	<u>3,855,247</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, 2002 and 2001, 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>555,267</u>	<u>555,267</u>
Total debt	<u>3,894,526</u>	<u>3,894,526</u>
MLFC note payable	<u>5,477,157</u>	<u>-</u>
Total debt of NFC and subsidiaries	12,971,683	7,749,773
Less current portion	<u>(2,507,411)</u>	<u>(2,567,130)</u>
Long-term debt, net of current portion	\$ <u>10,464,272</u>	\$ <u>5,182,643</u>

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2002 and 2001

(6) Notes Payable, Continued

Future maturities of NFC's notes payables are as follows:

2003	\$ 1,718,384
2004	195,529
2005	195,529
2006	195,529
2007	195,529
Thereafter	<u>1,099,500</u>
	\$ <u>3,600,000</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, therefore, no provision for any related liability is made in the financial statements.

(8) Commitments

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 \$0 and \$574,475 during fiscal years 2002 and 2001, respectively.

(9) Going Concern

For the years ended September 30, 2002 and 2001, 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 AND SUBSIDIARIES

Notes To Consolidated Financial Statements
September 30, 2002 and 2001

(11) Reconciliation of Opening Deficit and Opening Cash

Deficit:

Balance previously reported as of September 30, 2001	\$ (1,785,008)
Inclusion of Micronesia Longline Fishing Company	<u>(2,002,577)</u>
Balance as reported in the accompanying financial statements	\$ <u>(3,787,585)</u>

Cash:

Balance previously reported as of September 30, 2001	\$ 630,374
Inclusion of Micronesia Longline Fishing Company	<u>106,154</u>
Balance as reported in the accompanying financial statements	\$ <u>736,528</u>

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Balance Sheet - NFC
September 30, 2002 and 2001

<u>ASSETS</u>	Corporate	Fishing	Airfreight	Transshipment	Baitfish	Total	
		Operations	Operations	Operations	Services	2002	2001
Current assets:							
Cash	\$ 95,392	\$ 39,872	\$ 249,942	\$ 167,746	\$ 84,998	\$ 637,950	\$ 613,539
Accounts receivable, net	-	23,596	49,553	7,691	139,230	220,070	464,546
Advances receivable, net	2,906	1,906	1,957	-	-	6,769	2,929
Inventory	-	-	-	-	123,718	123,718	186,533
Due from affiliates	156,803	32,205	5,362	30,637	-	225,007	-
Intercompany receivable, net	113,099	(152,967)	360,659	273,876	277,504	872,171	795,041
Prepays and other assets	-	3,583	-	-	13,791	17,374	20,622
Total current assets	368,200	(51,805)	667,473	479,950	639,241	2,103,059	2,083,210
Investments	486,855	-	-	-	-	486,855	626,167
Fixed assets, net	-	1,023,283	-	-	4,783	1,028,066	1,450,929
	<u>\$ 855,055</u>	<u>\$ 971,478</u>	<u>\$ 667,473</u>	<u>\$ 479,950</u>	<u>\$ 644,024</u>	<u>\$ 3,617,980</u>	<u>\$ 4,160,306</u>
 <u>LIABILITIES AND RETAINED EARNINGS (DEFICIT)</u>							
Current liabilities:							
Current portion of notes payable	\$ 898,633	\$ 819,751	\$ -	\$ -	\$ -	\$ 1,718,384	\$ 1,778,103
Accounts payable	169,325	2,903	422,724	209,521	21,688	826,161	943,962
Lease payable	-	-	992,228	-	-	992,228	992,228
Accrued liabilities	-	3,198	81,768	(1,078)	-	83,888	36,564
Total current liabilities	1,067,958	825,852	1,496,720	208,443	21,688	3,620,661	3,750,857
Notes payable, net of current portion	888,427	493,189	500,000	-	-	1,881,616	2,077,144
Total liabilities	1,956,385	1,319,041	1,996,720	208,443	21,688	5,502,277	5,828,001
Retained earnings (deficit)	(1,101,330)	(347,563)	(1,329,247)	271,507	622,336	(1,884,297)	(1,667,695)
	<u>\$ 855,055</u>	<u>\$ 971,478</u>	<u>\$ 667,473</u>	<u>\$ 479,950</u>	<u>\$ 644,024</u>	<u>\$ 3,617,980</u>	<u>\$ 4,160,306</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, 2002 and 2001

	Corporate	Fishing	Airfreight	Transshipment	Baitfish	Total	
		Operations	Operations	Operations	Services	2002	2001
Sales	\$ -	\$ 397,089	\$ 2,843,973	\$ 41,089	\$ 648,829	\$ 3,930,980	\$ 4,899,262
Cost of sales	-	421,494	2,700,445	-	502,253	3,624,192	4,860,078
Gross profit (loss)	-	(24,405)	143,528	41,089	146,576	306,788	39,184
Operating expenses:							
Salaries and wages	102,888	33,730	129,458	35,354	29,768	331,198	402,970
Depreciation and amortization	28,223	391,936	-	-	2,733	422,892	263,802
Bad debt expense	-	-	-	-	-	-	142,318
Rent	54,333	7,200	51,932	-	19,200	132,665	132,203
Telephone and communication	18,408	-	26,871	2,269	452	48,000	43,924
Contractual services	2,553	-	1,900	-	-	4,453	8,965
Travel and entertainment	14,293	4,513	7,527	1,633	1,316	29,282	28,059
Utilities	-	-	9,554	-	27,353	36,907	35,232
Repairs and maintenance	-	25,031	-	-	2,191	27,222	21,014
Payroll and other taxes	9,963	3,775	7,855	2,905	-	24,498	17,858
Office expense	6,285	252	14,264	845	1,371	23,017	22,175
Insurance	-	-	-	-	-	-	14,506
Representation	11,716	-	3,079	-	-	14,795	3,092
Miscellaneous	9,082	2,341	11,621	3,319	817	27,180	67,982
Total operating expenses	257,744	468,778	264,061	46,325	85,201	1,122,109	1,204,100
Operating income (loss)	(257,744)	(493,183)	(120,533)	(5,236)	61,375	(815,321)	(1,164,916)
Other income (expense):							
FSM appropriation	350,000	-	188,822	-	-	538,822	418,212
Other external funding	-	-	-	-	-	-	574,475
Other income (expense), net	30,367	5,313	28	-	-	35,708	202,912
Recovery of bad debts	-	76,891	72,195	6,224	31,590	186,900	-
Loss on foreign exchange	-	-	-	-	-	-	(512)
Interest income	-	-	-	2,689	-	2,689	3,736
Interest expense	(15,352)	-	-	-	-	(15,352)	(36,430)
Loss on investment in subsidiary	(139,312)	-	-	-	-	(139,312)	(154,727)
Loss on disposal of fixed assets	-	-	-	-	-	-	(346,043)
Intercompany income (expense), net	47,105	635,034	(181,668)	(593,185)	81,978	(10,736)	-
Total other income (expense), net	272,808	717,238	79,377	(584,272)	113,568	598,719	661,623
Net income (loss)	15,064	224,055	(41,156)	(589,508)	174,943	(216,602)	(503,293)
Retained earnings (deficit) at beginning of year	(1,116,394)	(571,618)	(1,288,091)	861,015	447,393	(1,667,695)	(1,164,402)
Retained earnings (deficit) at end of year	\$ (1,101,330)	\$ (347,563)	\$ (1,329,247)	\$ 271,507	\$ 622,336	\$ (1,884,297)	\$ (1,667,695)

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Balance Sheet
September 30, 2002

<u>ASSETS</u>	National Fisheries Corporation	Chuuk Fresh Tuna, Inc.	Kosrae Sea Venture, Inc.	Micronesia Longline Fishing Co., Inc.	Combined Balance	Consolidating Entries		Consolidated Balance 2002
						Debit	Credit	
Current assets:								
Cash	\$ 637,950	\$ 4,098	\$ 7,041	\$ 39,454	\$ 688,543	\$ -	\$ -	\$ 688,543
Accounts receivable, net	220,070	51,235	22,316	124,624	418,245	-	-	418,245
Advances receivable, net	6,769	507	3,159	-	10,435	-	-	10,435
Inventory	123,718	-	-	825,575	949,293	-	-	949,293
Due from affiliates	225,007	5,763	-	-	230,770	-	-	230,770
Intercompany receivables, net	872,171	(220,255)	(536,038)	(98,847)	17,031	-	17,031	-
Prepays and other assets	17,374	90,859	3,936	7,473	119,642	-	-	119,642
Total current assets	2,103,059	(67,793)	(499,586)	898,279	2,433,959	-	17,031	2,416,928
Investments	486,855	-	-	-	486,855	139,312	626,167	-
Fixed assets, net	1,028,066	5,271,728	373,666	2,007,343	8,680,803	-	-	8,680,803
	<u>\$ 3,617,980</u>	<u>\$ 5,203,935</u>	<u>\$ (125,920)</u>	<u>\$ 2,905,622</u>	<u>11,601,617</u>	<u>\$ 139,312</u>	<u>\$ 643,198</u>	<u>\$ 11,097,731</u>
<u>LIABILITIES AND RETAINED EARNINGS (DEFICIT)</u>								
Liabilities:								
Current portion of notes payable	\$ 1,718,384	\$ 789,027	\$ -	\$ -	\$ 2,507,411	\$ -	\$ -	\$ 2,507,411
Accounts payable	826,161	188,095	9,540	110,115	1,133,911	27,767	-	1,106,144
Interest payable	-	24,051	-	-	24,051	-	-	24,051
Lease payable	992,228	-	-	-	992,228	-	-	992,228
Accrued liabilities and others	83,888	123,548	963	87,810	296,209	-	-	296,209
Total current liabilities	3,620,661	1,124,721	10,503	197,925	4,953,810	27,767	-	4,926,043
Notes payable, net of current portion	1,881,616	3,105,499	-	5,477,157	10,464,272	-	-	10,464,272
Total liabilities	5,502,277	4,230,220	10,503	5,675,082	15,418,082	27,767	-	15,390,315
Minority interest in subsidiaries	-	-	-	-	-	139,312	633,645	494,333
Retained earnings (deficit)	(1,884,297)	973,715	(136,423)	(2,769,460)	(3,816,465)	1,259,812	289,360	(4,786,917)
	<u>\$ 3,617,980</u>	<u>\$ 5,203,935</u>	<u>\$ (125,920)</u>	<u>\$ 2,905,622</u>	<u>11,601,617</u>	<u>\$ 1,426,891</u>	<u>\$ 923,005</u>	<u>\$ 11,097,731</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, 2002

	National Fisheries Corporation	Chuuk Fresh Tuna, Inc.	Kosrae Sea Venture, Inc.	Micronesia Longline Fishing Co., Inc.	Combined Balance	Consolidating Entries		Consolidated Balance 2002
						Debit	Credit	
Sales	\$ 3,930,980	\$ 108,051	\$ 478,079	\$ 3,005,548	7,522,658	\$ -	\$ -	\$ 7,522,658
Cost of Sales	<u>3,624,192</u>	<u>6,477</u>	<u>425,482</u>	<u>2,797,930</u>	<u>6,854,081</u>	<u>-</u>	<u>-</u>	<u>6,854,081</u>
Gross profit	<u>306,788</u>	<u>101,574</u>	<u>52,597</u>	<u>207,618</u>	<u>668,577</u>	<u>-</u>	<u>-</u>	<u>668,577</u>
Operating Expenses:								
Depreciation and amortization	422,892	256,428	52,812	365,859	1,097,991	-	-	1,097,991
Salaries and wages	331,198	74,487	47,815	130,432	583,932	-	-	583,932
Rent	132,665	13,020	-	45,214	190,899	-	-	190,899
Insurance	-	-	-	75,360	75,360	-	-	75,360
Telephone and communication	48,000	740	-	7,989	56,729	-	-	56,729
Travel and entertainment	36,907	1,401	3,790	6,903	49,001	-	-	49,001
Utilities	29,282	9,353	-	5,498	44,133	-	-	44,133
Payroll and other taxes	24,498	4,469	-	6,951	35,918	-	-	35,918
Repairs and maintenance	27,222	5,756	-	-	32,978	-	-	32,978
Office expense	23,017	246	276	4,355	27,894	-	-	27,894
Representation	14,795	-	-	-	14,795	-	-	14,795
Contractual services	4,453	-	-	-	4,453	-	-	4,453
Bad debts	-	-	-	-	-	-	-	-
Miscellaneous	<u>27,180</u>	<u>14,298</u>	<u>14,755</u>	<u>72,242</u>	<u>128,475</u>	<u>-</u>	<u>-</u>	<u>128,475</u>
Total operating expenses	<u>1,122,109</u>	<u>380,198</u>	<u>119,448</u>	<u>720,803</u>	<u>2,342,558</u>	<u>-</u>	<u>-</u>	<u>2,342,558</u>
Operating loss	<u>(815,321)</u>	<u>(278,624)</u>	<u>(66,851)</u>	<u>(513,185)</u>	<u>(1,673,981)</u>	<u>-</u>	<u>-</u>	<u>(1,673,981)</u>
Other income (expense):								
FSM appropriation	538,822	-	-	-	538,822	-	-	538,822
Other income (expenses), net	35,708	-	40,268	(13,745)	62,231	-	-	62,231
Recovery of bad debts	186,900	-	-	-	186,900	-	-	186,900
Interest income	2,689	-	-	501	3,190	-	-	3,190
Interest expense	(15,352)	-	-	(240,454)	(255,806)	-	-	(255,806)
Loss on investment in subsidiary	(139,312)	-	-	-	(139,312)	-	139,312	-
Intercompany income (expense), net	<u>(10,736)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,736)</u>	<u>-</u>	<u>10,736</u>	<u>-</u>
Total other income (expense), net	<u>598,719</u>	<u>-</u>	<u>40,268</u>	<u>(253,698)</u>	<u>385,289</u>	<u>-</u>	<u>150,048</u>	<u>535,337</u>
Net loss before minority interest in subsidiary loss	<u>(216,602)</u>	<u>(278,624)</u>	<u>(26,583)</u>	<u>(766,883)</u>	<u>(1,288,692)</u>	<u>-</u>	<u>150,048</u>	<u>(1,138,644)</u>
Minority interest in subsidiary loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,312</u>	<u>139,312</u>
Net loss	<u>(216,602)</u>	<u>(278,624)</u>	<u>(26,583)</u>	<u>(766,883)</u>	<u>(1,288,692)</u>	<u>-</u>	<u>289,360</u>	<u>(999,332)</u>
Deficit at beginning of year	<u>(1,667,695)</u>	<u>1,252,339</u>	<u>(109,840)</u>	<u>(2,002,577)</u>	<u>(2,527,773)</u>	<u>1,259,812</u>	<u>-</u>	<u>(3,787,585)</u>
Deficit at end of year	<u>\$ (1,884,297)</u>	<u>\$ 973,715</u>	<u>\$ (136,423)</u>	<u>(2,769,460)</u>	<u>(3,816,465)</u>	<u>\$ 1,259,812</u>	<u>\$ 289,360</u>	<u>\$ (4,786,917)</u>

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, 2002, and have issued our report thereon dated February 5, 2003, 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

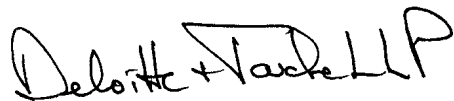
As part of obtaining reasonable assurance about whether NFC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 2002-1 to 2002-6.

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 2002-1 through 2002-4 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 + Stacke LLP". The signature is written in a cursive, stylized font.

February 5, 2003

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2002

Intercompany Transactions

Finding No. 2002-1

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

Condition: NFC's intercompany receivables and payables and intercompany income and expense were not reconciled by \$17,031 and \$ 10,732, respectively as of September 30, 2002. Since the amount did not eliminate in consolidation, it has been included in accounts payable within the balance sheet.

Cause: The cause of this condition is because of the numerous general ledgers kept to account for NFC's activities, inter-fund receivable/payable and income/expense out-of balance conditions continue to occur.

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, 1999, 2000 and 2001.

Recommendation: We recommend that NFC maintain only one general ledger for Corporate, Fishing, Air-freight, Baitfish, Transshipment, and Chartered Boat divisions to mitigate the risk of having inter-company receivable/payable and income/expense out-of-balance conditions.

Auditee Response dated November 27, 2002: The balance of the unreconciled Inter-company Account from 2001 audit was \$551,613.00, after reviewing and adjusting the discrepancies of the said account we recorded a prior period adjustment of \$274,918 in Fiscal year 2002. We were not able to eliminate the whole amount and a balance of \$276,695 was left un-reconciled. The main source of this is the non-reclassification of the Accounts payable on KSVI books. All of the Accounts Receivable of NFC from KSVI were reclassified while the corresponding Accounts Payable on KSVI books were not reclassified since KSVI was not audited.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2002

Investee's Financial Statements

Finding No. 2002-2

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

Condition: The September 30, 2002, financial statements of Chuuk Fresh Tuna, Inc., Kosrae Sea Ventures, Inc. and Micronesia Longline Fishing Company, investees 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, 2002.

Prior Year Status: This condition was reported in the National Fisheries Corporation audits for fiscal years 1997, 1998, 1999, 2000 and 2001.

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

Auditee Response dated November 27, 2002: This has been an audit finding since 1996 and the reason for the non-compliance is the same, most of the companies 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 these companies.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2002

Absence of Investee's Financial Statements

Finding No. 2002-3

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

Condition: Financial statements supporting NFC's investment in Yap Fishing Corporation (YFC) 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, 1999, 2000 and 2001.

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

Auditee Response dated November 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 Statement since 1995.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2002

Equity Investments

Finding No. 2002-4

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

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

Cause: The cause of this condition is unknown.

Effect: Misstatements arising from the condition were corrected through the audit process.

Prior Year Status: This condition was reported in the National Fisheries Corporation audits for fiscal years 1997, 1998, 1999, 2000 and 2001.

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

Auditee Response dated November 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, 2002

Due From Affiliates

Finding No. 2002-5

Criteria: NFC should ensure that intercompany transactions are properly reconciled.

Condition: NFC's due from Yap Fresh Tuna, Inc., an affiliate was not reconciled by \$22,882 as of September 30, 2002.

Cause: The cause of this condition is lack of reconciliation of account.

Effect: The effect of this condition is a potential misstatement of the financial statements. This condition was corrected through our proposed audit adjustment.

Recommendation: We recommend that NFC perform a proper reconciliation of accounts on a regular basis.

Auditee Response dated November 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, 2002

Cash

Finding No. 2002-6

Criteria: Bank account reconciling items should be investigated and cleared in a timely manner.

Condition: The following reconciling items were noted to be old, outstanding checks or stale dated checks on the bank reconciliations.

<u>Bank Name</u>	<u>Account No.</u>	<u>Amount</u>
Bank of Hawaii-Pohnpei	0035-014829	\$ 5,989
Bank of the FSM-Pohnpei	77202-03673	<u>6,607</u>
		\$ <u>12,596</u>

Misstatements arising from this condition were corrected through the proposed audit adjustment.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that the general ledger cash balance may be misstated.

Recommendation: We recommend that stale dated checks be recorded to cash.

Auditee Response dated November 27, 2002:

NFC will strictly keep track of all Inter- company Transactions to minimize the balance if not totally close it out. Require our investees to submit regularly and promptly their Financial Statement to properly record them on our books.