

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT

The Board of Directors
National Fisheries Corporation:

We were engaged to audit the accompanying statement of net assets (deficit) of the National Fisheries Corporation (NFC) and subsidiaries, a component unit of the Federated States of Micronesia National Government, as of September 30, 2004, and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of NFC's management.

Because of inadequacies in the accounting records, detailed records supporting cash, accounts receivable, inventory, investment, fixed assets, inter-company receivables and payables, accounts payable, and non-operating income, were not available for the audit. Therefore, we were not able to perform alternative procedures to satisfy ourselves about the amounts at which cash, account receivable, inventory, investment, fixed assets, inter-company receivables and payables, lease payable, sales and other income are recorded.

Financial statements supporting NFC's investment in Micronesia Longline Fishing Company (MLFC), Yap Fishing Corporation, Yap Fresh Tuna, Inc, Chuuk Fresh Tuna, Inc., and Kosrae Sea Venture Inc. at September 30, 2004, were not available.

Due to the matters set forth in the second and third paragraphs, we are not in a position to, and we do not express an opinion on the accompanying financial statements.

The accompanying financial statements have been prepared assuming that NFC will continue as a going concern. As discussed in note 7 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.

The Management Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of NFC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of NFC taken as a whole. The accompanying Combining and Consolidated Schedules for the year ended September 30, 2004 set forth on pages 16-19 are presented for purposes of additional analysis and are not a required part of the basic financial statements of NFC. These schedules are the responsibility of NFC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, due to the matters set forth in the second and third paragraphs above, we do not express any form of assurance on the accompanying schedules.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2007, on our consideration of NFC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

February 7, 2007

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Management Discussion and Analysis September 30, 2004

This section of the National Fisheries Corporation's (NFC) annual audit report presents the Management's Discussion and Analysis (MD & A) for the fiscal year ended September 30, 2004. MD & A is supplementary information required by the new Government Accounting Standards Board Statement No. 34 (GASB 34) on reporting model. The preparation of MD & A is the responsibility of the management of NFC, and it is designed to help the readers in understanding the accompanying financial statements and the accompanying notes to the financial statements.

Background

The National Fisheries Corporation is a government owned corporation, created under Public Law No. 3-14 by the 3rd Congress of the Federated States of Micronesia. The main purpose of NFC is to promote the development of the fishing industry in the FSM. NFC is also involved in ancillary activities that support commercial fishery activities. It is for this purpose that NFC initially engaged itself with its subsidiaries; Yap Fresh Tuna Inc. (YFTI), Chuuk Fresh Tuna Inc. (CFTI), Kosrae Sea Ventures Inc. (KSVI) and Micronesia Longline Fishing Co. (MLFC). However, due to the drastic decline in the number of vessels utilizing YFTI and CFTI, NFC was forced to venture into the actual operation of longline fishing vessels, trading of fishing supplies and airfreight business.

Micronesia Longline Fishing Co. (MLFC) being NFC's fishing arm is operating nine longline fishing vessels. Fish catch are shipped via airfreight to Japan for auction to the sashimi market. NFC itself is managing and operating its own fishing vessel, however, its major source of income comes from airfreight business, issuing of permits to foreign fishing companies and trading of baitfish and fishing supplies.

Overview of Fiscal Year 2004

The financial statements presented herein include all of the activities of NFC consisting of Corporate operations, Fishing operations, Airfreight operations, Transshipment operations and Baitfish services. Excluded from the statements are that of Micronesia Longline Fishing Co. (MLFC) and all NFC's subsidiaries namely: YFTI, CFTI, and KSVI. The accounts of NFC are organized as a proprietary fund. Proprietary funds are used by governmental units that are operated in a manner similar to private business enterprises.

NFC's budget is prepared by management with the concurrence of the board of directors. The budget is then forwarded to the President's budget committee which in turn submits it to Congress for approval.

Financial Highlights

NFC started implementing the new financial reporting standards in accordance with Government Accounting Standards Board (GASB) principles in fiscal year 2003. Adopting the GASB principles provide the new financial reporting of the following three basic financial statements:

1. Statement of Net Assets (SNA)

SNA presents what NFC owns (assets), owes (liabilities) and the net assets (the difference between total assets and total liabilities) at the end of the fiscal year. The "net assets" is one indicator of the current financial condition of NFC, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.

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Management Discussion and Analysis September 30, 2004

The Statement of Net Assets at September 30, 2004 consists of the Corporate, Fishing, Airfreight, Transshipment and Baitfish Services operations of NFC but does not include the MLFC. In prior fiscal year 2003, the Statement of Net Assets includes the financial data of MLFC. Thus, the significant discrepancies of the comparative statements are due to MLFC's non-presentation of financial data in fiscal year 2004.

Comparative Statement of Net Assets at September 30, 2004 and 2003 are summarized below:

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Difference</u>
Assets:			
Current assets	\$ 1,524,658	\$ 2,223,084	\$ (698,426)
Noncurrent asset	<u>1,107,816</u>	<u>2,738,634</u>	<u>(1,630,818)</u>
Total assets	\$ <u>2,632,474</u>	\$ <u>4,961,718</u>	\$ <u>(2,329,244)</u>
Liabilities:			
Current liabilities	\$ 5,360,285	\$ 11,244,812	\$ (5,884,527)
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>5,360,285</u>	<u>11,244,812</u>	<u>(5,884,527)</u>
Net assets:			
Invested in capital assets, net of related debts	(591,979)	1,525,694	(2,117,673)
Unrestricted	<u>(2,135,832)</u>	<u>(7,808,788)</u>	<u>5,672,956</u>
	<u>(2,727,811)</u>	<u>(6,283,094)</u>	<u>3,555,283</u>
Total liabilities and net assets	\$ <u>2,632,474</u>	\$ <u>4,961,718</u>	\$ <u>(2,329,244)</u>

Assets: Company total assets of \$2.632 million comprised of \$1.524 million or 58% current assets and \$1,108k or 42% fixed assets.

Current assets: The major portion of the \$1.524 million current assets is in account receivable, which accounts for 79% or \$1.205 million. The receivable is comprised of net account receivable, advances receivable, and inter company receivables from subsidiary companies. Cash account is \$220k or 14.5% of current assets and the remaining 6.5 % is inventory with \$99 thousand.

The decline in current assets of \$698k is the net result of non-inclusion of MLFC's inventory and other assets in the amount of \$983k, and the net increase in current assets of \$285k from NFC's operations (primarily from airfreight operations by \$90k, transshipment operations by \$89k and baitfish services by \$52k). In terms of asset type, the net increase of \$285k is from increases in receivables by \$520k and decreases in cash and inventory by \$235k.

Noncurrent assets: The total fixed assets of \$1,108k consist of company property and equipment and investments.

The total noncurrent assets dropped by \$1.631 million, from \$2.739 million in fiscal year 2003 to \$1.108 million in fiscal year 2004. The decline in fixed assets is primarily due to non-inclusion of MLFC's fixed assets in fiscal year 2004 valued at \$1.906 million in prior year.

Liabilities: NFC's liabilities for fiscal year 2004 of \$5.360 million are all current consisting of \$3.596 million loan from the National Government or 67% of the total liabilities. The remaining current

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Management Discussion and Analysis September 30, 2004

Liabilities: NFC's liabilities for fiscal year 2004 of \$5.360 million are all current consisting of \$3.596 million loan from the National Government or 67% of the total liabilities. The remaining current liabilities are from freight lease of \$992k, other accounts payable of \$722k and accrued liabilities of \$49k.

The significant net reduction of current liabilities by \$5.884 million is primarily from non-inclusion of MLFC's current liabilities valued at \$6.089 million in fiscal year 2003, and increase of current liabilities by \$205k from NFC's operations for fiscal year 2004.

Net Assets: The net assets deficit as of September 30, 2004 of \$2.728 million represents only the deficit of NFC's operations. The deficit dropped by \$3.555 million, from \$6.283 million to \$2.728 million due to the non-inclusion of MLFC's deficit of \$3.199 million.

2. Summary Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)

The SRECNA provides information on the financial performance for the current fiscal year in terms of revenues and expenses. It presents the operating revenues and expenses and the corresponding net operating results, as well as non-operating revenues and expenses. Below is the comparative summary of SRECNA for fiscal years ended September 30, 2004 and 2003:

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Difference</u>
Sales	\$ 3,368,967	\$ 8,209,498	\$ (4,840,531)
Cost of sales	<u>2,949,014</u>	<u>7,582,134</u>	<u>(4,633,120)</u>
Gross profit	419,953	627,364	(207,411)
Operating expenses	<u>816,558</u>	<u>1,966,912</u>	<u>(1,150,354)</u>
Loss from operations	(396,605)	(1,339,548)	942,943
Other income (expense)	<u>265,130</u>	<u>197,066</u>	<u>68,064</u>
Decrease in net assets	\$ <u>(131,475)</u>	\$ <u>(1,142,482)</u>	\$ <u>1,011,007</u>

The total sales of \$3.368 million are from NFC five main operational activities consisting of airfreight at \$2.711 million, baitfish at \$567k, fishing at \$45k, transshipment at \$24k and corporate at \$21k. The components of cost of sales of \$2.949 million are fuel, airfreight fees, baitfish and supplies, port and transshipment fees, provisioning, and packing materials.

The sales, cost of sales and operating expenses showed significant reductions due to non-inclusion of MLFC's statement of revenues and expenses for fiscal year 2004.

The consolidated total operating expenses for the year is \$816k. Salaries and wages of \$281k or 34% is the highest expense account. The remaining operating expenses include depreciation and rent for 26% and 15%, respectively, and communication, utilities, repairs and maintenance, office, professional fees, taxes and miscellaneous expenses account for the remaining 25% of total operating expenses.

The other income of \$265k represents the financial support from FSM National Government and others.

3. Summary Statement of Cash Flows (SCF)

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

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Management Discussion and Analysis
September 30, 2004

Below is the summary statement of cash flows:

	<u>FY 2004</u>	<u>FY 2003</u>	<u>Difference</u>
From operating activities	\$ 30,161	\$ (2,175,543)	\$ 2,205,704
Provided by noncapital financing activities	-	231,178	(231,178)
From capital and related financing activities	<u>(301,489)</u>	<u>1,758,128</u>	<u>(2,059,617)</u>
Net decrease in cash and equivalents	(271,328)	(186,237)	(85,091)
Cash and equivalents at beginning of year	<u>491,917</u>	<u>677,404</u>	<u>(185,487)</u>
Cash and equivalents at end of year	\$ <u>220,589</u>	\$ <u>491,167</u>	\$ <u>(270,578)</u>

NFC's SCF for fiscal year 2004 indicates a balance in cash and equivalents of \$221k. The fiscal year 2004 cash balance is lower by \$270k or 55% compared with fiscal year 2003 of \$491k.

Economic Outlook

The Company has incurred substantial losses from its regular operations including investments with Micronesia Longline Fishing Company (MLFC), Kosrae Sea Ventures, Inc. (KSVI), Chuuk Fresh Tuna Inc. (CFTI) and Yap Fresh Tuna Inc. (YFTI). The accumulated losses of NFC from its investments have severely affected NFC's regular operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Currently, the company is dependent on the FSM National Government for its operating budgets. Financial assistance from FSM National Government is needed to rehabilitate and to continue the operations of NFC.

Discussion of 2003

Due to differences in information available to be included in the 2003 NFC financial statements, 2003 data is not comparable with the 2004 data. To read the 2003 Management Discussion and Analysis, please see the 2003 NFC audit report on the FSM Public Auditors website at www.fsmpublicauditor.fm

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Net Assets (Deficit) September 30, 2004

ASSETS

Current assets:	
Cash	\$ 220,598
Accounts receivable, net	742,339
Advances receivable	10,070
Inventory	98,944
Due from affiliates, net	<u>452,707</u>
Total current assets	1,524,658
Investment	486,855
Property and equipment, net	<u>620,961</u>
	<u>\$ 2,632,474</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities:	
Notes payable	\$ 3,596,149
Accounts payable	722,276
Lease payable	992,228
Accrued liabilities	<u>49,632</u>
Total liabilities	<u>5,360,285</u>
Commitments and contingencies	
Net assets (deficit):	
Invested in capital assets, net of related debt	(591,979)
Unrestricted	<u>(2,135,832)</u>
Total net assets (deficit)	<u>(2,727,811)</u>
	<u>\$ 2,632,474</u>

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Revenues, Expenses and Changes in Net Assets (Deficit) Year Ended September 30, 2004

Sales	\$ 3,368,967
Cost of sales	<u>2,949,014</u>
Gross profit	<u>419,953</u>
Operating expenses:	
Salaries and wages	281,834
Depreciation and amortization	211,974
Rent	122,482
Utilities	34,409
Telephone and communication	27,754
Office expense	26,386
Payroll and other taxes	24,919
Travel and entertainment	18,805
Representation	7,366
Contractual services	6,556
Repairs and maintenance	5,944
Miscellaneous	<u>48,129</u>
Total operating expenses	<u>816,558</u>
Loss from operations	<u>(396,605)</u>
Other income (expense):	
Other income, net	<u>265,130</u>
Total other income, net	<u>265,130</u>
Decrease in net assets	(131,475)
Total net deficit at beginning of year	<u>(2,596,336)</u>
Total net deficit at end of year	<u>\$ (2,727,811)</u>

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidated Statement of Cash Flows Year Ended September 30, 2004

Cash flows from operating activities:	
Cash received from customers	\$ 2,965,880
Cash paid to suppliers and employees	<u>(2,935,719)</u>
Net cash used in operating activities	<u>30,161</u>
Cash flows from capital and related financing activities:	
Differences that arise in debt due to the non-inclusion of certain investees' financial statements	(2,471,559)
Differences that arise in fixed assets due to the non-inclusion of certain investees' financial statements	1,905,699
Cargo subsidy and others	<u>265,130</u>
Net cash used in capital and related financing activities	<u>(300,730)</u>
Net decrease in cash	(270,569)
Cash at beginning of year	<u>491,167</u>
Cash at end of year	<u>\$ 220,598</u>
Reconciliation of loss from operations to cash flows from operating activities:	
Loss from operations	\$ (396,605)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation and amortization	211,974
(Increase) decrease in assets:	
Accounts receivable	(346,961)
Advances receivable, net	33,254
Inventory	790,119
Due from affiliates	(100,462)
Prepays and other assets	51,907
Increase (decrease) in liabilities:	
Accounts payable	(188,013)
Accrued liabilities	<u>(25,052)</u>
Net cash used in operating activities	<u>\$ 30,161</u>

See accompanying notes to consolidated financial statements.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2004

(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 fishery 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.

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.

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. A singular piece of equipment, vehicles, office equipment, etc. that equals or exceeds \$5,000 is capitalized, except for those assets of the investees, where no set threshold for capitalization of fixed assets has been established.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2004

(1) Summary of Significant Accounting Policies, Continued

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 has previously been directly involved in the management of certain joint ventures through management and marketing agreements entered into with the respective parties. The investment in Kosrae Sea Venture Inc., Chuuk Fresh Tuna Inc.(CFTI), Micronesia Longline Fishing Company (MLFC), and Yap Fishing Corporation are accounted for using the equity method and, accordingly, the carrying values of these investments, with the exception of CFTI, have been reduced to \$0. In 2004, financial statements for these joint ventures were not available and, therefore the financial position and results of operations of these joint ventures has not been consolidated with NFC's financial statements.

The investment in Chuuk Fresh Tuna, Inc. is carried at \$486,556, which is the same balance as at September 30, 2003. No financial information has been received from this investee and NFC has therefore been unable to determine the carrying value of this investment.

Cash

As of September 30, 2004, the carrying amount of NFC's total cash and cash equivalents was \$220,259, and the corresponding bank balance was \$437,364. These bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC). As of September 30, 2004, bank deposits in the amount of \$137,264 were FDIC insured. The Corporation does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

Net Assets

For the year ended September 30, 2003, NFC adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement No. 37 and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following four net asset categories:

- Invested in capital assets, net of related debt:
Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that require NFC to maintain them permanently. For the year ended September 30, 2004, NFC does not have nonexpendable net assets.
 - Expendable – Net assets whose use by NFC is subject to externally imposed stipulations that can be fulfilled by actions of NFC pursuant to those stipulations or that expire by the passage of time.
- Unrestricted:
Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

New Accounting Principle

For fiscal year 2005, NFC will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. NFC has not evaluated the financial statement impact of the implementation of GASB Statement Nos. 40 and 42.

(2) Accounts Receivable

Accounts receivable in 2004 are net of an allowance for doubtful accounts as follows:

	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade	\$ 1,414,403	\$ 672,064	\$ 742,339
Due from affiliates	<u>894,127</u>	<u>441,420</u>	<u>452,707</u>
	<u>\$ 2,308,530</u>	<u>\$ 1,113,484</u>	<u>\$ 1,195,046</u>

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
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(3) Related Party Transactions

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

- 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 5.

(4) Property and Equipment, Net

Detail of property and equipment, net as of September 30, 2004 is as follows:

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of Year</u>
Machinery and equipment	\$ 28,424	\$ -	\$ -	\$ 28,424
Fishing vessels – purchased	3,379,971	-	(2,836,548)	543,423
Fishing vessels – donated	2,351,454	-	-	2,351,454
Fishing equipment – purchased	89,055	-	-	89,055
Fishing equipment – donated	464,099	-	-	464,099
Office furniture and equipment	248,809	-	(40,338)	208,471
Warehouse tools and equipment	17,567	-	(17,567)	-
Vehicles	<u>65,566</u>	<u>-</u>	<u>(52,821)</u>	<u>12,745</u>
	6,644,945	-	(2,947,274)	3,697,671
Less accumulated depreciation	<u>(3,906,311)</u>	<u>(211,974)</u>	<u>1,041,575</u>	<u>(3,076,710)</u>
	<u>\$ 2,738,634</u>	<u>\$ (211,974)</u>	<u>\$ (1,905,699)</u>	<u>\$ 620,961</u>

The majority of the above deletions results from the non-inclusion of MLFC, as the balance at the beginning of the year includes balances from that investee.

(5) Notes Payable

	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of Year</u>
National Fisheries Corporation	\$ 3,600,000	\$ -	\$ 3,851	\$ 3,596,149
Micronesia Longline Fishing Co.	4,596,907	-	4,596,907	-
Chuuk Fresh Tuna	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,196,907</u>	<u>\$ -</u>	<u>\$ 4,600,758</u>	<u>\$ 3,596,149</u>

In prior years, fixed assets and notes payable of MLFC were included in the above footnote on fixed assets and notes payable. The 2004 financial statements for MLFC were not available and, therefore fixed assets and notes payable as of September 30, 2004 were reduced to reflect the absence of MLFC's financial position and results of operations.

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Notes to Consolidated Financial Statements
September 30, 2004

(5) Notes Payable, Continued

Notes payable of NFC consist of the following at September 30, 2004:

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
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
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
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
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
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
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 November 2013.	100,000
Loan payable to the FSM National Government with no terms.	500,000
Unreconciled difference	<u>(3,851)</u>
Total debt of NFC	3,596,149
Less current portion	<u>(3,596,149)</u>
Long-term debt, net of current portion	\$ <u> -</u>

The Company is in default on its debt issues and therefore all related debt has been classified as current.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2004

(6) 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.

(7) Going Concern

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.

(8) 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.

(9) Reconciliation of Opening Deficit and Opening Cash

Deficit:

Balance previously reported as of September 30, 2003	\$ (6,283,094)
Non-inclusion of MLFC	(3,686,758)
Balance as reported in the accompanying financial statements	\$ <u>(2,596,336)</u>

Cash:

Balance previously reported as of September 30, 2003	\$ 491,167
Non-inclusion of MLFC	<u>(87,043)</u>
Balance as reported in the accompanying financial statements	\$ <u>404,124</u>

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Statements of Net Assets (Deficit) - NFC
September 30, 2004

<u>ASSETS</u>	<u>Corporate</u>	<u>Fishing Operations</u>	<u>Airfreight Operations</u>	<u>Transshipment Operations</u>	<u>Baitfish Services</u>	<u>Total</u>
Current assets:						
Cash	\$ 9,169	\$ 1,122	\$ 133,172	\$ 54,469	\$ 22,666	\$ 220,598
Accounts receivable, net	538	25,409	128,959	246,052	341,381	742,339
Advances receivable, net	4,308	160	5,479	123	-	10,070
Inventory	-	-	-	-	98,944	98,944
Due from affiliates	2,000	69	165,253	136,459	148,926	452,707
Intercompany accounts, net	-	<u>(228,451)</u>	<u>152,527</u>	<u>(58,861)</u>	<u>89,380</u>	<u>(45,405)</u>
Total current assets	16,015	(201,691)	585,390	378,242	701,297	1,479,253
Investment	486,855	-	-	-	-	486,855
Fixed assets, net	-	<u>616,736</u>	-	-	<u>4,225</u>	<u>620,961</u>
	<u>\$ 502,870</u>	<u>\$ 415,045</u>	<u>\$ 585,390</u>	<u>\$ 378,242</u>	<u>\$ 705,522</u>	<u>\$ 2,587,069</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIT)</u>						
Current liabilities:						
Current portion of notes payable	\$ 1,783,210	\$ 1,312,939	\$ 500,000	\$ -	\$ -	\$ 3,596,149
Accounts payable	30,604	12,752	384,325	234,635	59,960	722,276
Lease payable	-	-	992,228	-	-	992,228
Accrued liabilities	<u>2,732</u>	<u>2,396</u>	<u>1,137</u>	<u>(2,038)</u>	<u>-</u>	<u>4,227</u>
Total liabilities	<u>1,816,546</u>	<u>1,328,087</u>	<u>1,877,690</u>	<u>232,597</u>	<u>59,960</u>	<u>5,314,880</u>
Net assets (deficit):						
Unrestricted	<u>(1,313,676)</u>	<u>(913,042)</u>	<u>(1,292,300)</u>	<u>145,645</u>	<u>645,562</u>	<u>(2,727,811)</u>
Total net assets (deficit)	<u>(1,313,676)</u>	<u>(913,042)</u>	<u>(1,292,300)</u>	<u>145,645</u>	<u>645,562</u>	<u>(2,727,811)</u>
	<u>\$ 502,870</u>	<u>\$ 415,045</u>	<u>\$ 585,390</u>	<u>\$ 378,242</u>	<u>\$ 705,522</u>	<u>\$ 2,587,069</u>

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION (NFC) AND SUBSIDIARIES

Combining Statement of Revenues, Expenses and Changes in Net Assets (Deficit) - NFC
Year Ended September 30, 2004

	Corporate	Fishing Operations	Airfreight Operations	Transshipment Operations	Baitfish Services	Total
Sales	\$ 21,031	\$ 45,201	\$ 2,711,586	\$ 24,122	\$ 567,027	\$ 3,368,967
Cost of sales	-	44,639	2,515,599	-	388,776	2,949,014
Gross profit (loss)	21,031	562	195,987	24,122	178,251	419,953
Operating expenses:						
Depreciation and amortization	-	211,974	-	-	-	211,974
Salaries and wages	74,445	32,557	122,474	52,358	-	281,834
Rent	58,743	7,200	38,535	-	18,004	122,482
Telephone and communication	12,271	-	15,333	150	-	27,754
Travel and entertainment	5,187	2,669	7,735	3,214	-	18,805
Utilities	-	-	2,603	-	31,806	34,409
Payroll and other taxes	5,086	3,636	13,088	3,109	-	24,919
Repairs and maintenance	-	5,944	-	-	-	5,944
Office expense	2,851	404	19,779	1,914	1,438	26,386
Representation	6,342	-	1,024	-	-	7,366
Contractual services	-	-	6,556	-	-	6,556
Miscellaneous	1,672	3,570	23,033	19,500	354	48,129
Total operating expenses	166,597	267,954	250,160	80,245	51,602	816,558
Operating income (loss)	(145,566)	(267,392)	(54,173)	(56,123)	126,649	(396,605)
Other income (expense):						
Other income (expense), net	127,609	53,000	179,696	(15,700)	(79,475)	265,130
Total other income (expense), net	127,609	53,000	179,696	(15,700)	(79,475)	265,130
Decrease in net assets	(17,957)	(214,392)	125,523	(71,823)	47,174	(131,475)
Total net assets (deficit) at beginning of year	(1,295,719)	(698,650)	(1,417,823)	217,468	598,388	(2,596,336)
Total net assets (deficit) at end of year	\$ (1,313,676)	\$ (913,042)	\$ (1,292,300)	\$ 145,645	\$ 645,562	\$ (2,727,811)

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Statement of Net Assets (Deficit)
September 30, 2004

ASSETS	National	Micronesia	Combined	Consolidating		Consolidated
	Fisheries	Longline Fishing		Entries		
	Corporation	Co., Inc.	Balance	Debit	Credit	Balance
Current assets:						
Cash	\$ 220,598	\$ -	\$ 220,598	\$ -	\$ -	\$ 220,598
Accounts receivable, net	742,339	-	742,339	-	-	742,339
Advances receivable, net	10,070	-	10,070	-	-	10,070
Inventory	98,944	-	98,944	-	-	98,944
Due from affiliates	452,707	-	452,707	-	-	452,707
Intercompany receivables, net	(45,405)	-	(45,405)	45,405	-	-
Total current assets	1,479,253	-	1,479,253	45,405	-	1,524,658
Investments	486,855	-	486,855	-	-	486,855
Fixed assets, net	620,961	-	620,961	-	-	620,961
	<u>\$ 2,587,069</u>	<u>\$ -</u>	<u>\$ 2,587,069</u>	<u>\$ 45,405</u>	<u>\$ -</u>	<u>\$ 2,632,474</u>
LIABILITIES AND NET ASSETS (DEFICIT)						
Liabilities:						
Current portion of notes payable	\$ 3,596,149	\$ -	\$ 3,596,149	\$ -	\$ -	\$ 3,596,149
Accounts payable	722,276	-	722,276	-	-	722,276
Lease payable	992,228	-	992,228	-	-	992,228
Accrued liabilities and others	4,227	-	4,227	-	45,405	49,632
Total current liabilities	5,314,880	-	5,314,880	-	45,405	5,360,285
Net assets (deficit):						
Invested in fixed assets	-	-	-	-	-	-
Unrestricted	(2,727,811)	-	(2,727,811)	-	-	(2,727,811)
Total net assets (deficit)	(2,727,811)	-	(2,727,811)	-	-	(2,727,811)
	<u>\$ 2,587,069</u>	<u>\$ -</u>	<u>\$ 2,587,069</u>	<u>\$ -</u>	<u>\$ 45,405</u>	<u>\$ 2,632,474</u>

See accompanying independent auditors' report.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended September 30, 2003

	National Fishes Corporation	Micronesia Longline Fishing Co., Inc.	Combined Balance	Consolidating Entries		Consolidated Balance
				Debit	Credit	
Sales	\$ 3,368,967	\$ -	\$ 3,368,967	\$ -	\$ -	\$ 3,368,967
Cost of Sales	2,949,014	-	2,949,014	-	-	2,949,014
Gross profit	419,953	-	419,953	-	-	419,953
Operating Expenses:						
Depreciation and amortization	211,974	-	211,974	-	-	211,974
Salaries and wages	281,834	-	281,834	-	-	281,834
Rent	122,482	-	122,482	-	-	122,482
Telephone and communication	27,754	-	27,754	-	-	27,754
Travel and entertainment	18,805	-	18,805	-	-	18,805
Utilities	34,409	-	34,409	-	-	34,409
Payroll and other taxes	24,919	-	24,919	-	-	24,919
Repairs and maintenance	5,944	-	5,944	-	-	5,944
Office expense	26,386	-	26,386	-	-	26,386
Representation	7,366	-	7,366	-	-	7,366
Contractual services	6,556	-	6,556	-	-	6,556
Miscellaneous	48,129	-	48,129	-	-	48,129
Total operating expenses	816,558	-	816,558	-	-	816,558
Operating loss	(396,605)	-	(396,605)	-	-	(396,605)
Other income (expense):						
Other income (expenses), net	265,130	-	265,130	-	-	265,130
Total other income (expense), net	265,130	-	265,130	-	-	265,130
Increase (decrease) in net assets	(131,475)	-	(131,475)	-	-	(131,475)
Total net assets (deficit) at beginning of year	(2,596,336)	-	(2,596,336)	-	-	(2,596,336)
Total net assets (deficit) at end of year	\$ (2,727,811)	\$ -	\$ (2,727,811)	\$ -	\$ -	\$ (2,727,811)

See accompanying independent auditors' report.

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

The Board of Directors
National Fisheries Corporation:

We were engaged to audit the financial statements of the National Fisheries Corporation (NFC), as of and for the year ended September 30, 2004, and have issued our report thereon dated February 7, 2007, which stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to: inadequacies in the accounting records, detailed records regarding cash, accounts receivable, inventory, investment, fixed assets, inter-company receivable and payable, lease payable, sales and non-operating income related supporting data were not available for the audit.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the 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 as items 2004-1 through 2004-23.

A material weakness is a reportable 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 caused by error or fraud 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 2004-1 through 2004-3, 2004-5, 2004-7, 2004-10, 2004-13, and 2004-17 through 2004-20 to be material weaknesses.

Compliance and Other Matters

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*.

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.

Deloitte + Touche LLP

February 7, 2007

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Absence of Investee's Financial Statements

Finding No. 2004-1

Criteria: NFC should ensure that its equity investments are properly valued. Adequate documentation, i.e. investee's audited financial statements, should be available to support amounts reported in the financial statements.

Condition: Financial statements supporting NFC's investments are not available for inspection.

Cause: The cause of this condition is that financial statements from investees have not been provided.

Effect: The effect of this condition is the potential misstatement of the financial statements at September 30, 2004.

Prior Year Status: This condition has been reported in prior year audits.

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

Auditee Response: Chuuk Fresh Tuna Inc. was already phasing out its transshipment operation due to lack of funding. Staffing along with accounting functions remain in void and no audit conducted for the year. We concur with the finding and agree to the recommendation. An independent audit will be conducted for all NFC subsidiary companies as soon as funding is available.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsubstantiated Income

Finding No. 2004-2

Criteria: Adequate documentation, including subsidiary records, should be available to support amounts and items reported in the financial statements.

Condition: Subsidiary records supporting \$170,018 of other income are not available for inspection.

<u>Acct #</u>	<u>Description</u>	<u>Per book</u>
9120	Other Income	12,932
9920	Intercompany Inc./Exp.	53,000
3900	Miscellaneous Income	14,862
9090	Miscellaneous Income	2,700
9090	Miscellaneous Income	86,524

Documentation supporting \$152,368 of cargo subsidy (revenue account #9140) are not available for inspection.

Cause: The root cause of the condition is that subsidiary records are not adequately maintained.

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

Prior Year Status: This condition was reported in the National Fisheries Corporation audit for fiscal year 2003.

Recommendation: We recommend that NFC ensure maintenance of all subsidiary ledgers to support amounts reported in the financial statements.

Auditee Response: NFC accounting records has been a problem with no available key accounting staff from previous management to help our new accounting staff locate and get records organized. We agree with the recommendation and already setup all subsidiary ledgers and have organized our filing system and new computer accounting program for current fiscal year.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsubstantiated Income

Finding No. 2004-3

Criteria: Adequate documentation, including subsidiary records/ledgers, should be available to support amounts and items reported in the financial statements.

Condition: Subsidiary records/ledgers, i.e. accounts receivable consolidated G/L transfers control report, supporting \$95,269 of operating revenues, were not available for inspection.

<u>Division</u>	<u>Account #</u>	<u>Description</u>	<u>Transaction date per detail TB</u>	<u>Amount</u>
Baitfish Supplies & Services	3500	Fish grading	2/29/2004	\$ 1,750
Baitfish Supplies & Services	3851	Sales - Baitfish/PNI	2/29/2004	15,714
Baitfish Supplies & Services	3861	Sales - C/Boxes-PNI	2/29/2004	17,415
Baitfish Supplies & Services	3861	Sales - C/Boxes-PNI	4/30/2004	14,228
Baitfish Supplies & Services	3871	Sales - Gel Ice - PNI	2/29/2004	3,162
Baitfish Supplies & Services	3871	Sales - Gel Ice - PNI	4/30/2004	2,558
Airfreight Operations	3101	PNI Tuna Flt. Charges	8/31/2004	<u>40,442</u>
			Total	\$ <u>95,269</u>

Cause: The root cause of the weakness is that subsidiary ledgers are not adequately maintained.

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

Recommendation: We recommend that NFC ensure maintenance of all subsidiary ledgers to support amounts reported in the financial statements.

Auditee Response: Again, we concur with the finding and will continue to locate missing records and files. The NFC office has moved its office and changed/replaced almost all former staffs and did not get 2004 records organized in timely manner. The delayed audit for FY2004 and changed in management both caused some of these problems.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Depreciation Expense

Finding No. 2004-4

Criteria: Depreciation expense should be accurately calculated and recorded.

Condition: For 3 of 4 samples tested, depreciation expense was incorrectly calculated.

<u>Asset Description</u>	<u>Per DTT</u>	<u>Per NFC</u>	<u>Variance</u>
NFC Kosrae	\$ 36,227.85	\$ 32,605	\$ 3,622.85
NFC Chuuk	\$ 49,920.60	\$ 44,921	\$ 4,999.60
NFC Pohnpei	\$ 49,920.60	\$ 44,921	\$ 4,999.60

Cause: The root cause of the weakness is an incorrect calculation of depreciation expense.

Effect: The effect of this condition is a misstatement of depreciation expense of \$13,622.

Prior Year Status: This condition was reported in the National Fisheries Corporation audit for fiscal year 2003.

Recommendation: We recommend that NFC ensure that accurate calculations of depreciation expense are performed.

Auditee Response: As stated in the auditee response in fiscal year 2003, the fixed assets module of NFC's Peachtree Accounting System has been corrupted and could not secure support from supplier because the version is outdated. However, we will find the correct record on each of the vessel and correct the calculations of depreciation of the vessels and all other major equipments.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Intercompany Transactions

Finding No. 2004-5

Criteria: Intercompany transactions should be properly reconciled and eliminated from the consolidated financial statements.

Condition: Intercompany receivables and payables net to an out-of-balance condition of \$45,405 and inadequate documentation exists to support the manner in which this amount should be corrected.

Cause: The cause of this condition is that intercompany receivables/payables are not reconciled.

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, 2001, 2002, and 2003.

Recommendation: We recommend that NFC perform regular reconciliations of intercompany receivables/payables.

Auditee Response: We note this finding has been occurring for past several years and we will find the main source of the problem and take appropriate measures. This again is part of the main purpose of our current attempt to consolidate NFC accounts and make all adjustments for both the inter company receivables and payables.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Receivables

Finding No. 2004-6

Criteria: Adequate documentation, including subsidiary ledgers, should be available to support amounts and items reported in the financial statements.

Condition: A subsidiary ledger supporting \$10,070 of recorded advances was not available for inspection.

<u>Division</u>	<u>Acct #</u>	<u>Description</u>	<u>Per book</u>
Airfreight	1230	Advances - Empl.	\$ 5,479
Fishing	1230	Advance-Employee	\$ 160
Corporate	1225	Advances Rec. – Travel	\$ 919
Corporate	1230	Advance Rec. – Employee	\$ 3,389
Transshipment	1230	Advances Employee	\$ 123

Cause: The cause of this condition is that a subsidiary ledger was not maintained.

Effect: As a result of this condition, advances of \$10,070 are deemed uncollectible due to the absence of a subsidiary ledger.

Recommendation: We recommend that NFC ensure proper maintenance of all subsidiary ledgers to support amounts reported in the financial statements.

Auditee Response: We do concur with the finding and already put in place needed subsidiary ledgers to account and record all advances and other receivables for fiscal year 2006. This may be the result of missing or misplaced records or policy weakness from the management. The missing or misplaced records are partly caused by the changed of accounting staffs and management and delayed audit for FY2004.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Receivables

Finding No. 2004-7

Criteria: Amounts reported in the financial statements should agree with subsidiary records.

Condition: The total of trade receivables and due from affiliates per the general ledger does not agree with the provided aging schedule.

<u>Division</u>	<u>Per books</u>	<u>Per aging</u>	<u>Difference</u>
Airfreight operations	\$ 914,217	\$ 864,417	\$ 49,800
Baitfish	715,093	784,254	(69,161)
Commercial fishing	63,938	4,924	59,014
Corporate	2,538	-	2,538
Transshipment	612,669	88,777	523,892

Cause: The root cause of the weakness is that subsidiary records, i.e. aging schedules, are not reconciled with the general ledger.

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

Recommendation: We recommend that NFC ensure that subsidiary records reconcile with the general ledger and that the reconciliation occurs periodically throughout the year.

Auditee Response: We agree with the recommendation and in the process of analyzing and undertaking regular reconciliations of general ledger with subsidiary ledgers and schedules starting fiscal year 2006.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Fixed Assets

Finding No. 2004-8

Criteria: Amounts reported in the financial statements should agree with subsidiary records.

Condition: Accumulated depreciation per the general ledger does not agree with the underlying fixed asset schedules.

<u>Description</u>	<u>Per book</u>	<u>Per schedule</u>	<u>Variance</u>
Accum. depr. – Fishing vessel - Donated	\$ (1,799,139)	\$ (1,935,135)	\$ 135,996
Accum. depr. - Fishing vessel	\$ (479,002)	\$ (528,142)	\$ 49,140

Cause: The cause of this condition is that subsidiary records are not reconciled with the general ledger.

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

Recommendation: We recommend that NFC periodically ensure that subsidiary records reconcile with the general ledger.

Auditee Response: As stated in finding 2004-4, the fixed assets module of NFC's Peachtree Accounting System has been corrupted and could not secure support from supplier because the version is outdated. However, we will find the correct record on each of the vessel and correct/update the calculations of depreciation and the corresponding accumulated depreciation of vessels and all other major fixed assets.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Fixed Assets

Finding No. 2004-9

Criteria: Adequate documentation, including subsidiary records, should be available to support amounts and items reported in the financial statements.

Condition: Subsidiary records supporting \$ 4,225 of net fixed assets were not available for inspection.

<u>Account</u>	<u>Description</u>	<u>Per book</u>
1705	Office Fur. & Eqmnt.	\$ 1,595
1707	Machineries & Eqmnt.	13,749
1760	Accum. Depreciation	(11,119)
	Fixed asset, net	\$ <u>4,225</u>

Cause: The root cause of the condition is that subsidiary records are not maintained.

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

Recommendation: We recommend that NFC ensure that subsidiary records are maintained.

Auditee Response: We agree with the finding and NFC is in the process of establishing corrected/updated records of fixed assets.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Liabilities

Finding No. 2004-10

Criteria: Amounts reported in the financial statements should agree with subsidiary records.

Condition: Based on the following analysis, payables per the general ledger do not agree with applicable aging schedules.

<u>Division</u>	<u>Per book</u>	<u>Per aging</u>	<u>Difference</u>
Airfreight operations	\$ (384,325)	\$ (353,669)	\$ (30,656)
Baitfish	\$ (59,960)	\$ (58,437)	\$ (1,523)
Comm fishing	\$ (12,752)	\$ (257,896)	\$ 245,144
Corporate office	\$ (30,604)	\$ (23,658)	\$ (6,946)
Transshipment	\$ (234,635)	\$ (186,922)	\$ (47,713)

Cause: The root cause of the weakness is that subsidiary records, i.e. aging schedules, are not periodically reconciled with the general ledger.

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

Recommendation: We recommend that NFC periodically ensure that subsidiary records reconcile with the general ledger.

Auditee Response: We agree with the recommendation and in the process of analyzing and undertaking regular reconciliations of general ledger with subsidiary ledgers and schedules starting fiscal year 2006.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Liabilities

Finding No. 2004-11

Criteria: Adequate documentation, including subsidiary ledgers, should be available to support amounts and items reported in the financial statements.

Condition: A debit balance of \$3,850 is reported in the notes payable general ledger account. Subsidiary records to support this amount were not available for inspection.

<u>Acct #</u>	<u>Description</u>	<u>Per book</u>
2550	FSM Development Bank #1	\$3,850

Cause: The root cause of the weakness is that subsidiary ledgers are not maintained.

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

Recommendation: We recommend that NFC ensure maintenance of all subsidiary ledgers to support amounts reported in the financial statements.

Auditee Response: We agree to the finding and recommendation and will continue to try and locate the missing record to reflect the correct and accurate information in the subsidiary ledger relating to the FSMDB debit note.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Management Fees

Finding No. 2004-12

Criteria: Amounts reported in the financial statements should be valid.

Condition: Management contracts for Kosrae Sea Venture, Inc. and Ettal Municipal Government terminated on April 22, 1998 and January, 20, 1999, respectively. The contract termination with Ettal Municipal Government was acknowledged by NFC's lawyer in a memo to Ettal Investment Corporation dated October 5, 2000. However, management fees for these contracts continued to be recorded throughout fiscal year 2004.

Cause: The root cause of this condition is an inadequate review of underlying source documentation.

Effect: The effect of this condition is that revenue of some \$21,000 was recorded in error.

Recommendation: We recommend that NFC ensure that all amounts reported in the financial statements are valid.

Auditee Response: We concur with the finding and NFC has already undertaken the corrective action. If necessary, additional accounting staff is to be hired to help update and reconcile every account all the time and before monthly financial statements get reported.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Cash

Finding No. 2004-13

Criteria: Amounts reported in the financial statements should agree with subsidiary records.

Condition: Cash per the general ledger does not agree with the underlying bank reconciliation.

<u>Acct #</u>	<u>Description</u>	<u>Per bank recon</u>	<u>Per book</u>	<u>Difference</u>
1020	CIB BOG (Chk.)	\$128,364	\$(36,286)	\$164,650

Cause: The root cause of the condition is that subsidiary records, i.e. bank reconciliations, are not reconciled with the general ledger on a timely basis. Reconciling items should be recorded in a timely manner and unknown variances thoroughly investigated.

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

Recommendation: We recommend that subsidiary records be timely reconciled with the general ledger and that variances be investigated and disposed of in a timely manner.

Auditee Response: We concur with the finding and the management will ensure that bank reconciliations will be performed in a timely manner and any bank reconciliation adjustments will be recorded in the general ledger.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Cash

Finding No. 2004-14

Criteria: Adequate documentation, including subsidiary records, should be available to support amounts and items reported in the financial statements.

Condition: Subsidiary records, i.e. bank reconciliations and bank statements, supporting \$ 8,548 of cash, were not available for inspection.

<u>Acct #</u>	<u>Description</u>	<u>Per book</u>
1018	CIB BOH (Ck.)	\$8,548

Cause: The root cause of the weakness is that subsidiary records are not maintained and as a result, we cannot determine if the recorded cash account actually exists.

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

Recommendation: We recommend that NFC ensure maintenance of all subsidiary ledgers to support amounts reported in the financial statements.

Auditee Response: We concur with the finding and the management will ensure that bank reconciliations will be performed in a timely manner and any bank reconciliation adjustments will be recorded in the general ledger. In addition, all documentations particularly bank statements will be kept intact in the file.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Inventory

Finding No. 2004-15

Criteria: The number of inventory items contained in final inventory lists should agree with actual counts conducted.

Condition: Of five samples tested, four items had variances. The quantities initially counted and observed varied with quantities on the final inventory report as follows.

	<u>a</u>	<u>b</u>	<u>c</u>	<u>d</u>	<u>a-c</u>	<u>b-d</u>
	Agreed upon count	Total \$ Value	Qty per Final Inventory List	\$ Value per Final Inventory	Quantity Variance	\$ Value Variance
1 Boxes Renolith	957	\$ -	-	\$ -	957	\$ -
2 Box Sea Pak	3,024	30,075.62	37	367.99	2,987	29,707.63
3 130x1000	6	88.51	30	442.56	(24)	(354.05)
4 Rope BR3.5 x 1200	16	1,760.00	9	990.00	7	770.00

Cause: The root cause of the weakness is a lack of inventory record keeping.

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

Recommendation: We recommend that NFC ensure that inventory records are reconciled with general ledger balances and be maintained.

Auditee Response: We concur and agree to the recommendation. The correction is in progress in FY06 and updating of inventory count and accounts have now become part of the NFC normal reporting and reconciliation system.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Inventory – Missing Invoices

Finding No. 2004-16

Criteria: Inventories bought and accounted for should be supported by invoices.

Condition: For one of four items tested, no invoices could be provided to support the price.

Cause: The root cause of the weakness is a lack of control over recordkeeping.

Effect: The effect of this condition is a potential misstatement of inventory as there is no record of the item's purchase.

Recommendation: We recommend that management exercise more stringent adherence to existing document policies to prevent the disappearance of necessary supporting documentation.

Auditee Response: We concur with the finding and would like to note that the missing accounting record is the main problem under the prior management, and the records are still not available at this time. We will be reporting this and similar findings to the Board of Directors (BOD) for corrective action and make adjustment as approved by the BOD.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Revenue

Finding No. 2004-17

Criteria: Adequate source documentation should be available to support amounts and items reported in the financial statements.

Condition: For 139 of 140 (99%) samples tested, NFC could not provide the cash receipts and/or bank validated deposit slips. As such, we could not ensure the completeness and validity of the recorded amounts. Also, we could not determine if amounts collected were accordingly deposited to the bank.

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice amount</u>
1	Airfreight Operation	3101	300173	\$ 4,005
2	Airfreight Operation	3101	300183	13,611
3	Airfreight Operation	3101	300209	25,436
4	Airfreight Operation	3101	300161	21,727
5	Airfreight Operation	3101	300123	4,233
6	Airfreight Operation	3101	300105	14,300
7	Airfreight Operation	3101	300053	13,659
8	Airfreight Operation	3101	300031	1,273
9	Airfreight Operation	3101	299978	24,934
10	Airfreight Operation	3101	299982	3,231
11	Airfreight Operation	3101	300003	1,911
12	Airfreight Operation	3101	299939	31,149
13	Airfreight Operation	3101	300242	5,201
14	Airfreight Operation	3101	299918	8,068
15	Airfreight Operation	3102	300012	2,082
16	Airfreight Operation	3501	JE-09003	60,881
17	Airfreight Operation	3501	JE-09003	14,018
18	Airfreight Operation	3502	TKK-0930	25,583
19	Airfreight Operation	3504	299921	12,603
20	Airfreight Operation	3505	300126	3,454
21	Airfreight Operation	3599	300039	1,900
22	Airfreight Operation	3101	299933	15,982
23	Airfreight Operation	3101	299957	9,036
24	Airfreight Operation	3101	299999	26,848
25	Airfreight Operation	3101	300038	12,699
26	Airfreight Operation	3101	300068	5,696
27	Airfreight Operation	3101	300092	10,875
28	Airfreight Operation	3101	300119	9,498
29	Airfreight Operation	3101	300139	6,430
30	Airfreight Operation	3101	300191	16,716
31	Airfreight Operation	3101	300208	22,338
32	Airfreight Operation	3101	300232	19,201
33	Airfreight Operation	3101	299892	18,076
34	Airfreight Operation	3101	299913	17,293
35	Airfreight Operation	3102	299959	5,855
36	Airfreight Operation	3501	JE-05006	4,818
37	Airfreight Operation	3502	GUM-0326	3,358
38	Airfreight Operation	3504	300099	10,288
39	Airfreight Operation	3505	300252	1,411
40	Airfreight Operation	3599	300203	10,800

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Revenue, Continued

Finding No. 2004-17, Continued

Condition, Continued

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice amount</u>
41	Airfreight Operation	3101	299889	17,024
42	Airfreight Operation	3101	299898	4,983
43	Airfreight Operation	3101	299915	7,236
44	Airfreight Operation	3101	299904	17,475
45	Airfreight Operation	3101	299931	18,292
46	Airfreight Operation	3101	299937	10,017
47	Airfreight Operation	3101	299948	14,338
48	Airfreight Operation	3101	299935	9,628
49	Airfreight Operation	3101	299961	11,362
50	Airfreight Operation	3101	299969	14,141
51	Airfreight Operation	3101	299984	7,676
52	Airfreight Operation	3101	299988	2,732
53	Airfreight Operation	3101	300013	12,970
54	Airfreight Operation	3101	300006	11,505
55	Airfreight Operation	3101	300004	8,450
56	Airfreight Operation	3101	300010	8,506
57	Airfreight Operation	3101	300035	5,008
58	Airfreight Operation	3101	300029	3,779
59	Airfreight Operation	3101	300019	19,754
60	Airfreight Operation	3101	300015	13,413
61	Airfreight Operation	3101	300075	10,735
62	Airfreight Operation	3101	300071	13,050
63	Airfreight Operation	3101	300059	5,873
64	Airfreight Operation	3101	300043	6,669
65	Airfreight Operation	3101	300084	11,597
66	Airfreight Operation	3101	300088	8,480
67	Airfreight Operation	3101	300104	22,522
68	Airfreight Operation	3101	300109	9,784
69	Airfreight Operation	3101	300116	977
70	Airfreight Operation	3101	300122	7,860
71	Airfreight Operation	3101	300128	10,962
72	Airfreight Operation	3101	300129	10,033
73	Airfreight Operation	3101	300104	22,522
74	Airfreight Operation	3101	300155	21,552
75	Airfreight Operation	3101	300159	21,016
76	Airfreight Operation	3101	300149	13,486
77	Airfreight Operation	3101	300171	16,684
78	Airfreight Operation	3101	300182	15,539
79	Airfreight Operation	3101	300185	8,335
80	Airfreight Operation	3101	300201	11,671
81	Airfreight Operation	3101	300204	4,492
82	Airfreight Operation	3101	300205	12,096
83	Airfreight Operation	3101	300206	8,479
84	Airfreight Operation	3101	300207	11,523
85	Airfreight Operation	3101	300229	10,300
86	Airfreight Operation	3101	300238	3,493

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Revenue, Continued

Finding No. 2004-17, Continued

Condition, Continued

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice amount</u>
87	Airfreight Operation	3101	300240	19,651
88	Airfreight Operation	3101	300249	11,152
89	Airfreight Operation	3101	300158	11,248
90	Airfreight Operation	3101	299953	12,734
91	Airfreight Operation	3102	299902	8,015
92	Airfreight Operation	3102	299917	11,716
93	Airfreight Operation	3501	GUM-1010	1,056*
94	Airfreight Operation	3501	JE-12003	22,547
95	Airfreight Operation	3501	JE-02003	13,733*
96	Airfreight Operation	3501	GUM-0730	2,575*
97	Airfreight Operation	3501	JE-09003	5,175
98	Airfreight Operation	3502	GUM-1219	4,757
99	Airfreight Operation	3502	GUM-1031	1,088*
100	Airfreight Operation	3502	GUM-0213	1,359*
101	Airfreight Operation	3502	GUM-0614	2,188*
102	Airfreight Operation	3502	TKK-0904	11,035
103	Airfreight Operation	3504	299990	14,704
104	Airfreight Operation	3504	299997	16,137
105	Airfreight Operation	3504	300168	13,429
106	Airfreight Operation	3505	299920	5,397
107	Airfreight Operation	3505	300081	10,469
108	Airfreight Operation	3505	300098	7,712
109	Airfreight Operation	3599	299927	11,250
110	Airfreight Operation	3599	299992	11,250
111	Airfreight Operation	3599	300143	5,850
112	Airfreight Operation	3599	300257	7,200
113	Baitfish Supplies & Services	3851	211634	3,600
114	Baitfish Supplies & Services	3851	211802	5,760
115	Baitfish Supplies & Services	3861	211883	2,040
116	Baitfish Supplies & Services	3851	211996	3,780
117	Baitfish Supplies & Services	3851	211935	5,400
118	Baitfish Supplies & Services	3861	211539	2,535
119	Baitfish Supplies & Services	3871	211826	113
120	Baitfish Supplies & Services	3851	211477	13,976
121	Baitfish Supplies & Services	3851	211544	3,600
122	Baitfish Supplies & Services	3851	211560	4,500
123	Baitfish Supplies & Services	3851	211636	2,700
124	Baitfish Supplies & Services	3851	211838	4,680
125	Baitfish Supplies & Services	3851	211881	5,400
126	Baitfish Supplies & Services	3851	211924	2,880
127	Baitfish Supplies & Services	3851	211968	10,692
128	Baitfish Supplies & Services	3861	211480	1,605
129	Baitfish Supplies & Services	3861	211580	1,650
130	Baitfish Supplies & Services	3861	211703	1,785
131	Baitfish Supplies & Services	3861	211876	1,065
132	Baitfish Supplies & Services	3861	211930	780

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Revenue, Continued

Finding No. 2004-17, Continued

Condition, Continued

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice amount</u>
133	Baitfish Supplies & Services	3871	211930	202
134	Baitfish Supplies & Services	3881	211538	719
135	Baitfish Supplies & Services	3500	211611	100
136	Commercial Fishing	301037	PNI-401	12,536
137	Commercial Fishing	301037	PNI-401	12,536
138	Transshipment Operation	3707	200419	1,135
139	Transshipment Operation	3707	200427	<u>390</u>
Total				<u>\$1,388,074</u>

* Note: NFC was able to provide validated bank deposit slips. However, due to missing cash receipts, we could not determine if such deposits relate to the amount collected/recorded.

For 34 of 140 (24%) samples tested, NFC could not provide the sales invoice to support the amounts reported in the financial statements.

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice Amount</u>
1	Airfreight Operation	3101	300209	\$ 25,436
2	Airfreight Operation	3102	300012	2,082
3	Airfreight Operation	3501	JE-09003	60,881
4	Airfreight Operation	3501	JE-09003	14,018
5	Airfreight Operation	3502	TKK-0930	25,583
6	Airfreight Operation	3505	300126	3,454
7	Airfreight Operation	3101	300208	22,338
8	Airfreight Operation	3501	JE-05007	4,818
9	Airfreight Operation	3502	GUM-0327	3,358
10	Airfreight Operation	3505	300252	1,411
11	Airfreight Operation	3101	299948	14,338
12	Airfreight Operation	3101	300104	22,522
13	Airfreight Operation	3101	300185	8,335
14	Airfreight Operation	3101	300207	11,523
15	Airfreight Operation	3101	300249	11,152
16	Airfreight Operation	3101	300158	11,248
17	Airfreight Operation	3501	GUM-1011	1,056
18	Airfreight Operation	3501	JE-12003	22,547
19	Airfreight Operation	3501	JE-04005	10,298
20	Airfreight Operation	3501	GUM-0731	2,575
21	Airfreight Operation	3501	JE-09004	5,175
22	Airfreight Operation	3501	JE-02003	13,733
23	Airfreight Operation	3502	GUM-1219	4,757
24	Airfreight Operation	3502	GUM-1031	1,088
25	Airfreight Operation	3502	GUM-0213	1,359
26	Airfreight Operation	3502	GUM-0614	2,188

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Revenue, Continued

Finding No. 2004-17, Continued

Condition, Continued

<u>Sl'n</u>	<u>Division</u>	<u>Account #</u>	<u>Reference #</u>	<u>Invoice Amount</u>
27	Airfreight Operation	3502	TKK-0905	11,035
28	Airfreight Operation	3505	300081	10,469
29	Airfreight Operation	3599	299927	11,250
30	Airfreight Operation	3599	300257	7,200
31	Commercial Fishing	301037	PNI-402	12,536
32	Commercial Fishing	301037	PNI-401	12,536
33	Transshipment Operation	3707	200419	1,135
34	Transshipment Operation	3707	200427	<u>390</u>
			Total	\$ <u>373,822</u>

Cause: The root cause of the weakness is lack of control over recordkeeping.

Effect: The effect of this condition is a potential material misstatement of the financial statements. Moreover, due to absence of cash receipts and bank validated deposit slips, the risk of misappropriation of cash collected is high.

Recommendation: We recommend that more stringent documentation policies be considered to prevent the disappearance of underlying documentation.

Auditee Response: This is again relating to missing records, a strong indication of the main problem NFC has for FY 2004. Since this finding is not a different condition from prior fiscal years, we can assume that records were never updated and invoices misplaced or lost even before NFC moved to new office building. We will continue our efforts to find the missing documents/invoices and records and make a formal report to the BOD.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Expenditures – Missing Invoices

Finding No. 2004-18

Criteria: Adequate source documentation must be available to support amounts and items reported.

Condition: For 47 of 114 (41%) samples tested, NFC was not able to provide the underlying documentation, i.e. vendor invoice, contracts, or any related documentation, to support the recorded expenditures.

<u>Sl'n</u>	<u>Division</u>	<u>Acct. #</u>	<u>Acct. name</u>	<u>Reference #</u>	<u>Invoice Amount</u>
1	Airfreight Operations	4160	Charter fees	2637	\$ 26,606.00
2	Airfreight Operations	4160	Charter fees	2726	26,765.00
3	Airfreight Operations	4160	Charter fees	3077	26,924.00
4	Airfreight Operations	4160	Charter fees	3846	26,924.00
5	Airfreight Operations	4160	Charter fees	4081	30,315.25
6	Airfreight Operations	4160	Charter fees	4264	30,907.00
7	Airfreight Operations	4150	Freight Forwarding	AE040068	6,342.50
8	Airfreight Operations	4150	Freight Forwarding	AE030080	1,146.20
9	Airfreight Operations	4150	Freight Forwarding	AEIVNRTO	8,697.25
10	Airfreight Operations	4150	Freight Forwarding	AE040038	4,479.60
11	Airfreight Operations	4159	Ground Handling	NFC-02-0	1,650.00
12	Airfreight Operations	4160	Charter fees	3812	13,285.50
13	Airfreight Operations	4160	Charter fees	3863	17,360.86
14	Airfreight Operations	4160	Charter fees	MFV 0804	17,147.65
15	Airfreight Operations	4162	Cargo Handling expense	GUM-1371	4,422.85
16	Airfreight Operations	4162	Cargo Handling expense	GUM-1551	1,150.00
17	Airfreight Operations	4162	Cargo Handling expense	GUM-1719	3,059.00
18	Airfreight Operations	4165	Landing fees	5725-IN	2,100.00
19	Airfreight Operations	5008	Salaries & wages	JE - 08008	986.21
20	Airfreight Operations	5008	Salaries & wages		4,609.49
21	Airfreight Operations	5008	Salaries & wages		4,715.87
22	Airfreight Operations	5008	Salaries & wages		4,435.10
23	Airfreight Operations	7608	Rent expense	JE-09010	1,164.38
24	Airfreight Operations	7400	Communications	GUM-1684	463.84
25	Airfreight Operations	7200	Office expense	JE-09008	5,334.85
26	Airfreight Operations	7101	Packing materials	1057	2,160.00
27	Baitfish Supplies & Services	4501	Inventory- Baitfish	JE-010401	27,137.50
28	Baitfish Supplies & Services	4502	Inventory- Baitfish	JE-090401	24,237.50
29	Baitfish Supplies & Services	4503	Inventory- Baitfish	JE-090409	30,362.50
30	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-110302	23,362.50
31	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-030401	6,537.50
32	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-050408	18,875.00
33	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-090413	10,437.50
34	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-110306	13,185.35
35	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-120302	19,107.84
36	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-030402	10,595.12
37	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-090402	10,731.36
38	Baitfish Supplies & Services	4801	COS - Inventory F/Gears	JE-030404	2,692.51
39	Baitfish Supplies & Services	8705	Utilities	15105900	2,080.20
40	Baitfish Supplies & Services	7600	Off/ House rental	RENT-04/	600.00

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Expenditures – Missing Invoices, Continued

Finding No. 2004-18, Continued

Condition, Continued:

<u>Sl'n</u>	<u>Division</u>	<u>Acct. #</u>	<u>Acct. name</u>	<u>Reference #</u>	<u>Invoice Amount</u>
41	Corporate Operation	5005	Salaries - NFC	MEMO DAT	229.44
42	Corporate Operation	5005	Salaries - NFC	Leave Co	8,653.86
43	Corporate Operation	7600	Rent - NFC	HA-11/20	600.00
44	Commercial Fishing	502599	Salaries-Admin	40 hrs. - CA	442.31
45	Transshipment Operation	5005	Salaries - NFC	Payroll	2,375.00
46	Transshipment Operation	5005	Salaries - NFC	Payroll	1,629.34
47	Transshipment Operation	7550	C/Boxes-Freight & Handling	299889	17,024.00

Cause: The root cause of the weakness is lack of control over recordkeeping.

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

Recommendation: We recommend that more stringent documentation policies be considered to prevent the disappearance of underlying documentation.

Auditee Response: We concur with the finding and will do the action per our response to finding 2004-17.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Expenditures – Missing Purchase Orders

Finding No. 2004-19

Criteria: Under Chapter 16.2.1 and 16.2.2 of the entity’s policy manual, when management decides to purchase goods or services, a purchase requisition and purchase order form should be prepared and forwarded to the executive director/CEO for approval.

Condition: For 114 of 114 (100%) samples tested, NFC was not able to provide documentation, i.e. purchase requisition and purchase order forms, indicating that the expenditures were approved by the CEO. Also, cancelled checks were not available for inspection.

<u>Sl'n</u>	<u>Division</u>	<u>Acct. #</u>	<u>Acct. name</u>	<u>Reference #</u>	<u>Invoice Amount</u>
1	Airfreight Operations	4160	Charter fees	2637	\$ 26,606.00
2	Airfreight Operations	4160	Charter fees	2651	26,729.10
3	Airfreight Operations	4160	Charter fees	2661	27,136.00
4	Airfreight Operations	4160	Charter fees	2704	27,401.00
5	Airfreight Operations	4160	Charter fees	2703	25,965.80
6	Airfreight Operations	4160	Charter fees	2726	26,765.00
7	Airfreight Operations	4160	Charter fees	2749	26,023.00
8	Airfreight Operations	4160	Charter fees	2766	25,336.80
9	Airfreight Operations	4160	Charter fees	2778	24,274.00
10	Airfreight Operations	4160	Charter fees	2814	31,737.30
11	Airfreight Operations	4160	Charter fees	2815	26,129.00
12	Airfreight Operations	4160	Charter fees	2991	27,242.00
13	Airfreight Operations	4160	Charter fees	2865	26,129.00
14	Airfreight Operations	4160	Charter fees	2911	31,692.00
15	Airfreight Operations	4160	Charter fees	2959	26,394.00
16	Airfreight Operations	4160	Charter fees	3039	26,818.00
17	Airfreight Operations	4160	Charter fees	3055	26,288.00
18	Airfreight Operations	4160	Charter fees	3077	26,924.00
19	Airfreight Operations	4160	Charter fees	3123	28,634.80
20	Airfreight Operations	4160	Charter fees	3150	25,917.00
21	Airfreight Operations	4160	Charter fees	3673	25,882.50
22	Airfreight Operations	4160	Charter fees	3675	26,871.00
23	Airfreight Operations	4160	Charter fees	3723	27,050.40
24	Airfreight Operations	4160	Charter fees	3724	25,970.00
25	Airfreight Operations	4160	Charter fees	3766	32,711.40
26	Airfreight Operations	4160	Charter fees	3774	26,288.00
27	Airfreight Operations	4160	Charter fees	3804	26,182.00
28	Airfreight Operations	4160	Charter fees	3846	26,924.00
29	Airfreight Operations	4160	Charter fees	3912	30,985.40
30	Airfreight Operations	4160	Charter fees	3930	30,450.20
31	Airfreight Operations	4160	Charter fees	3955	31,159.60
32	Airfreight Operations	4160	Charter fees	3975	30,732.00
33	Airfreight Operations	4160	Charter fees	3996	32,159.00
34	Airfreight Operations	4160	Charter fees	4017	30,544.00
35	Airfreight Operations	4160	Charter fees	4030	30,190.25
36	Airfreight Operations	4160	Charter fees	4060	31,619.50

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Expenditures – Missing Purchase Orders, Continued

Finding No. 2004-19, Continued

Condition, Continued:

<u>Sl'n</u>	<u>Division</u>	<u>Acct. #</u>	<u>Acct. name</u>	<u>Reference #</u>	<u>Invoice Amount</u>
37	Airfreight Operations	4160	Charter fees	4081	30,315.25
38	Airfreight Operations	4160	Charter fees	4106	32,564.50
39	Airfreight Operations	4160	Charter fees	4127	32,783.50
40	Airfreight Operations	4160	Charter fees	4162	25,790.25
41	Airfreight Operations	4160	Charter fees	4163	32,292.50
42	Airfreight Operations	4160	Charter fees	4234	35,645.75
43	Airfreight Operations	4160	Charter fees	4256	30,389.00
44	Airfreight Operations	4160	Charter fees	4283	34,132.50
45	Airfreight Operations	4160	Charter fees	4301	31,586.00
46	Airfreight Operations	4160	Charter fees	4264	30,907.00
47	Airfreight Operations	4150	Freight Forwarding	AE0300826	10,635.90
48	Airfreight Operations	4150	Freight Forwarding	AE0300914	5,377.90
49	Airfreight Operations	4150	Freight Forwarding	AE0400400	6,037.20
50	Airfreight Operations	4150	Freight Forwarding	AE0400208	7,154.70
51	Airfreight Operations	4150	Freight Forwarding	AE040068	6,342.50
52	Airfreight Operations	4150	Freight Forwarding	AE0300775	8,191.70
53	Airfreight Operations	4150	Freight Forwarding	AE030080	1,146.20
54	Airfreight Operations	4150	Freight Forwarding	AE0300919	4,807.00
55	Airfreight Operations	4150	Freight Forwarding	AEIVNRTO	8,697.25
56	Airfreight Operations	4150	Freight Forwarding	AE0400048	2,112.55
57	Airfreight Operations	4150	Freight Forwarding	AE0400103	7,451.85
58	Airfreight Operations	4150	Freight Forwarding	AE0400161	7,383.00
59	Airfreight Operations	4150	Freight Forwarding	AE0400244	8,927.45
60	Airfreight Operations	4150	Freight Forwarding	AE0400281	3,028.20
61	Airfreight Operations	4150	Freight Forwarding	AE0400355	1,839.24
62	Airfreight Operations	4150	Freight Forwarding	AE0400376	6,237.60
63	Airfreight Operations	4150	Freight Forwarding	AE0400419	7,788.75
64	Airfreight Operations	4150	Freight Forwarding	AE0400468	3,855.00
65	Airfreight Operations	4150	Freight Forwarding	AE040050	841.96
66	Airfreight Operations	4150	Freight Forwarding	AE0400575	12,080.00
67	Airfreight Operations	4150	Freight Forwarding	AE040038	4,479.60
68	Airfreight Operations	4159	Ground Handling	NFC-02-0	1,650.00
69	Airfreight Operations	4160	Charter fees	2675	3,965.30
70	Airfreight Operations	4160	Charter fees	2771	10,070.80
71	Airfreight Operations	4160	Charter fees	2936	18,237.60
72	Airfreight Operations	4160	Charter fees	3012	9,508.10
73	Airfreight Operations	4160	Charter fees	3076	12,064.90
74	Airfreight Operations	4160	Charter fees	3703	6,621.50
75	Airfreight Operations	4160	Charter fees	3812	13,285.50
76	Airfreight Operations	4160	Charter fees	3863	17,360.86
77	Airfreight Operations	4160	Charter fees	3973	3,078.00
78	Airfreight Operations	4160	Charter fees	4042	16,357.00
79	Airfreight Operations	4160	Charter fees	MFV 0804	17,147.65
80	Airfreight Operations	4160	Charter fees	2800	14,575.00

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Unsupported Expenditures – Missing Purchase Orders, Continued

Finding No. 2004-19, Continued

Condition, Continued:

Sl'n	Division	Acct. #	Acct. name	Reference #	Invoice
					Amount
81	Airfreight Operations	4162	Cargo Handling expense	GUM-1371	4,422.85
82	Airfreight Operations	4162	Cargo Handling expense	GUM-1551	1,150.00
83	Airfreight Operations	4162	Cargo Handling expense	GUM-1719	3,059.00
84	Airfreight Operations	4165	Landing fees	5725-IN	2,100.00
85	Airfreight Operations	5008	Salaries & wages	JE - 08008	986.21
86	Airfreight Operations	5008	Salaries & wages		4,609.49
87	Airfreight Operations	5008	Salaries & wages		4,715.87
88	Airfreight Operations	5008	Salaries & wages		4,435.10
89	Airfreight Operations	7608	Rent expense	JE-09010	1,164.38
90	Airfreight Operations	7400	Communications	GUM-1684	463.84
91	Airfreight Operations	7200	Office expense	JE-09008	5,334.85
92	Airfreight Operations	7101	Packing materials	1057	2,160.00
93	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-110302	23,362.50
94	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-030401	6,537.50
95	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-050408	18,875.00
96	Baitfish Supplies & Services	4501	COS - Inventory Baitfish	JE-090413	10,437.50
97	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-110306	13,185.35
98	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-120302	19,107.84
99	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-030402	10,595.12
100	Baitfish Supplies & Services	4601	COS - Inventory Boxes	JE-090402	10,731.36
101	Baitfish Supplies & Services	4801	COS - Inventory F/Gears	JE-030404	2,692.51
102	Baitfish Supplies & Services	8705	Utilities	15105900	2,080.20
103	Baitfish Supplies & Services	7600	Off/ House rental	RENT-04/	600.00
104	Baitfish Supplies & Services	4501	Inventory- Baitfish	JE-010401	27,137.50
105	Baitfish Supplies & Services	4502	Inventory- Baitfish	JE-090401	24,237.50
106	Baitfish Supplies & Services	4503	Inventory- Baitfish	JE-090409	30,362.50
107	Corporate Operation	5005	Salaries - NFC	MEMO DAT	6,229.44
108	Corporate Operation	5005	Salaries - NFC	Leave Co	8,653.86
109	Corporate Operation	7600	Rent - NFC	HA-11/20	600.00
110	Corporate Operation	7600	Rent - NFC	51	1,280.00
111	Commercial Fishing	502599	Salaries-Admin	40 hrs. - CA	442.31
112	Transshipment Operation	5005	Salaries - NFC	Payroll	2,375.00
113	Transshipment Operation	5005	Salaries - NFC	Payroll	1,629.34
114	Transshipment Operation	7550	C/Boxes-Freight & Handling	299889	17,024.00

Cause: The root cause of the weakness is lack of control over recordkeeping.

Effect: The entity is noncompliant with its own policies. Also, the recorded expenses may be unauthorized.

Recommendation: We recommend that more stringent documentation policies be considered to prevent the disappearance of underlying documentation.

Auditee Response: We concurred and like to note we have done as recommended for FY 2006. Again our response also is similar to 2004-17.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Leases Payable

Finding No. 2004-20

Criteria: Items and amounts reported in the financial statements should be valid.

Condition: We attempted to confirm the \$992,228 lease payable recorded by NFC. However, the confirmation letter we sent to the vendor was returned noting the vendor's mailing address was incorrect.

Cause: The root cause of the condition is that relevant information about the entity's vendor was not properly updated, i.e. mailing address.

Effect: It is possible that this liability is no longer valid as we have not been made aware of any collection attempts by the vendor and we did not note anything related to this matter in the letter from legal counsel.

Recommendation: We recommend that NFC management investigate this matter and determine if the recorded amount is still valid.

Auditee Response: This payable is still on our airfreight account and is still valid. The NFC management CEO/President has met with APA representative and former NFC President and waiting for a formal written letter from APA to make proper adjustment to reflect actual provision of the airfreight service contract agreement.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Unsupported Expenditures

Finding No. 2004-21

Criteria: Adequate source documentation should be available to support amounts and items reported in the financial statements.

Condition: For 13 of 25 (52%) samples tested, NFC was not able to provide the underlying documentation, i.e. vendor's invoice, contracts, timesheet, PAF, fund transfer documentation or any other related documentation to support the recorded expenditures.

<u>Division</u>	<u>Check #</u>	<u>Ck amt.</u>
Corporate	2020516 \$	312.85
Transshipment	1389	289.74
Transshipment	1050	350.00
Transshipment	920	200.00
Transshipment	1156	24,491.33
Baitfish/Supplies	241	10,000.00
Airfreight Operations	740	512.66
Corporate	2020389	261.94
Corporate	2020537	261.94
Commercial Fishing	2004318	98.56
Commercial Fishing	2004550	97.59
Airfreight Operations	886	249.39
Airfreight Operations	743	199.39

Cause: The root cause of the weakness is lack of control over recordkeeping.

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

Recommendation: We recommend that more stringent documentation policies be considered to prevent the disappearance of underlying documentation.

Auditee Response: We concur with the finding and already put in place starting FY 2006 a strong record keeping and formal accounting procedures for NFC consolidated accounts for operations.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Unsupported Expenditures

Finding No. 2004-22

Criteria: Receipt of goods or services should be properly documented to ensure items or services received conform to the purchase order.

Condition: For 8 of 25 samples tested, NFC was not able to provide evidence of the receipt of goods or services.

<u>Division</u>	<u>Check #</u>	<u>Ck amt.</u>
Corporate	2020516	\$ 312.85
Transshipment	1389	289.74
Transshipment	1050	350.00
Transshipment	1156	24,491.33
Baitfish/Supplies	165	2,546.48
Baitfish/Supplies	181	1,805.25
Baitfish/Supplies	255	707.25
Airfreight Operations	740	512.66

Cause: The root cause of the weakness is lack of control over recordkeeping.

Effect: The effect of this condition is that non-conforming goods or services may have been received. Also, there is a risk that the goods or services purchased were not actually received.

Recommendation: We recommend that more stringent documentation policies be considered to prevent the disappearance of underlying documentation.

Auditee Response: Again, we concur and agree with the finding and recommendation. We already have taken corrective action as stated in response 2004-21.

NATIONAL FISHERIES CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Unsupported Expenditures

Finding No. 2004-23

Criteria: Amounts and items reported in the financial statements should agree with underlying source documents.

Condition: For 1 of 25 (4%) samples tested, per an employment contract, the monthly housing allowance for one employee is only \$ 450. However, the employee actually received a \$500 per month housing allowance.

<u>Division</u>	<u>Check #</u>	<u>Ck amt.</u>
Baitfish	206	\$500.00

Cause: The root cause of the weakness is failure to document verbal agreement with the employee.

Effect: The effect of this condition is a potential immaterial receivable from the employee.

Recommendation: We recommend that management review whether an overpayment occurred.

Auditee Response: All contracts with employees including any amendments are now in writing and on file. All payments on the contract are made based on the duly signed written contract.