

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE STATE OF YAP)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Diving Seagull, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the Diving Seagull, Inc. (the Company), a component unit of the Yap State Government, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diving Seagull, Inc. as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, the Company has incurred losses from operations for the last three years. The continuation of the Company's operations is dependent upon successful fishing activities, improvement in external industry factors, and on time collection from fish brokers. In addition, in order for the Company to continue as a going concern, it may need to improve its cash management, reduce operating expenses, and obtain support from the State or the National government. Our opinion is not modified with respect to this matter.

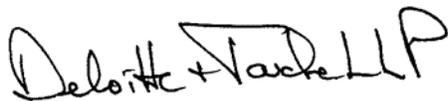
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021, on our consideration of the Diving Seagull, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Diving Seagull, Inc.'s internal control over financial reporting and compliance.



November 30, 2021

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

The Yap State Government is required to adopt the provisions of the Government Accounting Standards Board (GASB). The Diving Seagull, Inc. ("the Company") is accounted for and is reported as a component unit of the Yap State Government.

Total assets of \$5,972,373 at the end of fiscal year 2020 represent a 21% decrease from 2019. By assessment, in 2019, total assets decreased by 7% from 2018 with assets of \$7,558,931 and \$8,116,815 respectively.

Operating revenue generated from fish sales and other income of \$4,651,429 represents a decrease of 31% from 2019. The number of 2020 trips is less in comparison with 2019 due to the dry docking of F/V Yap Seagull during the first half of fiscal year 2020. Operating expenses in 2020 were lower by 1% when compared with 2019. These figures were taken into consideration to plan for fiscal years 2021 and 2022.

The Company ended fiscal year 2020 with a net operating loss of \$619,224, which represents a decrease in the operating loss from fiscal year 2019 of \$2,098,779. The Company will implement plans to improve fish sales and the number of fishing trips necessary to recover from the loss.

The following table summarizes the financial conditions and results of operations of the Company for 2020, 2019 and 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>Assets:</u>			
Current assets	\$ 3,069,924	\$ 3,110,291	\$ 3,353,062
Other assets	1,115,456	2,408,237	2,241,746
Property and equipment, net	<u>1,786,993</u>	<u>2,040,403</u>	<u>2,522,007</u>
Total Assets	<u>\$ 5,972,373</u>	<u>\$ 7,558,931</u>	<u>\$ 8,116,815</u>
<u>Liabilities and Net Position</u>			
<u>Liabilities:</u>			
Current portion of long- term debt	\$ 118,943	\$ 140,394	\$ 606,470
Other current liabilities	2,995,105	5,296,538	3,538,828
Long term debt, net of current portion	<u>2,479,345</u>	<u>841,967</u>	<u>536,114</u>
Total Liabilities	<u>5,593,393</u>	<u>6,278,899</u>	<u>4,681,412</u>

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Position:			
Net investment in capital assets	765,811	1,198,436	1,725,646
Restricted	4,319	2,171,023	2,241,746
Unrestricted	<u>(391,150)</u>	<u>(2,089,427)</u>	<u>(531,989)</u>
Total Net Position	<u>378,980</u>	<u>1,280,032</u>	<u>3,435,403</u>
Total Liabilities and Net Position	\$ <u>5,972,373</u>	\$ <u>7,558,931</u>	\$ <u>8,116,815</u>

Revenues, Expenses and Changes in Net Position

Operating revenues	\$ 4,651,429	\$ 6,765,672	\$ 8,793,136
Cost of sales	(4,952,881)	(8,541,897)	(8,828,727)
Operating expenses	<u>(317,772)</u>	<u>(322,554)</u>	<u>(250,968)</u>
Operating loss	(619,224)	(2,098,779)	(286,559)
Non – operating expenses, net	<u>(281,828)</u>	<u>(56,592)</u>	<u>(6,814)</u>
Change in net position	\$ <u>(901,052)</u>	\$ <u>(2,155,371)</u>	\$ <u>(293,373)</u>

Capital Assets and Debt

The Company's acquisition of capital assets in 2020 and 2019 related to improvements in machinery and equipment on vessels with developed fishing technology which is necessary for efficient fishing. For additional information concerning capital assets, please refer to note 6 to the financial statements.

The Company's long-term debt of \$2,598,288, included a refinanced bank loan acquired in 2009, with an interest rate of 4% which was approved in 2019 and which proceeds were used to assist primarily in funding the dry-docking of a fishing vessel, Yap Seagull. For further information concerning debt, please refer to notes 7 and 8 to the financial statements.

Plan of Action for 2021 – Economic Outlook

In 2020, the Company already established an international market in Japan to bid on tuna catches for better tuna pricing. Considering the challenges that the Company faces, including the Vessel Day Scheme (VDS) fishing days at \$4,000 per day, COVID19 pandemic strict port regulations, banning high seas FAD fishing, multiple fish/licensing fees, difficulties in Company operations resulted. Management and the Board of Directors have raised concerns related to new regulations that make fishing so hard to obtain economic value to the Company and to service debt.

Yap Seagull began dry-docking in August 2019, which was completed in April 2020. The vessel immediately headed to the fishing grounds in search for fish to generate revenue. Mathawmarfach was the only vessel fully utilized for fishing during the entire fiscal year 2020.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Below are some plans of the Company to improve 2021 operations and moving forward:

1. Acquire sufficient VDS fishing days
2. Improve profit margin of the Company
3. Increase capital
4. Diversification
5. Partnership arrangements

Ongoing plan of action in 2021:

- Develop FADs for fish farms
- Engage in inter-commerce activities
- Acquire land
- Propose loan payoff

Financial Management Contact

This financial report is designed to provide all interest users with a general overview of the Company's finances. Inquiries concerning this report, if any, may be directed to the Diving Seagull, Inc. PO Box 1036, Colonia, Yap FM 96943.

The Management Discussion and Analysis for the year ended September 30, 2019 is set forth in the Company's report on the audit of the financial statements, which is dated November 4, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the FSM Office of the Public Auditor's website.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Statements of Net Position
September 30, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 855,405	\$ 901,340
Time certificates of deposit	569,907	569,907
Investments	1,530,339	1,433,079
Employee and director receivables, net	15,537	27,799
Other receivables, net	-	7,616
Prepaid expenses	10,679	7,609
Fuel inventory	88,057	162,941
Total current assets	3,069,924	3,110,291
Restricted cash and cash equivalents	4,319	2,171,023
Long-term deferred dry dock cost and associated deposits	1,111,137	237,214
Property and equipment, net	1,786,993	2,040,403
	\$ 5,972,373	\$ 7,558,931
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 118,943	\$ 140,394
Accounts payable	284,812	1,960,986
Net payable to broker	1,355,500	1,214,004
Short-term loan	-	950,000
Accrued expenses	1,354,793	1,171,548
Total current liabilities	3,114,048	5,436,932
Long-term debt, net of current portion	2,479,345	841,967
Total liabilities	5,593,393	6,278,899
Commitments and contingencies		
Net position:		
Net investment in capital assets	765,811	1,198,436
Restricted	4,319	2,171,023
Unrestricted	(391,150)	(2,089,427)
Total net position	378,980	1,280,032
	\$ 5,972,373	\$ 7,558,931

See accompanying notes to financial statements.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating revenues:		
Fish sales	\$ 4,637,529	\$ 6,740,232
Other revenues	13,900	25,440
Total operating revenues	4,651,429	6,765,672
Cost of sales	4,952,881	8,541,897
Gross loss	(301,452)	(1,776,225)
Operating expenses:		
Payroll, taxes and benefits	74,962	67,245
Interest and penalties - brokers	59,799	-
Professional fees	52,287	35,000
Travel	26,251	23,351
Communications and utilities	23,269	15,073
Bad debts	22,228	40,808
Office expenses	15,602	19,653
Rent	15,436	9,288
Bank loan fees	14,612	78,624
Board fees and expenses	6,411	9,847
Depreciation and amortization	2,341	6,613
Insurance	992	1,100
Miscellaneous	3,582	15,952
Total operating expenses	317,772	322,554
Loss from operations	(619,224)	(2,098,779)
Nonoperating (expenses) revenues , net:		
Interest expense, net	(132,398)	(81,970)
Investment income, net	97,206	25,378
Insurance recovery proceeds	63,106	-
Loss on asset disposal	(109,742)	-
Loss on online fraud	(200,000)	-
Total nonoperating expenses, net	(281,828)	(56,592)
Change in net position	(901,052)	(2,155,371)
Net position at beginning of year	1,280,032	3,435,403
Net position at end of year	\$ 378,980	\$ 1,280,032

See accompanying notes to financial statements.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,800,542	\$ 8,071,841
Cash payments to suppliers for goods and services	(5,310,388)	(6,421,120)
Cash payments to boat crew and employees for services	<u>(984,980)</u>	<u>(1,209,025)</u>
Net cash (used in) provided by operating activities	<u>(1,494,826)</u>	<u>441,696</u>
Cash flows from investing activity - decrease in short-term investments and time certificates of deposit	<u>16,019</u>	<u>21,457</u>
Cash flows from noncapital financing activities:		
Payment of fines and penalties	-	(200,000)
Loss on online fraud	(200,000)	-
Insurance recovery proceeds	63,106	-
Principal repayment of short-term loan	(950,000)	-
Interest and penalties paid on short-term loan	(61,801)	-
Short-term loan proceeds	<u>-</u>	<u>100,000</u>
Net cash used in noncapital financing activities	<u>(1,148,695)</u>	<u>(100,000)</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(61,255)	(68,472)
Principal repayments of long-term debt	-	(160,223)
Long-term debt proceeds	1,615,927	-
Interest paid on long-term debt	(86,670)	(81,970)
Long-term deferred dry dock cost and associated deposits	<u>(1,053,139)</u>	<u>(237,214)</u>
Net cash provided by (used in) capital and related financing activities	<u>414,863</u>	<u>(547,879)</u>
Net change in cash	(2,212,639)	(184,726)
Cash and cash equivalents at beginning of year	<u>3,072,363</u>	<u>3,257,089</u>
Cash and cash equivalents at end of year	\$ <u>859,724</u>	\$ <u>3,072,363</u>
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	\$ (619,224)	\$ (2,098,779)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	204,923	550,076
Amortization	179,216	-
Bad debts	22,228	40,808
Changes in assets and liabilities:		
Net receivable from/payable to broker	141,496	1,306,169
Employee and director receivables	(9,967)	8,785
Other receivables	7,616	12,384
Prepaid expenses	(3,070)	32,656
Fuel inventory	74,884	(54,109)
Accounts payable	(1,676,174)	576,014
Accrued expenses	<u>183,246</u>	<u>67,692</u>
Net cash (used in) provided by operating activities	\$ <u>(1,494,826)</u>	\$ <u>441,696</u>

See accompanying notes to financial statements.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies

Reporting Entity

The Diving Seagull, Inc. (the “Company” or “DSI”), a component unit of the State of Yap (the “State”), was incorporated in Yap in the Federated States of Micronesia on March 17, 1997. The Company is organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. A five-member Board of Directors is responsible for managing the business affairs and directing the daily operations of the Company.

The Articles of Incorporation authorized the issuance of 6,500,000 shares of common stock at \$1 par value per share. All such shares were issued to the Yap Investment Trust fund, a fund of the State of Yap, under the terms of a twenty-five year lease agreement for use of the fishing vessel, Mathawmarfach, and a purse seine fishing net. This Bareboat Charter Agreement expires in March 2022. The Company also purchased another fishing vessel, the Yap Seagull, in February 2010.

Basis of Accounting

DSI utilizes the flow of economic resources measurement focus. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual interest in DSI’s assets after liabilities are deducted and consists of the following categories:

Net investment in capital assets - includes capital assets, net of accumulated depreciation, reduced by outstanding debt, net of debt service reserve.

Restricted nonexpendable - net position subject to externally imposed stipulations that require DSI to maintain them permanently.

Restricted expendable - net position which use is subject to externally imposed stipulations that can be fulfilled by actions of DSI pursuant to those stipulations or that expire with the passage of time.

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

Net Position, Continued

The Company's 6,500,000 shares of authorized, issued and outstanding common stock with par value of \$1 per share represent capital net position. However, since all shares are held by the State and since the Company is a component unit of the State, these shares are not presented in the accompanying statements of net position.

Restricted net position consists of cash accounts restricted in support of certain debt.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Company. Non-operating revenues and expenses result from capital and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand as well as cash in various bank accounts and time certificates of deposit with initial maturity dates of three months or less and includes restricted cash and cash equivalents. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends, and other information. Bad debts are written off against the allowance based on the specific identification method.

Dry Docking Costs

The Company uses the deferral method for accounting for dry docking costs. Dry docking costs are capitalized and amortized on a straight-line basis over three years.

Fuel Inventory

Fuel inventory consists of fuel on fishing vessels and is stated at purchased cost.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded in the financial statements under the straight-line method over the estimated useful lives of the assets as follows:

Mathawmarfach vessel	20 years
Yap Seagull vessel	25 years
Fishing net and other vessel parts	5 years
Leasehold improvements	3-10 years
Vessel improvements	3-5 years
Office furniture and equipment	3-5 years
Vehicles	5 years

Leased assets and leasehold improvements are amortized over the lesser of the useful life or the lease term. Capitalization thresholds are \$1,000 for leasehold improvements and \$500 for all other assets.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

The Company's primary source of revenue is derived from the sale of fish. Sales of fish are considered earned upon offloading the catch to a designated third party. The sales are estimated, less a provision for rejected fish, based on broker commitments per ton and are adjusted upon receipt of a final settlement from the broker.

Other revenue is recorded when earned and measurable.

Translation of Foreign Currencies

Gains and losses that arise from exchange rate changes on transactions denominated in a currency other than U.S. dollars are included in the statements of revenues, expenses and changes in net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of the Company are governed by its enabling legislation. The Board of Directors is required to engage one or more fund custodians to assume responsibility for the physical possession of the Company's investments.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Company does not have a deposit policy for custodial credit risk.

As of September 30, 2020 and 2019, the carrying amount of the Company's total cash and cash equivalents and time certificates of deposit was \$1,429,631 and \$3,642,270, respectively, and the corresponding bank balances were \$1,207,556 and \$3,713,709, respectively. Of the bank balances, \$392,857 and \$2,548,374, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$251,052 and \$500,000, respectively, were FDIC insured.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(2) Deposits, Continued

The Company does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Company has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(3) Investments

GASB Statement No. 40 requires disclosures addressing common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Company will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Company's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Company's name by the Company's custodial financial institutions. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Company. As of September 30, 2020 and 2019, the Company did not hold an investment in any one issuer that represented more than 5% of the Company's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Company does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

As of September 30, 2020 and 2019, investments at fair value comprise the following:

	<u>2020</u>	<u>2019</u>
Fixed income securities:		
U.S. Treasury obligations	\$ 187,386	\$ 178,243
U.S. Government agencies	-	65,166
Corporate notes	<u>280,149</u>	<u>257,968</u>
	<u>467,535</u>	<u>501,377</u>
Other investments:		
Common equities	989,160	903,364
Money market funds	<u>73,644</u>	<u>28,338</u>
	<u>1,062,804</u>	<u>931,702</u>
	<u>\$ 1,530,339</u>	<u>\$ 1,433,079</u>

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(3) Investments, Continued

As of September 30, 2020, the Company's fixed income securities had the following ratings and maturities:

		Fair <u>Value</u>	Less than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>
U.S. Treasury obligations	AAA	\$ 187,386	\$ 30,095	\$ 106,088	\$ 51,203
Corporate notes	A1	46,262	-	21,834	24,428
Corporate notes	A2	80,193	-	56,499	23,694
Corporate notes	A3	24,522	-	12,510	12,012
Corporate notes	AA2	15,015	15,015	-	-
Corporate notes	AA3	10,167	-	-	10,167
Corporate notes	BAA1	52,728	-	52,728	-
Corporate notes	BAA2	<u>51,262</u>	<u>-</u>	<u>51,262</u>	<u>-</u>
		<u>\$ 467,535</u>	<u>\$ 45,110</u>	<u>\$ 300,921</u>	<u>\$ 121,504</u>

As of September 30, 2019, the Company's fixed income securities had the following ratings and maturities:

		Fair <u>Value</u>	Less than <u>1 Year</u>	1 to 5 <u>Years</u>	6 to 10 <u>Years</u>
U.S. Treasury obligations	AAA	\$ 178,243	\$ -	\$ 142,901	\$ 35,342
U.S. Government agencies obligations	AAA	65,166	65,166	-	-
Corporate notes	A1	31,324	9,994	21,330	-
Corporate notes	A2	89,220	12,002	61,686	15,532
Corporate notes	A3	22,234	10,056	12,178	-
Corporate notes	AA2	15,168	-	15,168	-
Corporate notes	BAA1	50,480	-	25,543	24,937
Corporate notes	BAA2	37,478	-	37,478	-
Corporate notes	BAA3	<u>12,064</u>	<u>-</u>	<u>12,064</u>	<u>-</u>
		<u>\$ 501,377</u>	<u>\$ 97,218</u>	<u>\$ 328,348</u>	<u>\$ 75,811</u>

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(3) Investments, Continued

The Company categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Company has the following recurring fair value measurements as of September 30, 2020 and 2019:

	September 30, 2020	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities:				
U.S. Treasury obligations	\$ 187,386	\$ -	\$ 187,386	\$ -
Corporate notes	<u>280,149</u>	<u>-</u>	<u>280,149</u>	<u>-</u>
Total fixed income securities	<u>467,535</u>	<u>-</u>	<u>467,535</u>	<u>-</u>
Equity securities:				
Common equities	<u>989,160</u>	<u>989,160</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>1,456,695</u>	<u>\$ 989,160</u>	<u>\$ 467,535</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>73,644</u>			
	<u>\$ 1,530,339</u>			

	September 30, 2019	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities:				
U.S. Treasury obligations	\$ 178,243	\$ -	\$ 178,243	\$ -
U.S. Government agencies	65,166	-	65,166	-
Corporate notes	<u>257,968</u>	<u>-</u>	<u>257,968</u>	<u>-</u>
Total fixed income securities	<u>501,377</u>	<u>-</u>	<u>501,377</u>	<u>-</u>
Equity securities:				
Common equities	<u>903,364</u>	<u>903,364</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>1,404,741</u>	<u>\$ 903,364</u>	<u>\$ 501,377</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>28,338</u>			
	<u>\$ 1,433,079</u>			

(4) Net Receivable from/Payable to Broker

Approximately 41% and 29% of fish sales in the year ended September 30, 2020 were conducted with brokers based in Singapore and Japan, respectively. Approximately 42% and 39% of fish sales in the year ended September 30, 2019 were conducted with brokers based in Taiwan and Japan, respectively. Upon offloading the fish catch from the vessel to a designated third party, the broker pays 95% of the estimated settlement. When the final settlement is determined, the Company may either be entitled to an additional amount due from the broker or be liable for an amount due to the broker. The net broker account is a payable of \$1,355,500 and \$1,214,004 at September 30, 2020 and 2019, respectively.

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Notes to Financial Statements
September 30, 2020 and 2019

(5) Other Receivables

Outstanding balances from other receivables due to the Company from various parties are detailed below.

	<u>2020</u>	<u>2019</u>
Palau Micronesia Air (PMAir)	\$ 550,000	\$ 550,000
Insurance company	35,522	35,522
Others	<u>64,725</u>	<u>72,341</u>
	650,247	657,863
Less: allowance for doubtful accounts	<u>(650,247)</u>	<u>(650,247)</u>
	\$ <u> -</u>	\$ <u> 7,616</u>

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2020 and 2019:

	Beginning Balance October 1, 2019	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2020
Leased fishing vessel and purse seine net	\$ 7,492,312	\$ -	\$ (1,442,312)	\$ 6,050,000
Purchased fishing vessel and purse seine net	6,392,316	-	(2,713,132)	3,679,184
Leasehold improvements	1,518,405	51,745	(270,596)	1,299,554
Vessel improvements	424,646	-	-	424,646
Office furniture and equipment	43,487	9,510	(22,848)	30,149
Vehicles	<u>13,940</u>	<u>-</u>	<u>-</u>	<u>13,940</u>
Total cost	15,885,106	61,255	(4,448,888)	11,497,473
Less accumulated depreciation and amortization	<u>(13,844,703)</u>	<u>(204,923)</u>	<u>4,339,146</u>	<u>(9,710,480)</u>
	\$ <u> 2,040,403</u>	\$ <u>(143,668)</u>	\$ <u>(109,742)</u>	\$ <u> 1,786,993</u>

	Beginning Balance October 1, 2018	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2019
Leased fishing vessel and purse seine net	\$ 7,442,312	\$ 50,000	\$ -	\$ 7,492,312
Purchased fishing vessel and purse seine net	6,392,316	-	-	6,392,316
Leasehold improvements	1,515,351	3,054	-	1,518,405
Vessel improvements	408,470	16,176	-	424,646
Office furniture and equipment	44,245	(758)	-	43,487
Vehicles	<u>13,940</u>	<u>-</u>	<u>-</u>	<u>13,940</u>
Total cost	15,816,634	68,472	-	15,885,106
Less accumulated depreciation and amortization	<u>(13,294,627)</u>	<u>(550,076)</u>	<u>-</u>	<u>(13,844,703)</u>
	\$ <u> 2,522,007</u>	\$ <u>(481,604)</u>	\$ <u> -</u>	\$ <u> 2,040,403</u>

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Notes to Financial Statements
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(7) Short-Term Debt

At September 30, 2019, the Company had an outstanding short-term loan of \$950,000 with interest rate of 2.12% from a bank to assist in funding its operations. The loans were fully repaid in October 2019.

Changes in short-term debt during the years ended September 30, 2020 and 2019 are as follows:

<u>Outstanding October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2020</u>	<u>Due Within One Year</u>
\$ <u>950,000</u>	\$ _____-	\$ <u>(950,000)</u>	\$ _____-	\$ _____-
<u>Outstanding October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding September 30, 2019</u>	<u>Due Within One Year</u>
\$ <u>850,000</u>	\$ <u>2,750,000</u>	\$ <u>(2,650,000)</u>	\$ <u>950,000</u>	\$ <u>950,000</u>

(8) Long-Term Debt

On October 27, 2009, a \$3,000,000 loan was obtained from the FSM Development Bank to purchase a fishing vessel. The loan is collateralized by the vessel and DSI's joint savings deposit of \$150,000. Interest of 9% and principal are payable in monthly installments of \$38,003, which began on April 25, 2010. Loan has maturity date of August 31, 2020. The loan balance was \$796,361 as of September 30, 2018. The loan was refinanced in August 2019.

On April 30, 2015, a \$1,000,000 loan, with maturity date of May 10, 2020, was obtained from a bank to fund fishing operations. The loan is collateralized by \$2,031,271 of time certificates of deposit. Interest of 2.12% and principal are payable in monthly installments of \$17,605, which began on June 10, 2015. The loan balance was \$140,394 at September 30, 2019 and was paid off in March 2020.

On August 12, 2019, a \$2,608,523 loan, with maturity date of March 25, 2025, was obtained from the FSM Development Bank to fund the dry dock of the fishing vessel, Yap Seagull. The loan is collateralized by the vessel and DSI's investments with Raymond James worth \$1,000,000. Interest of 4% and principal are payable in monthly installments of \$19,294, which begin on November 25, 2020. The loan balance is \$2,598,288 and \$841,967 as of September 30, 2020 and 2019, respectively.

Future debt service on the above long-term debt is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 118,943	\$ 93,661	\$ 212,604
2022	134,819	96,720	231,539
2023	140,312	91,227	231,539
2024	146,028	85,511	231,539
2025	<u>2,058,186</u>	<u>13,680</u>	<u>2,071,866</u>
	<u>\$ 2,598,288</u>	<u>\$ 380,799</u>	<u>\$ 2,979,087</u>

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(8) Long-Term Debt, Continued

Changes in long-term debt during the years ended September 30, 2020 and 2019 are as follows:

<u>Outstanding</u> <u>October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>September 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
\$ <u>982,361</u>	\$ <u>1,615,927</u>	\$ <u> -</u>	\$ <u>2,598,288</u>	\$ <u>118,943</u>
<u>Outstanding</u> <u>October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>September 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
\$ <u>1,142,584</u>	\$ <u>841,967</u>	\$ <u>(1,002,190)</u>	\$ <u>982,361</u>	\$ <u>140,394</u>

(9) Commitments

Lease

The Company leases a fishing vessel and a purse seine fishing net from Yap Investment Trust, a fund of the Yap State Government (the "State"), with a lease term through July 2022. Common stock was issued by the Company as total consideration for the agreement.

Fishing Violations

In July 2017, the Company entered into a settlement agreement with Nauru Fisheries and Marine Resources Authority relating to fishing violations committed by the Company in the waters of Nauru. The Company was required to pay a sum of \$1,200,000 payable in installment. The Company has fully paid the amount as of September 30, 2019.

(10) Cost of Sales

Details of cost of sales for the years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Fuel	\$ 1,685,670	\$ 3,414,964
Crew salaries and wages	1,058,024	1,225,027
License, agent, and port fees	581,265	1,465,251
Depreciation and amortization	381,798	543,463
Insurance	314,144	278,259
Repair and maintenance	276,411	506,603
Salt and provisioning	258,407	231,424
Management fee	131,478	176,625
Stevedoring	82,944	86,869
Communications	65,115	192,256
Supplies and freight	40,128	67,044
Crew travel	38,181	184,481
Other vessel expenses	<u>39,316</u>	<u>169,631</u>
	<u>\$ 4,952,881</u>	<u>\$ 8,541,897</u>

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Notes to Financial Statements
September 30, 2020 and 2019

(11) Risk Management

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Company has elected to purchase commercial insurance for the risks of loss to which it is exposed. The Company claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. During the year ended September 30, 2020, the Company has collected \$63,106 of insurance proceeds.

(12) Related Parties

The Company has entered into significant transactions with the State, as discussed in Note 9. Several board members and officers of the Company hold management positions and other positions of influence with the State. Furthermore, included in employee and director receivables are \$15,092 and \$5,983, at September 30, 2020 and 2019, respectively, of amounts owed by previous board members and current management for reimbursement of travel expenses, net of an allowance for doubtful accounts of \$20,304 and \$33,013, at September 30, 2020 and 2019, respectively.

(13) Contingencies

Loss from Operations

DSI has incurred losses from operations of \$619,224, \$2,098,779 and \$286,559 for the years ended September 30, 2020, 2019, and 2018, respectively. DSI depends on its fishing activities to continue its operations. However, DSI is behind in paying its current liabilities. The Company has entered into a loan with a financial institution to support maturing obligations. For the last three years, the Company has not received subsidies from the State or the National government. The continuation of DSI's operations is dependent upon successful fishing activities, improvement in external industry factors, and on time collection from fish brokers. In addition, in order for DSI to continue as a going concern, it may need to improve its cash management, reduce operating expenses, and obtain support from the State or the National government.

Loss on Online Fraud

During the year ended September 30, 2020, DSI reported a \$200,000 loss due to online fraud. DSI is using its best effort to recover this amount and will recognize any recoveries as collected.

Dry Docking

Management anticipated dry docking costs of the Mathawmarfach vessel in 2022 will estimate \$1,500,000.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2020 and 2019

(14) Subsequent Events

As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen which may have negative impacts on the Company's financial and operational results. Such potential impacts are unknown at this time.

Management has considered subsequent events through November 30, 2021, the date upon which the financial statements were available to be issued. Except for the matter discussed above, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2020.

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

The Board of Directors
Diving Seagull, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Diving Seagull, Inc. (the Company), which comprise the statement of net position as of September 30, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

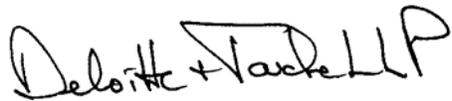
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 30, 2021

DIVING SEAGULL, INC.
(A COMPONENT UNIT OF THE YAP STATE GOVERNMENT)

Unresolved Prior Year Findings
Year Ended September 30, 2020

There are no prior year findings unresolved as of September 30, 2020.