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November 30, 2021

The Board of Directors
Diving Seagull, Inc.

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Diving Seagull, Inc. (the Company or DSI), a component unit of the Yap State Government, as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated November 30, 2021.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

This report is intended solely for the information and use of management, the Board of Directors, others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte & Touche LLP

cc: The Management of the Diving Seagull, Inc.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated January 14, 2021. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on whether the statement of net position of DSI 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 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2020.

- To report on DSI's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2020 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

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.

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SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

We have evaluated the significant qualitative aspects of the Company’s practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended September 30, 2020, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Misstatements that were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period are included in Appendix A to Attachment I. Additionally, we have attached as Appendices B and C to Attachment I, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior periods presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as DSI's 2020 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that DSI issues an Annual Report or other documentation that includes the audited financial statements, we will read the other information in DSI's 2020 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 2020 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2020.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

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MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

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.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated November 30, 2021, concerning certain matters involving the Company's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*.

We have communicated to management, in Attachment II, certain deficiencies in internal control over financial reporting and other matters that we identified during our audit.

The definition of a deficiency is also set forth in Attachment II.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment III and should be read in conjunction with this report.

* * * * * *

ATTACHMENT I

Diving Seagull Inc.
P.O. Box 1036
Colonia Yap
FM 96943

Tel: (691) 350-4796
Fax: (691) 350-4811
Email: car@mail.fm

November 30, 2021

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of the Diving Seagull, Inc. (the Company or DSI), a component unit of Yap State Government, as of and for the years ended September 30, 2020 and 2019 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, changes in net position and cash flows of the Company in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position, changes in net position and cash flows, in accordance with GAAP.

b. 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; and

- To prevent and detect fraud.

c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the adjusting entries included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in accordance with GAAP. In addition:

   a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

   b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

   c. Deposits are properly classified in the category of custodial credit risk.

   d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   e. Required supplementary information is measured and presented within prescribed guidelines.

   f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Company has made available to you:

   a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

   b. All financial records and related data for all financial transactions of DSI. The records, books, and accounts, as provided to you, record the financial and fiscal operations of DSI and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There has been no:

   a. Action taken by the Company management that contravenes the provisions of federal laws and Federated States of Micronesia (FSM) laws and regulations or of contracts and grants applicable to the Company and for all funds administered by the Company.

   b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole for each opinion unit. A summary of such uncorrected misstatements has been attached as Appendix B.

6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2019 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.

7. We understand liabilities were tested using statistical or other sampling techniques and that certain errors in recording liabilities as of September 30, 2019 were found by you in the sample items selected. The effect of factual errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix C. We also understand that to estimate the total amount of errors in liabilities, a mathematical projection of the errors has been computed, which results in a potential understatement of $19,350 of liabilities at September 30, 2019 and a potential understatement of $19,350 of expenses incurred for the year ended September 30, 2019. Only additional testing and verification by either the Company or you would produce a more accurate estimate of the errors within the liabilities. Such potential misstatement is not included as part of Appendix C. Based on our judgment of the materiality of the misstatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix C, are immaterial to the financial statements taken as a whole.

8. The Company has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in DSI and do not believe that the financial statements are materially misstated as a result of fraud.

9. We have no knowledge of any fraud or suspected fraud affecting the Company involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others, where the fraud could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by employees, former employees, analysts, regulators, or others.

11. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

12. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Company's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Company is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets and liabilities.

13. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Company's ability to initiate, record, process, and report financial information.

14. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

15. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, immaterial matters less than $18,600 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

16. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded and reflected in the financial statements.

17. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

18. Regarding related parties:

    a. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

    c. The Company leases the fishing vessel and 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.

    d. 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 is $15,092 and $5,983 at September 30, 2020 and 2019, respectively, of amounts owed by previous board members and current management to the Company for reimbursement of travel expenses, net of allowance for doubtful accounts of $20,304 and $33,013 at September 30, 2020 and 2019, respectively.

19. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

    We are not aware of any estimates at September 30, 2020 that may change and that the effect of the change would be material to the financial statements.

20. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

21. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report.*

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

22. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the notes to the financial statements.

23. The Company has complied with all aspects of contractual agreements that may affect the financial statements.

24. No corporation or agency of the Federal Government, the FSM National Government or Yap State Government has reported a material instance of noncompliance to us.

25. 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.

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    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.

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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.

26. 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.

27. We believe that all expenditures that have been deferred to future periods are recoverable.

28. No events have occurred after September 30, 2020, but before November 30, 2021, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,

Carmen Kigimnang
General Manager

APPENDIX A

Diving Seagull, Inc.
Summary of Corrected Misstatements and Reclassifying Journal Entries
September 30, 2020

GL Account	Name	Debit	Credit
	1 AJE To reconcile beginning net position		
39005	Retained Earnings	43,054.58	
7213F	Loan Fees & Penalties 2993		43,054.58
	To reconcile audited beginning net position	43,054.58	43,054.58
	2 AJE To reconcile GL and FA register		
7224	Gain/Loss on Asset Disposal	94,751.10	
1721	A/D - Mathawmarfach and net		5,518.10
1721S	A/D - Yap Seagull and net		85,832.33
1722	A/D - Fach Leasehold Imprvemnt		3,400.67
	To reconcile GL with FA register.	94,751.10	94,751.10
	3 AJE To adjust prepaid insurance		
1411	Prepaid Insurance	10,679.12	
5341M	Vessel insurance - Mathwfach		5,339.56
5342S	Vessel insurance - Yap Seagull		5,339.56
	To recognize prepaid insurance at year-end.	10,679.12	10,679.12
	5 AJE To adjust allowance for doubtful accounts		
7221	Bad debt expense	21,982.99	
1352	Allowance for DA - Employee		21,982.99
	To adjust understatement of allowance for doubtful accounts.	21,982.99	21,982.99

Summary of Reclassifying Journal Entries

GL Account	Name	Debit	Credit
	1 RJE To reclass current portion of BFSM LTD		
2514	L/T Debt - FSMDB Loan 6472	118,942.76	
2311	Current portion of BFSM Loan		118,942.76
	To reclass current portion of the LTD for FS presentation purposes.	118,942.76	118,942.76
	2 RJE To reclass loss from online fraud		
7216	Other non-operating expense	200,000.00	
5411M	Fuel, Oil & Lube - Mathwfach		200,000.00
	To reclass loss from online fraud	200,000.00	200,000.00

APPENDIX A, CONTINUED

	3 RJE To reclass operations related expenses		
6371	Bank Charges - Admin	548.93	
6651DT	Interest and penalties - broker	59,798.79	
7206	Interest Expense - Broker		59,798.79
7208	Interest Expense - Credit Card		548.93
	To reclass operations related expenses.	60,347.72	60,347.72

Signed: ______________________
Julian Tharngan
Accountant

Signed: ______________________
Carmen Kigimnang
General Manager

APPENDIX B

Diving Seagull, Inc.
Summary of Current Year Uncorrected Misstatements
September 30, 2020

	Statement of Net Position			Statement of Revenues, Expenses, and Changes in Net Position
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Beginning of Year Dr (Cr)	Dr (Cr)
PAJE # 1 – Understatement of crew payroll		(44,279)		44,279
Total	-	(44,279)	-	44,279

APPENDIX C

Diving Seagull, Inc.
Summary of Prior Year Uncorrected Misstatements Identified in Current Year
September 30, 2019

	Statement of Net Position			Statement of Revenues, Expenses, and Changes in Net Position
Entry Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Net Position Beginning of Year Dr (Cr)	Dr (Cr)
PAJE # 1 – Understatement of crew payroll		(17,723)		17,723
PAJE # 2 - Understatement of expenses		(12,963)		12,963
Total	-	(30,686)	-	30,686

SECTION I – SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in DSI's internal control over financial reporting to be a significant deficiency as of September 30, 2020:

1. **Dry Docking Costs**

Comment: The following were noted in test of dry docking costs:

a. DSI requires five quotations from potential and qualified vendors prior to selection and awarding of dry dock service contract with Board's approval. However, procurement documentation relative to Yap Seagull vessel dry docking in FY2020 was not available for examination. In addition, written procurement policy specific for this recurring activity was not available.

b. Formal invoices of the following dry dock transactions were not timely filed:

Reference No.	Reference Date	Check No.	Amount
Nil	November 18, 2019	12469	28,500
2020-07	March 3, 2020	12636	1,340

Recommendation: We recommend that management adopt procurement policies and procedures governing the selection of dry dock service contractor. Formal invoices should be timely filed.

2. **Crew Travels**

Comment: The following were noted in test of travel expenses:

a. Certain travel documents on file have missing flight details to ascertain the propriety of travel expenses.

b. Contract and supplies expenses of $4,428 were improperly included as travel expenses.

c. A travel expense of $515 lacked timely documentation supporting business justification.

d. Adequate documentation of management review on crew travels was not evident.

e. Formal written policy governing crew travel was not available.

Recommendation: We recommend that management adequately document independent review process of crew travels and implement formal written policy governing crew and non-crew travels.

SECTION II - DEFICIENCIES

We identified, and have included below, deficiencies involving DSI's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. **Loss on Online Fraud**

Comment: In March 2020, DSI has lost $200,000 due to a cybercrime activity. While DSI has sought legal services, the money has yet to be recovered.

SECTION II – DEFICIENCIES, CONTINUED

1. **Loss on Online Fraud, Continued**

Recommendation: We recommend that management thoroughly review vendor communications and perform adequate verification process to properly address potential cybercrime activities.

2. **Fuel Expenses**

Comment: The following were noted in test of fuel expenses:

Reference No.	Reference Date	Amount	Missing Formal Invoice	Missing Delivery Receipt
11465	November 26, 2019	$ 27,623	x	X
2007-0252	July 27, 2020	108,630	x	-
Nil	March 10, 2020	102,418	x	x
2007-0137	July 15, 2020	90,840	x	x

Fuel invoice no. 17-001 dated April 1, 2020 amounted $12,960 and its corresponding delivery receipt were not timely filed.

Recommendation: We recommend that management maintain adequate documentation for filing and monitoring purposes.

3. **Accounts Payable**

Comment: An unidentified $7,221 reconciling item was included in the subsidiary ledger.

Recommendation: We recommend that management timely reconcile the subsidiary ledger.

4. **Accrued Crew Payroll**

Comment: The subsidiary ledger comprising the details of accrued crew payroll at year-end was not available.

Recommendation: We recommend that management timely document and reconcile the accrued crew payroll subsidiary ledger.

5. **Receivables**

Comment: The following were noted in relation to receivables.

a. Due from previous officers amounted $35,396 at September 30, 2020, of which $8,448 has no collection during the year. Of the total outstanding balance, $19,859 was provided with allowance.

b. Crew advances amounted $42,065 was past due over a year. Additional allowance of $21,983 was recognized during the year.

Recommendation: We recommend that management pursue timely collection and monitoring of advances.

SECTION III – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Payroll

Comment: DSI does not have a formal written policy for payroll processing and overtime charges.

Recommendation: We recommend that management document payroll processes in a formal written policy.

2. Crew and Vessel Management Food and Supply Provisioning

Comment: During the Yap Seagull vessel dry docking, meals consumed at various restaurants were included in the liquidation report outside of the weekly food provisioning for the entire crew. DSI does not have a formal written policy governing the processing of these type of transactions.

Recommendation: Management may wish to adopt formal written policy governing the approach to process costs associated with crew and vessel management food provisioning to facilitate cost monitoring and control.

SECTION IV – DEFINITION

The definition of a deficiency, a material weakness, and a significant deficiency are as follow:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

DSI's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.