

May 19, 2015

Board of Directors  
The Diving Seagull, Inc.:

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of The Diving Seagull, Inc. (DSI) as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated May 19, 2015.

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 DSI is responsible.

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

Our responsibility under generally accepted auditing standards and the 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 September 2, 2014. 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, 2014 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, 2014.
- 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, 2014 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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 DSI'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 DSI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DSI's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in DSI's 2014 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2014, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## **AUDIT ADJUSTMENTS 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. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on DSI's financial reporting process. Such proposed adjustments, listed in Attachment I to this letter, have been recorded in the accounting records and are reflected in the 2014 financial statements. .

In addition, Appendix A to Attachment II summarizes uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **SIGNIFICANT ACCOUNTING POLICIES**

DSI's significant accounting policies are set forth in Note 1 to DSI's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by DSI:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on DSI's 2014 financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of DSI.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of DSI.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of DSI.

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as DSI's 2014 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. We will read the other information in DSI's 2014 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.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to DSI's 2014 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 2014.

## **MANAGEMENT'S REPRESENTATIONS**

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

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

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

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated May 19, 2015, 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, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have identified, and included in the attached Attachment III, deficiencies related to the Company's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention.

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

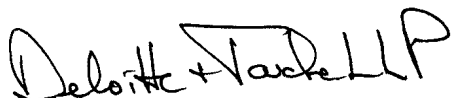
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment IV and should be read in conjunction with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

\* \* \* \* \*

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

We wish to thank the staff and management of DSI for their cooperation and assistance during the course of this engagement.

Very truly yours,


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

**ATTACHMENT I**  
**Journal Entries - AJE**

#	Name	Debit	Credit
<b>1 AJE Insurance gain</b>			
4311A	Other Income	320,046.66	-
5341M	Vessel insurance - Mathwfach	-	15,000.00
7911	Other income/expenses - Admin	-	6,944.43
7215 ✓	Insurance gain	-	298,102.23
		<u>320,046.66</u>	<u>320,046.66</u>
	Insurance proceeds for two claims		
<b>2 AJE Cash posting error</b>			
1111	CIB - BFSM Checking	37,789.16	-
2211	Accrued payroll - Mathawfach	-	3,750.29
2212	Accrued payroll - Yap Seagull	-	2,618.72
5351M	Fish Fees and licenses - Fach	-	600.00
5351S	FishFees and license - Seagull	-	600.00
5612S	Port and agent fees - Seagull	-	29,920.15
6424	Other fees - Admin	-	300.00
		<u>37,789.16</u>	<u>37,789.16</u>
	Posting error of cash reconciling items		
<b>3 AJE Deposit in transit error</b>			
1111	CIB - BFSM Checking	-	671,650.00
1312	Broker receivable/pay - Seagul	671,650.00	-
		<u>671,650.00</u>	<u>671,650.00</u>
	Deposit erroneously recorded in FY2014		
<b>4 AJE Fish rejection adjustment</b>			
7913	Prior Period Adjustments	-	133,186.32
7216 ✓	Other non-operating expense	133,186.32	-
		<u>133,186.32</u>	<u>133,186.32</u>
	Fish rejection adjustment		

We have reviewed the audit adjustments summarized above and agreed that they should be recorded in the general ledger as of September 30, 2014. These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

  
 Carmen Kigimnang  
 General Manager

  
 Gertrude Gootinan  
 Accountant

5/15/15

5/15/15





# DIVING SEAGULL, INCORPORATED

P.O. Box 1036

Colonia, Yap 96943

Tel: (691)350-4796 Fax: (691)350-4811

Email: [car@mail.fm](mailto:car@mail.fm)



May 19, 2015

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

We are providing this letter in connection with your audits of the statements of net position of The Diving Seagull, Inc. (the Company or DSI), a component unit of the State of Yap, as of September 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of the Company's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with GAAP.
- b. The fair presentation of the information included in supplemental schedules and Management's Discussion and Analysis accompanying the basic financial statements.
- c. The design, implementation and maintenance of programs and controls to prevent and detect fraud related to federal awards.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. 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.

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 conformity with accounting principles generally accepted in the United States of America. In addition:
  - a. Net position components (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved.
  - b. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating and non-operating revenues and expenses.
  - c. Capital assets are properly capitalized, reported and depreciated.
2. 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.
3. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
4. The Company has made available to you all:
  - a. Public laws entered by the Yap State's Legislature pertaining to the Company and to the operations of the Company as well as minutes of meetings of the Company's Board of Directors.
  - b. Financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company 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.
  - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. The following is a complete schedule of all Board meetings during fiscal year 2014 and through the date of this letter:

Board of Meeting Minutes - from No. 66 through No. 124



5. There have been no:
  - a. Action taken by the Company's management that contravenes the provisions of Yap State 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.
6. 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, or (c) others if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, or others.
8. 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. A summary of such uncorrected misstatements has been attached as Appendix A.
9. We believe the effects of the uncorrected financial statement misstatements detected in the current audit engagement and pertaining to the prior period presented, when combined with those misstatements aggregated by you during the prior period audit engagement and pertaining to the prior period presented are immaterial, both individually and in the aggregate, to the financial statements for September 30, 2014 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
11. 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.
12. 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.
13. 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.
14. 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 the Company and do not believe that the financial statements are materially misstated as a result of fraud.



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

Except where otherwise stated below, matters less than \$30,800 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 financial statements.

16. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
17. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
18. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:
- a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
19. In preparing the financial statements in conformity 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 at least 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, 2014 that may change and that the effect of the change would be material to the financial statements.

20. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements;
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact; and
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
21. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss

contingency.

- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
22. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with requirements of OMB Circular A-133, and 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. Although Yap State Finance has maintenance over the files, the Company is responsible for approving transactions over revenues, obligations, expenditures, assets, and liabilities in compliance with the requirements mentioned above.
23. 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.
24. The Company has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
25. No department or agency of Yap State has reported a material instance of noncompliance to us.
26. We have disclosed to you that no change in the Company's internal control over financial reporting has occurred during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
27. Loan receivables recorded in the financial statements represent valid claims against debtors for loan or reimbursement or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value. As of September 30, 2014, the outstanding loan balance is considered to be fully collectible and as such, no allowance for loan losses is considered to be necessary.
28. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Company.
29. The Company is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
30. The Company has obligated, expended, received, and used public funds of the Company in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal or local law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal or local law.
31. Money or similar assets handled by the Company on the local governments have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
32. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Company has been discovered.



33. During fiscal year 2014, DSI implemented the following pronouncements

- GASB Statement No. 66, Technical Corrections - 2012, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, Financial Reporting for Pension Plans, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

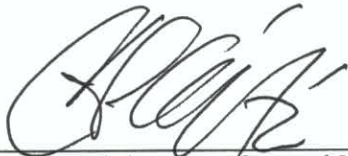
In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, which addresses an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after May XX, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Company.

34. 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.
35. No events have occurred after September 30, 2013, but before May 19, 2015, the date the

financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements except for the following.

On April 30, 2015, a \$1,000,000 bank loan was obtained to fund fishing operations. Interest is at 2.12% and principal is payable in monthly installments of \$17,605, which commences on June 10, 2015.

A handwritten signature in black ink, appearing to read 'C. Kigimnang', written over a horizontal line.


Carmen Kigimnang, General Manager




## APPENDIX A

SUMMARY OF UNCORRECTED MISSTATEMENTS									
Description of Misstatement	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
<b>Current-Period Misstatements:</b>									
PAJE 1									
(Dr) 2111 Accounts payable			11,462						11,462
(Cr) 4311A Other income								11,462	(11,462)
Unreconciled old account payable									
	0	0	11,462	0	0	0	0	11,462	0
<b>Total Uncorrected Misstatements</b>	0	0	22,924	0	0	0	0	22,924	0

The above uncorrected misstatements do not represent fraud or illegal acts.

  
Carmen Kigimang  
General Manager

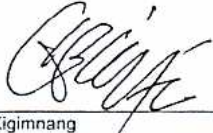
5/15/15

  
Gertrude Gootinan  
Accountant

## APPENDIX B

SUMMARY OF UNCORRECTED MISSTATEMENTS									
Description of Misstatement	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
Prior-Period Misstatements Identified in Prior-Period – Impacting Current Period									
PAJE 2									
(Dr) 7911 Other income / expense							84,410		0
(Cr) 1311 Payable - Fach Accounts				84,410					0
Impact of PY2013 PAJE									
	0	0	0	84,410	0	0	84,410	0	0
Total Uncorrected Misstatements	0	0	0	168,820	0	0	168,820	0	0

The above uncorrected misstatements do not represent fraud or illegal acts.

 5/15/15  
 Carmen Kigimnang  
 General Manager

 5/15/15  
 Gertrude Gootinan  
 Accountant

## SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Company's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

### 1. Petty Cash

Comment: A \$400 unreconciled variance was noted between the general ledger and a petty cash report submitted by a fishing vessel at year-end. The Company also recorded \$180 of petty overages during the fiscal year.

Recommendation: We recommend that management request timely submission of petty cash reports and investigate variances.

### 2. Crew Payroll

Comment: The balance of accrued crew payroll expense increased from the prior year. Management did not make timely payments because some crew members do not have bank accounts. Included in the payroll accrual are balances that are in excess of a year old.

Recommendation: We recommend that management pay salaries timely.

### 3. Delivery Report

Comment: We were not able to agree invoices to vessel delivery reports.

Recommendation: We recommend that management monitor delivery of purchased goods.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

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.

## **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.