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June 25, 2019

The 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. (the Company or DSI), a component unit of Yap State Government, as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 25, 2019.

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.

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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 October 2, 2018. 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, 2018 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, 2018.

- 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, 2018 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, 2018, the Company implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests* – an Amendment of GASB Statements No. 14 and No. 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

We have evaluated the significant qualitative aspects of the Company's practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that 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, 2018, 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 Attachment I. Additionally, we have attached as Appendices A and B to Attachment II, 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 2018 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 2018 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 2018 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE 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 2018.

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.

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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.

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 II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 25, 2019, 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*. Although we have included management's written response to our findings, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have communicated to management, in Attachment III, 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 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.

* * * * * *

ATTACHMENT I

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	1 AJE To correct expense and accrued fines payable		
2111DT	Fines and Penalties Payable -	747,675.22	
5362S	Other expenses - Yap Seagull		747,675.22
	To correct expense and accrued fines payable.	747,675.22	747,675.22
	2 AJE To correct overstatement of TCD and Interest Incom		
7111	Interest income	7,700.45	
1132	CIB - Comm Ayuw Svcs TCD		7,700.45
	To correct overstatement of TCD and interest income.	7,700.45	7,700.45
	3 AJE To recognize interest expense of FSMDB loan		
7213	Interest expense - FSMDB new	82,716.85	
2513	L/T debt - FSMDB Loan		82,716.85
	To recognize interest expense of FSMDB loan during 2018.	82,716.85	82,716.85
	5 AJE To reconcile investments		
1621	Citigroup Investments	76,634.05	
7112	Gain on Investments		76,634.05
	To reconcile investment balance at 9/30/18.	76,634.05	76,634.05
	6 AJE To recognize interest expense for BOG Loan		
7214	Interest expense - BOG loan	17,489.61	
2522	BOG Loan #1508030098		17,489.61
	To recognize interest expense for BOG Loan.	17,489.61	17,489.61
	7 AJE To record prepaid supplies for Yap Seagull		
1422DT	Prepaid Supplies	30,000.00	
5512S	Repair & Maint - Yap Seagull		30,000.00
	To record prepaid supplies.	30,000.00	30,000.00
	8 AJE To accrue insurance expense for FY18		
5341M	Vessel insurance - Mathwfach	31,067.06	
5342S	Vessel Insurance - Yap Seagull	31,067.07	
2111	Accounts payable		62,134.13
	To accrue insurance expense in FY18.	62,134.13	62,134.13

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	9 AJE To accrue unrecorded communication expense		
5331M	Vessel communications - Mathwf	22,667.14	
5332S	Vessel communications - Seagul	22,667.14	
2111	Accounts payable		45,334.28
	To accrue unrecorded communication expense.	45,334.28	45,334.28
	10 AJE To record interest expense for BOG - LOC		
7210DT	Interest expense - BOG LOC	7,662.00	
2523	Bank of Guam - LOC		7,662.00
	To record interest expense for BOG - Line of Credit.	7,662.00	7,662.00
	11 AJE To adjust double recordation of fuel expense		
2111	Accounts payable	237,676.32	
5411M	Fuel, Oil & Lube - Mathwfach		237,676.32
	To adjust double recordation of fuel expense	237,676.32	237,676.32
	12 AJE To capitalize fixed assets		
1712S	Yap Seagull Improvements	4,702.80	
1712	Fach Leasehold improvements	9,245.00	
5512S	Repair & Maint - Yap Seagull		4,702.80
5511M	Repair & Maint - Mathwfach		9,245.00
	To capitalize fixed assets.	13,947.80	13,947.80
	13 AJE To recognize depreciation expense for FY18		
6611	Depreciation expense	6,980.19	
1721	A/D - Mathawmarfach and net		133,068.74
1721S	A/D - Yap Seagull and net		289,056.26
1722	A/D - Fach Leasehold Imprvemnt		134,237.38
1722S	A/D - Yap Seagull Improvements		17,872.77
1723	A/D - Computer and ofc equip		2,333.52
5711M	Depreciation - Mathwfach	267,306.12	
5712S	Depreciation - Yap Seagull	306,929.03	
1725	A/D - Vehicle		4,646.67
	To recognize depreciation expense for FY18.	581,215.34	581,215.34
	14 AJE To reconcile fish sales - Mfach		
4111M	Fish sales - Mathawmarfach	667,179.57	
1311	Broker receivable/pay - Fach		667,179.57
	To reconcile fish sales of Mfach.	667,179.57	667,179.57

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	15 AJE To recognize FY18 accrued liability to Winson		
5411M	Fuel, Oil & Lube - Mathwfach	491,813.00	
2111	Accounts payable		491,813.00
	To recognize FY18 accrued liability to Winson for Fuel expense incurred in FY18	491,813.00	491,813.00
	16 AJE To accrue unrecorded port and agent fees incurred		
5611M	Port and agent fees - Mathwfac	105,512.31	
5612S	Port and agent fees - Seagull	83,930.23	
2111	Accounts payable		189,442.54
	To accrue unrecorded port and agent fees incurred in FY18	189,442.54	189,442.54
	17 AJE To correct recording of payment for FY17 expenses		
5411M	Fuel, Oil & Lube - Mathwfach	31,569.63	
5311M	Management fee - Mathawmarfach	90,986.05	
5211M	Transportation - Mathwmarfach	29,764.16	
2111	Accounts payable		152,319.84
	To correct recording of payment for FY17 expenses.	152,319.84	152,319.84
	18 AJE To recognize accrued liability to Clipper Oil		
5411M	Fuel, Oil & Lube - Mathwfach	70,326.37	
2111	Accounts payable		70,326.37
	To recognize accrued liability to Clipper Oil for fuel expense incurred in FY18.	70,326.37	70,326.37
	19 AJE To accrue unrecorded observer fees incurred in FY18		
5351M	Fish Fees and licenses - Fach	41,976.58	
2111	Accounts payable		41,976.58
	To accrue unrecorded observer fees incurred in FY18.	41,976.58	41,976.58
	20 AJE To recognize accrued liability to Haisoon		
5411M	Fuel, Oil & Lube - Mathwfach	158,015.00	
2111	Accounts payable		158,015.00
	To recognize accrued liability to Haisoon for Fuel expense incurred in FY18.	158,015.00	158,015.00

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	21 AJE To recognize other expenses to Ron Steckel		
5362S	Other expenses - Yap Seagull	41,215.22	
2111	Accounts payable		41,215.22
	To recognize other expenses to Ron Steckel for various parts and supplies incurred in FY18	41,215.22	41,215.22
	22 AJE To accrue unrecorded transportation expense incurred		
5211M	Transportation - Mathwmarfach	39,041.34	
2111	Accounts payable		39,041.34
	To accrue unrecorded transporation expense incurred in FY18.	39,041.34	39,041.34
	23 AJE To correct double recordation of fuel expense		
2111	Accounts payable	139,905.00	
5412S	Fuel, Oil & Lube - Yap Seagull		139,905.00
	To correct double recordation of fuel expense.	139,905.00	139,905.00
	24 AJE To correct double recordation of fuel expense		
2111	Accounts payable	157,707.27	
5411M	Fuel, Oil & Lube - Mathwfach		89,300.00
5412S	Fuel, Oil & Lube - Yap Seagull		68,407.27
	To correct double recordation of fuel expense.	157,707.27	157,707.27
	25 AJE To record fuel expense for Winson		
5412S	Fuel, Oil & Lube - Yap Seagull	148,446.72	
2111	Accounts payable		148,446.72
	To record fuel expense for Winson.	148,446.72	148,446.72
	26 AJE To correct payment of fishing fees		
2111	Accounts payable	200,000.00	
5411M	Fuel, Oil & Lube - Mathwfach		100,000.00
5412S	Fuel, Oil & Lube - Yap Seagull		100,000.00
	To correct recording of payment of fishing fees.	200,000.00	200,000.00

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	27 AJE To correct understatement of management fees		
2241	Accr management fee - Mfach		91,407.18
2242	Accr management fee - Seagull		68,787.64
5311M	Management fee - Mathawmarfach	91,407.18	
5312S	Management fee - Yap Seagull	68,787.64	
	To correct understatement of management fees.	160,194.82	160,194.82
	28 AJE To correct double recordation of payroll expense		
1212	Crew Advance Yap Seagull	18,000.00	
2122	Crew salaries payable - Seagul	94,533.75	
2222	Accrued SS tax - Yap Seagull	731.25	
2224	Accrued SS tax - Employer	731.25	
5332S	Vessel communications - Seagul	3,360.00	
5112S	Payroll - Yap Seagull		116,625.00
5122S	SS Contrib - Yap Seagull		731.25
	To correct double recordation of payroll expense.	117,356.25	117,356.25
	29 AJE To record additional payroll expense		
5111M	Payroll - Mathawmarfach	144,436.00	
2121	Crew Salaries payable - Fach		144,436.00
	To record additional payroll expense for FY18.	144,436.00	144,436.00
	30 AJE To correct petty cash balance		
5362S	Other expenses - Yap Seagull	15,069.35	
1102	Petty cash - Yap Seagull		15,069.35
	To reconcile petty cash balance	15,069.35	15,069.35
	31 AJE To accrue unrecorded fuel expense for Clippper		
5412S	Fuel, Oil & Lube - Yap Seagull	20,805.84	
5411M	Fuel, Oil & Lube - Mathwfach	153,000.00	
2111	Accounts payable		173,805.84
	To accrue unrecorded fuel expense in FY18 for Clipper.	173,805.84	173,805.84

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	32 AJE To record various expenses applied to AP		
5331M	Vessel communications - Mathwf	10,564.38	
5611M	Port and agent fees - Mathwfac	37,004.47	
5511M	Repair & Maint - Mathwfach	28,902.14	
5111M	Payroll - Mathawmarfach	1,492.00	
2111	Accounts payable		77,962.99
	To record various expenses applied to AP.	77,962.99	77,962.99
	33 AJE To correct double recordation of reimbursement		
1341	Other receivables	33,585.14	
2111	Accounts payable		33,585.14
	To correct double recordation of airfare reimbursement.	33,585.14	33,585.14
	34 AJE To reconcile fish sales - Yap Seagull		
4121S	Fish sales - Yap Seagull	104,458.13	
1312	Broker receivable/pay - Seagul		104,458.13
	To reconcile fish sales - Yap Seagull.	104,458.13	104,458.13
	1 CAJE To correct beginning retained earnings		
39005	Retained Earnings	1,125.25	
1111	CIB - BFSM Checking		1,125.25
	To correct beginning retained earnings.	1,125.25	1,125.25
	1 RJE To reclass current portion of FSMDB loan		
2513	L/T debt - FSMDB Loan	31,669.00	
2311	Current portion of BFSM Loan		31,669.00
	To reclass current portion of FSMDB loan for FS disclosure.	31,669.00	31,669.00
	2 RJE To reclass fixed asset addition		
1711S	FV Yap Seagull & Nets	50,000.00	
1712	Fach Leasehold improvements		50,000.00
	To reclass fixed asset addition.	50,000.00	50,000.00
	3 RJE To reclass current portion of BOG loan		
2522	BOG Loan #1508030098	4,703.00	
2312	Current portion of BOG Loan		4,703.00
	To reclass current portion of the BOG loan for FS disclosure.	4,703.00	4,703.00

Diving Seagull, Inc
Summary of Corrected Misstatements and Reclassifications
September 30, 2018

GL Code	GL Account	Debit	Credit
	4 RJE To reclassify fuel expense		
5411M	Fuel, Oil & Lube - Mathwfach	61,077.92	
5511M	Repair & Maint - Mathwfach		61,077.92
	To reclassify fuel expense.	61,077.92	61,077.92
	5 RJE To reclassify current portion of Nauru fines		
2113DT	Fines and Penalties - Non Curr	200,000.00	
2112DT	Fines and penalties payable - Current		200,000.00
	To reclassify current portion of Nauru fines.	200,000.00	200,000.00

We have reviewed the audit adjustments summarized above and agreed that they should be recorded in the general ledger as of September 30, 2018. These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

Signed: _____
Barbara T. Yow - Accountant

Noted: _____
Carmen Kiginhang - General Manager

ATTACHMENT II

June 25, 2019

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

We are providing this letter in connection with your audits of the statements of net position of the The Diving Seagull, Inc. (the Company or DSI), a component unit of Yap State Government, as of September 30, 2018 and 2017 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, 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 accounting principles generally accepted in the United States of America.

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

   - 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.

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 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 (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved.

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

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

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

   f. Capital assets are properly capitalized, reported and depreciated.

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 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.

4. There have been no:

   a. Action taken by the Company's management that contravenes the provisions of federal 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, 2017 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.

7. 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.

8. 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.

9. 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.

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

Except where otherwise stated below, matters less than $31,800 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.

15. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

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

17. 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 $9,121 and $11,421 at September 30, 2018 and 2017, respectively, of amounts owed by previous board members and current management to the Company for reimbursement of travel expenses, net of an allowance for doubtful accounts of $33,013, in each of those years.

18. 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 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, 2018 that may change and that the effect of the change would be material to the financial statements.

19. 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*.

20. 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.

21. 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.

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

23. 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.

24. During fiscal year 2018, DSI implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset

retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests* – an Amendment of GASB Statements No. 14 and No. 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

25. 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.

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

27. No events have occurred after September 30, 2018, but before June 25, 2019, the date the financial statements were available to be issued that require consideration as

adjustments to or disclosures in the financial statements.

Carmen Kigimnang
General Manager

Diving Seagull, Inc. Colonia, Yap, P.O. Box 1036 FM 96943|Tel: (691)350-4796 Fax:3504811 Email:car@mail.fm

APPENDIX A

Diving Seagull, Inc.
Summary of Current Year Uncorrected Misstatements
September 30, 2018

Description	Type of Misstatement	Assets		Liabilities		Net Position		Income Statement	
		Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
Understatement of fuel inventory	SAP	14,302							(14,302)
Understatement of legal expense	Factual				(7,500)			7,500	
Overstatement of communication expense	Factual			25,000					(25,000)
Net effect		**14,302**	**-**	**25,000**	**(7,500)**	**-**	**-**	**7,500**	**(39,302)**

APPENDIX B

Diving Seagull, Inc.
Summary of Prior Year Uncorrected Misstatements Identified in Current Year
September 30, 2018

Description	Type of Misstatement	Assets		Liabilities		Net Position		Income Statement	
		Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
Understatement of communication expense	Factual				(41,028)			41,028	
Understatement of various expenses	Factual				(122,555)			122,555	
Net effect		-	-	-	**(163,583)**	-	-	**(163,583)**	-

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving DSI's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1. Receivable

Comment: Credit card receivables of $42,134 remain outstanding as of September 30, 2018 wherein $39,565 of the amount exhibited no collections during the year. An understatement of the allowance for bad debts of $6,552 was identified. As the amount is not considered material to the financial statements, no adjustment was proposed.

Recommendation: We recommend that management improve collection efforts and provide adequate allowance for the uncollectible amounts.

2. Depreciation Expense

Comment: Depreciation expense was not timely calculated and recorded during the fiscal year 2018. An adjustment of $518,215 was proposed and recorded during the audit process.

Recommendation: We recommend that management timely perform calculations and recordation of depreciation expense.

3. Fuel Inventory

Comment: Fuel inventory at September 30, 2018 was understated by $14,302. As the amount was not considered material to the financial statements, no adjustment was proposed.

Recommendation: We recommend that management perform timely reconciliation of fuel inventory and adjustment of variances.

4. Other Expenses

Comment: 1 of 38 other expenses tested lacked a supporting invoice and payment support.

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

SECTION II – 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 management document payroll processes in a formal written policy.

2. **Travel Policy**

   Comment: DSI has not implemented a formal written travel policy for management and crew member trips.

   Recommendation: We recommend management implement a travel policy to document approval and trip completion.

SECTION III – 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.