

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

The Board of Directors

:

Report on the Financial Statements

We have audited the accompanying financial statements of the Diving Seagull, Inc. (the Company), a component unit of the Yap State Government, which comprise the statements of net position as of September 30, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Diving Seagull, Inc. as of September 30, 2021 and 2020, and the changes in its financial position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, the Company has incurred losses from operations for the years ended September 30, 2018, 2019 and 2020. The continuation of the Company's operations is dependent upon successful fishing activities, improvement in external industry factors, and on time collection from fish brokers. In addition, in order for the Company to continue as a going concern, it may need to improve its cash management, reduce operating expenses, and obtain support from the State or the National government. Our opinion is not modified with respect to this matter.

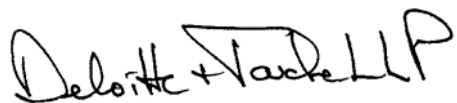
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2023, on our consideration of the Diving Seagull, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Diving Seagull, Inc.'s internal control over financial reporting and compliance.



January 19, 2023

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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

The total assets of \$6,391,468 at the end of fiscal year 2021 represent a 7% increase from 2020. By assessment, in 2020, the total assets decreased by 21% from 2019 with assets of \$5,972,373 and \$7,558,931 respectively.

The operating revenue generated from fish sales and other income of \$8,329,907 represents an increase of 79% from 2020. There were more fishing trips in year 2021 in comparison to year 2020.

The Company ended fiscal year 2021 with operating income of \$973,433, which represents an increase in operating income as compared to fiscal year 2020 which had an operating loss of \$619,224. The Company will implement plans to continue to improve fish sales and the amount of fishing trips necessary to prevent future loss.

The following table summarizes the financial conditions and results of operations of the Company for 2019, 2020 and 2021.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>Assets:</u>			
Property and equipment, net	\$ 1,763,972	\$ 1,786,993	\$ 2,040,403
Current assets	4,372,272	3,500,041	3,110,291
Other assets	255,224	685,339	2,408,237
Total assets	\$ <u>6,391,468</u>	\$ <u>5,972,373</u>	\$ <u>7,558,931</u>
<u>Liabilities and net position</u>			
<u>Liabilities:</u>			
Long-term debt, net of current portion	\$ 2,293,762	\$ 2,479,345	\$ 841,967
Current portion of long-term debt	134,819	118,943	140,394
Other current liabilities	2,486,008	2,995,105	5,296,538
Total liabilities	<u>4,914,589</u>	<u>5,593,393</u>	<u>6,278,899</u>
<u>Net Position:</u>			
Net investment in capital assets	1,763,972	1,786,993	1,198,436
Restricted	4,321	4,319	2,171,023
Unrestricted	<u>(291,414)</u>	<u>(1,412,332)</u>	<u>(2,089,427)</u>
Total net position	<u>1,476,879</u>	<u>378,980</u>	<u>1,280,032</u>
Total liabilities and net position	\$ <u>6,391,468</u>	\$ <u>5,972,373</u>	\$ <u>7,558,931</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Revenue, Expense, and Changes in Net position

Operating revenue	\$ 8,329,907	\$ 4,651,429	\$ 6,765,672
Cost of sales	(7,196,279)	(4,952,881)	(8,541,897)
Operating expenses	<u>(160,195)</u>	<u>(317,772)</u>	<u>(322,554)</u>
Net operating revenues (loss)	973,433	(619,224)	(2,098,779)
Non operating revenue (expense)	<u>124,466</u>	<u>(281,828)</u>	<u>(56,592)</u>
Change in net position	\$ <u>1,097,899</u>	\$ <u>(901,052)</u>	\$ <u>(2,155,371)</u>

Capital Assets and Debt

The Company's acquisition of capital assets in 2021 was related to improvements in machinery and equipment on the vessels with more developed fishing technology which is necessary for efficient fishing. The new additions to capital assets include new fishing nets for each vessel and also new fish aggregating devices. For additional information concerning capital assets, please refer to note 6 to the financial statements.

In 2021, the Company continued to pay off a long-term loan that was obtained in 2019 in the amount of \$2,608,523 with an interest rate of 4%. The purpose of this loan was to assist primarily in funding the dry-docking of the fishing vessel Yap Seagull. For further information concerning debt, please refer to note 8 to the financial statements.

Plan of Action for 2021 – Economic Outlook

Challenges that the Company faces, such as: Vessel Day Scheme (VDS) fishing days at \$4,000 per day, COVID19 Pandemic strict port regulations, banning high seas FAD fishing, multiple fish/licensing fees, etc. causes some difficulties in the operations of the Company. Management and the Board of Directors have raised concerns related to new regulations that make fishing difficult for its economic value to the Company.

Below are some plans for the Company to improve its operations in 2022:

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

Ongoing Plan of action in 2021:

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

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Financial Management Contact

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

The Management Discussion and Analysis for the year ended September 30, 2020 is set forth in the Company's report on the audit of the financial statements, which is dated November 30, 2021. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be viewed at the FSM Office of the Public Auditor's website.

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

Statements of Net Position
September 30, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 451,891	\$ 855,405
Time certificates of deposit	569,907	569,907
Investments	1,776,681	1,530,339
Employee and director receivables, net	35,703	15,537
Other receivables, net	795,185	-
Prepaid expenses	5,227	10,678
Fuel inventory	307,560	88,057
Current portion of deferred dry dock cost	430,118	430,118
Total current assets	4,372,272	3,500,041
Restricted cash and cash equivalents	4,321	4,319
Long-term deferred dry dock cost, net of current portion	250,903	681,020
Property and equipment, net	1,763,972	1,786,993
	\$ 6,391,468	\$ 5,972,373
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Current portion of long-term debt	\$ 134,819	\$ 118,943
Accounts payable	476,704	284,812
Net payable to broker	330,064	1,355,500
Accrued expenses	1,679,240	1,354,793
Total current liabilities	2,620,827	3,114,048
Long-term debt, net of current portion	2,293,762	2,479,345
Total liabilities	4,914,589	5,593,393
Commitments and contingencies		
Net position:		
Net investment in capital assets	1,763,972	1,786,993
Restricted	4,321	4,319
Unrestricted	(291,414)	(1,412,332)
Total net position	1,476,879	378,980
	\$ 6,391,468	\$ 5,972,373

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Fish sales	\$ 8,339,213	\$ 4,637,529
Other revenues (expenses)	(9,306)	13,900
Total operating revenues	8,329,907	4,651,429
Cost of sales	7,196,279	4,952,881
Net revenue (loss)	1,133,628	(301,452)
Operating expenses:		
Payroll, taxes and benefits	68,481	74,962
Professional fees	38,708	52,287
Communications and utilities	25,377	23,269
Office expenses	12,757	15,602
Rent	12,384	15,436
Board fees and expenses	8,560	6,411
Bank loan fees	8,332	14,612
Depreciation and amortization	5,055	2,341
Miscellaneous	4,919	3,582
Insurance	936	992
Interest and penalties - brokers	-	59,799
Travel	-	26,251
(Recovery from) provision for bad debts	(25,314)	22,228
Total operating expenses	160,195	317,772
Earnings (loss) from operations	973,433	(619,224)
Nonoperating (expenses) revenues , net:		
Interest expense, net	(113,460)	(132,398)
Investment income, net	246,342	97,206
Insurance recovery proceeds and other	1,700	63,106
Loss on asset disposal	(10,116)	(109,742)
Loss on online fraud	-	(200,000)
Total nonoperating revenue (expenses), net	124,466	(281,828)
Change in net position	1,097,899	(901,052)
Net position at beginning of year	378,980	1,280,032
Net position at end of year	\$ 1,476,879	\$ 378,980

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from customers	\$ 7,514,557	\$ 4,800,542
Cash payments to suppliers for goods and services	(6,001,449)	(5,310,388)
Cash payments to boat crew and employees for services	(1,454,762)	(984,980)
Net cash provided by (used in) operating activities	<u>58,346</u>	<u>(1,494,826)</u>
Cash flows from investing activity - decrease in short-term investments and time certificates of deposit, net	<u>-</u>	<u>16,019</u>
Cash flows from noncapital financing activities:		
Loss on online fraud	-	(200,000)
Insurance recovery proceeds	1,700	63,106
Principal repayment of short-term loan	-	(950,000)
Interest and penalties paid on short-term loan	-	(61,801)
Net cash provided by (used in) noncapital financing activities	<u>1,700</u>	<u>(1,148,695)</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(195,589)	(61,255)
Principal repayments of long-term debt	(169,707)	-
Long-term debt proceeds	-	1,615,927
Interest paid on long-term debt	(98,262)	(86,670)
Long-term deferred dry dock cost and associated deposits	-	(1,053,139)
Net cash (used in) provided by capital and related financing activities	<u>(463,558)</u>	<u>414,863</u>
Net change in cash	(403,512)	(2,212,639)
Cash and cash equivalents at beginning of year	<u>859,724</u>	<u>3,072,363</u>
Cash and cash equivalents at end of year	<u>\$ 456,212</u>	<u>\$ 859,724</u>
Reconciliation of earnings (loss) from operations to net cash provided by (used in) operating activities:		
Earnings (loss) from operations	\$ 973,433	\$ (619,224)
Adjustments to reconcile earnings (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation	218,609	204,923
Amortization	430,118	179,216
(Recovery from) provision for bad debts	(25,314)	22,228
Changes in assets and liabilities:		
Net receivable from/payable to broker	(1,025,436)	141,496
Employee and director receivables	(20,166)	(9,967)
Other receivables	(795,185)	7,616
Prepaid expenses	5,451	(3,070)
Fuel inventory	(219,503)	74,884
Accounts payable	191,892	(1,676,174)
Accrued expenses	324,447	183,246
Net cash provided by (used in) operating activities	<u>\$ 58,346</u>	<u>\$ (1,494,826)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting

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

Net Position

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

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

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

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

Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Net Position, Continued

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

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

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed 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.

During the year ended September 30, 2021, DSI implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ending December 31, 2022.

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, 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 the 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 ended September 30, 2022.

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 the 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 the 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 the 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 the fiscal year ending September 30, 2022.

Cash and Cash Equivalents

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

Investments

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

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

Dry Docking Costs

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

Fuel Inventory

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

Property and Equipment

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

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

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

Revenue Recognition

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

Other revenue is recorded when earned and measurable.

Translation of Foreign Currencies

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

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

Notes to Financial Statements
September 30, 2021 and 2020

(1) Summary of Significant Accounting Policies, Continued

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the accompanying 2020 financial statements for consistency with the 2021 presentation.

(2) Deposits

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

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

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

As of September 30, 2021 and 2020, the carrying amount of the Company's total cash and cash equivalents and time certificates of deposit was \$1,026,119 and \$1,429,631, respectively, and the corresponding bank balances were \$1,045,581 and \$1,207,556, respectively. Of the bank balances, \$216,948 and \$392,857, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$216,948 and \$251,052, respectively, were FDIC insured.

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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(3) Investments

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Company. As of September 30, 2021 and 2020, the Company did not hold an investment in any one issuer that represented more than 5% of the Company's total investments.

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

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

As of September 30, 2021 and 2020, investments at fair value comprise the following:

	<u>2021</u>	<u>2020</u>
Fixed income securities:		
U.S. Treasury obligations	\$ 230,417	\$ 187,386
Corporate notes	<u>252,433</u>	<u>280,149</u>
	<u>482,850</u>	<u>467,535</u>
Other investments:		
Common equities	1,239,031	989,160
Money market funds	<u>54,800</u>	<u>73,644</u>
	<u>1,293,831</u>	<u>1,062,804</u>
	\$ <u>1,776,681</u>	\$ <u>1,530,339</u>

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Investments, Continued

As of September 30, 2021, the Company's fixed income securities had the following ratings and maturities:

		Fair Value	Less than 1 Year	1 to 5 Years	6 to 10 Years
U.S. Treasury obligations	AAA	\$ 230,417	\$ -	\$ 94,583	\$ 135,834
Corporate notes	AAA	14,433	-	-	14,433
Corporate notes	A1	14,998	-	-	14,998
Corporate notes	A2	44,811	-	-	44,811
Corporate notes	A3	45,553	-	-	45,553
Corporate notes	BAA1	28,411	-	-	28,411
Corporate notes	BAA2	89,758	-	15,068	74,690
Corporate notes	BAA3	14,469	-	-	14,469
		<u>\$ 482,850</u>	<u>\$ -</u>	<u>\$ 109,651</u>	<u>\$ 373,199</u>

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

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

The Company categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Company has the following recurring fair value measurements as of September 30, 2021 and 2020:

	September 30, 2021	<u>Fair Value Measurements Using</u>		
		Level 1	Level 2	Level 3
Fixed income securities:				
U.S. Treasury obligations	\$ 230,417	\$ -	\$ 230,417	\$ -
Corporate notes	252,433	-	252,433	-
Total fixed income securities	<u>482,850</u>	<u>-</u>	<u>482,850</u>	<u>-</u>
Equity securities:				
Common equities	1,239,031	1,239,031	-	-
Total investments at fair value	<u>1,721,881</u>	<u>\$ 1,239,031</u>	<u>\$ 482,850</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	54,800			
	<u>\$ 1,776,681</u>			

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(3) Investments, Continued

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

(4) Net Receivable from/Payable to Broker

Approximately 24% and 36% of fish sales in the year ended September 30, 2021 were conducted with brokers based in Singapore and Japan, respectively. Approximately 41% and 29% of fish sales in the year ended September 30, 2020 were conducted with brokers based in Singapore and Japan, respectively. Upon offloading the fish catch from the vessel to a designated third party, the broker pays 95% of the estimated settlement. When the final settlement is determined, the Company may either be entitled to an additional amount due from the broker or be liable for an amount due to the broker. The net broker account is a payable of \$330,064 and \$1,355,500 at September 30, 2021 and 2020, respectively.

(5) Other Receivables

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

	<u>2021</u>	<u>2020</u>
Palau Micronesia Air (PMAir)	\$ 550,000	\$ 550,000
Insurance company	-	35,522
Others	<u>895,432</u>	<u>64,725</u>
	1,445,432	650,247
Less: allowance for doubtful accounts	<u>(650,247)</u>	<u>(650,247)</u>
	<u>\$ 795,185</u>	<u>\$ -</u>

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Notes to Financial Statements
September 30, 2021 and 2020

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2021 and 2020:

	Beginning Balance October 1, 2020	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2021
Leased fishing vessel and purse seine net	\$ 6,050,000	\$ 22,464	\$ -	\$ 6,072,464
Purchased fishing vessel and purse seine net	3,679,184	50,000	(50,000)	3,679,184
Leasehold improvements	1,299,554	52,500		1,352,054
Vessel improvements	424,646	72,500	-	497,146
Office furniture and equipment	30,149	8,240	(11,781)	26,608
Vehicles	<u>13,940</u>	<u>-</u>	<u>-</u>	<u>13,940</u>
Total cost	11,497,473	205,704	(61,781)	11,641,396
Less accumulated depreciation and amortization	<u>(9,710,480)</u>	<u>(218,609)</u>	<u>51,665</u>	<u>(9,877,424)</u>
	<u>\$ 1,786,993</u>	<u>\$ (12,905)</u>	<u>\$ (10,116)</u>	<u>\$ 1,763,972</u>

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

(7) Short-Term Debt

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

Changes in short-term debt during the year ended September 30, 2020 is as follows:

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

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Notes to Financial Statements
September 30, 2021 and 2020

(8) Long-Term Debt

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

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

On August 12, 2019, a \$2,608,523 loan, with a maturity date of March 25, 2025, was obtained from the FSM Development Bank to fund the dry dock of the fishing vessel, Yap Seagull. The loan is collateralized by the vessel and DSI's investments with Raymond James. Interest of 4% and principal are payable in monthly installments of \$19,294, which began on November 25, 2020. The loan balance is \$2,428,581 and \$2,598,288 as of September 30, 2021 and 2020, respectively.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 134,819	\$ 96,720	\$ 231,539
2023	140,312	91,227	231,539
2024	146,028	85,511	231,539
2025	<u>2,007,422</u>	<u>53,717</u>	<u>2,061,139</u>
	<u>\$ 2,428,581</u>	<u>\$ 327,175</u>	<u>\$ 2,755,756</u>

Changes in long-term debt during the years ended September 30, 2021 and 2020 are as follows:

<u>Outstanding</u> <u>October 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>September 30, 2021</u>	<u>Due Within</u> <u>One Year</u>
\$ <u>2,598,288</u>	\$ <u> -</u>	\$ <u>169,707</u>	\$ <u>2,428,581</u>	\$ <u>134,819</u>
<u>Outstanding</u> <u>October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>September 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
\$ <u>982,361</u>	\$ <u>1,615,927</u>	\$ <u> -</u>	\$ <u>2,598,288</u>	\$ <u>118,943</u>

(9) Commitments

Lease

The Company leases a fishing vessel and a purse seine fishing net from Yap Investment Trust, a fund of the Yap State Government (the "State"), with a lease term through July 2022. Common stock was issued by the Company as total consideration for the agreement. The lease has been renewed for another 20 years in a Bareboat Charter Agreement, and has commenced in 2022 and will end in March 2044.

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Notes to Financial Statements
September 30, 2021 and 2020

(10) Cost of Sales

Details of cost of sales for the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Fuel	\$ 2,329,157	\$ 1,685,670
Crew salaries and wages	1,384,837	1,058,024
License, agent, and port fees	1,034,473	581,265
Depreciation and amortization	643,671	381,798
Insurance	343,422	314,144
Repair and maintenance	398,763	276,411
Salt and provisioning	258,950	258,407
Management fee	366,628	131,478
Stevedoring	90,890	82,944
Communications	88,623	65,115
Supplies and freight	122,693	40,128
Crew travel	17,132	38,181
Other vessel expenses	<u>117,040</u>	<u>39,316</u>
	<u>\$ 7,196,279</u>	<u>\$ 4,952,881</u>

(11) Risk Management

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Company has elected to purchase commercial insurance for the risks of loss to which it is exposed. The Company claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. During the years ended September 30, 2021 and 2020, the Company collected \$1,700 and \$63,106 of insurance proceeds, respectively.

(12) Related Parties

The Company has entered into significant transactions with the State, as discussed in Note 9. Several board members and officers of the Company hold management positions and other positions of influence with the State. Furthermore, included in employee and director receivables are \$29,931 and \$15,092, at September 30, 2021 and 2020, respectively, of amounts owed by previous board members and current management for reimbursement of travel expenses, net of an allowance for doubtful accounts of \$17,346 and \$20,304, at September 30, 2021 and 2020, respectively.

DIVING SEAGULL, INC.
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Notes to Financial Statements
September 30, 2021 and 2020

(13) Contingencies

Loss from Operations

DSI has income (losses) from operations of \$973,433 and \$(619,224) for the years ended September 30, 2021 and 2020, respectively. DSI depends on its fishing activities to continue its operations. However, DSI is behind in paying its current liabilities. The Company has entered into a loan with a financial institution to support maturing obligations. For the last three years, the Company has not received subsidies from the State or the National government. The continuation of DSI's operations is dependent upon successful fishing activities, improvement in external industry factors, and on time collection from fish brokers. In addition, in order for DSI to continue as a going concern, it may need to improve its cash management, reduce operating expenses, and obtain support from the State or the National government.

Loss on Online Fraud

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

Dry Docking

Management anticipates dry docking costs of the Mathawmarfach vessel in 2022 will approximate \$3,100,000.

(14) Subsequent Events

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

Management has considered subsequent events through January 19, 2023, the date upon which the financial statements were available to be issued. Except for the matter discussed above, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2021.

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

The Board of Directors
Diving Seagull, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Diving Seagull, Inc. (the Company), which comprise the statement of net position as of September 30, 2021, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 19, 2023.

Internal Control Over Financial Reporting

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

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

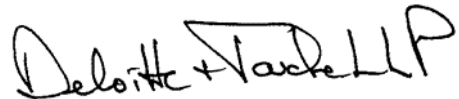
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

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

January 19, 2023

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

Unresolved Prior Year Findings
Year Ended September 30, 2021

There are no prior year findings unresolved as of September 30, 2021.