

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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P.O. Box A, Kolonia, Pohnpei FM 96941, Telephone (691) 320-8657

March 15, 2012

The Diving Seagull, Inc.
Mr. John Waayan, Chairman

We have audited the financial statements of The Diving Seagull, Inc. for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 2, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Diving Seagull, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation of capital assets.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements we noted are included as attachment A.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Required disclosures

Our professional standards require that we provide for you any updates from our quality review program. Accordingly attachment B is our most recent quality review letter.

Management Representations

We have requested certain representations from management that are included in the management representation letter which accompanies this letter as attachment C.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. Significant issues which did not meet the threshold for a significant deficiency and therefore were not reported in The Diving Seagull, Inc.'s audit report for the year ended September 30, 2011 include:

The Diving Seagull, Inc. board minutes during the year were unsigned at the time of our audit field work.

This information is intended solely for the use of the Board of Directors and management of The Diving Seagull, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC

The Diving Seagull
audit adjusting journal entries
9/30/11

Account ID	Account Description	Amount	Debit		Credit		Adjusted Amount
1322	Allowance for doubtful accts				2	26,489.90 E-1	(26,489.90)
1411	Prepaid Insurance	13,397.74	15,369.06	4,6	13,397.74 E-1		15,369.06
1421	Prepaid license fee	26,766.22			8	26,766.22 E-1	-
1621	Citigroup Investments	475,598.42			2	25,664.20 C-1	449,934.22
1712	Fach Leasehold improvements	3,887,620.69			3	16,274.49 I-1	3,871,346.20
1712S	Yap Seagull Improvements	167,597.98	16,274.49		3	I-1	183,872.47
2241	Accrued mangement fee	(282,289.25)			11	154,733.54 N-1	(437,022.79)
2321	Accrued interest payable	(5,768.95)			7	5,971.53 N-9	(11,740.48)
39005	Retained Earnings	(3,759,098.13)	4,859.00		9	U-1	(3,754,239.13)
39006	Prior period adjustment	429,627.37	68,279.88	1,10,11	24,159.55 U-2		473,747.70
5311S	Management fee - Seagull		112,943.46		11	N-8	112,943.46
5341M	Vessel insurance - Mathwfach	238,663.16	10,136.42	4,6	7,913.36 X-11		240,886.22
5342S	Vessel insurance - Yap Seagull	226,777.62	3,261.32	5,6	7,455.70 X-11		222,583.24
5351M	Fish Fees and licenses - Fach	234,618.53	13,383.11		8		248,001.64
5351S	FishFees and license - Seagull	234,603.27	13,383.11		8		247,986.38
7211	Interest expense - FSMDB 2849	27,340.45	5,971.53		7		33,311.98
7222	Loss on investments		25,664.20		2	C-1	25,664.20
7911	Other income/expenses - Admin	(27,222.40)	24,159.55	9,10	4,859.00		(7,921.85)
Total:			313,685.13		313,685.23		

Richard A. Raymaker
Steven C. Barney
Steven R. Volz
Daniel R. Brophey
Thomas G. Wieland
Michael W. Van Wagenen



Schedule B

Reilly, Penner & Benton LLP
Certified Public Accountants & Consultants

Celebrating Over 100 Years of Client Service

David A. Grotkin
Joel A. Joyce
Brian J. Mechenich
Carrie A. Gindt
Patrick G. Hoffert

System Review Report

July 9, 2010

To the Shareholders
Fortenberry & Ballard, PC
and the Peer Review Committee of the Mississippi Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of Fortenberry & Ballard, PC (the firm) in effect for the year ended December 31, 2009. Our Peer Review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control, and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the Standards, engagements selected for review included audits performed in accordance with Government Auditing Standards.

In our opinion, the system of quality control for the accounting and auditing practice Fortenberry & Ballard, PC, CPA's in effect for the year ended December 31, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass; pass with deficiency (ies) or fail. Fortenberry & Ballard, PC has received a peer review rating of pass.

Reilly, Penner & Benton LLP

The Diving Seagull
P.O. Box 385
Colonia, Yap FSM 96943

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February 20, 2012

Fortenberry & Ballard, PC
1929 Spillway Rd., Suite B
Brandon, MS 39047

We are providing this letter in connection with your audit of the financial statements of The Diving Seagull as of September 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the business-type activities of The Diving Seagull and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 15, 2012, the following representations made to you during your audit(s).

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
 - a) Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Minutes of the meetings of The Diving Seagull or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 4) We believe the effects of uncorrected financial statement misstatements (if any) summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have a process to track the status of audit findings and recommendations.
- 9) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 10) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 11) The Diving Seagull has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 12) The following, if any, have been properly recorded or disclosed in the financial statements:

- a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which The Diving Seagull is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
- 13) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 14) There are no—
- a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
- 15) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 16) The Diving Seagull 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.
- 17) The Diving Seagull has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 18) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 19) 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.
- 20) The financial statements properly classify all funds and activities.
- 21) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 22) Investments, derivative transactions, and land and other real estate held by endowments are properly valued.
- 23) Provisions for uncollectible receivables have been properly identified and recorded.
- 24) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 25) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 26) Special and extraordinary items are appropriately classified and reported.
- 27) Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
- 28) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 29) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not

changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- 30) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements [or in the schedule of findings and questioned costs].

Signed: 

Title: 2/24/12

Signed: _____

Title: _____