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June 26, 2019

The Board of Directors
Caroline Islands Air, Inc.

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Caroline Islands Air, Inc. ("CIA" or the "Company"), a component unit of the FSM National Government, as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America and ("generally accepted auditing standards") have issued our report thereon dated June 26, 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: To Management of Caroline Islands Air, Inc.

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

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated October 23, 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 CIA 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 CIA’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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

CIA’s significant accounting policies are set forth in Note 2 to CIA’s 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CIA, which had no material effect on the financial statements:

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

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.

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended September 30, 2018, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

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. Included as Appendix B to Attachment III, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the prior period presented that was determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

CORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on CIA's financial reporting process. Such proposed adjustments, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2018 financial statements.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CIA'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 CIA issues an Annual Report or other documentation that includes the audited financial statements, we will read the other information in CIA'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.

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June __, 2019, wherein no matters involving the Company's internal control over financial reporting that were considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have communicated to management, in Attachment I, deficiencies in internal control over financial reporting that we identified during our audit.

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

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 II and should be read in conjunction with this report.

SECTION I – DEFICIENCIES

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

1. Financial Reporting

Comment: There were numerous audit adjustments which impacted a number of accounts. Many of the adjustments relate to the lack of year-end closing entries.

Recommendation: We recommend that management record year-end closing entries, such as prepaid expenses, prepaid fuel, and accrued salaries expense. Procedures should be formalized to set year-end financial reporting requirements.

2. Bank Reconciliation

Comment: Management opened a new bank account in July 2017 and did not record transactions of the account until June 2019. A \$12,070 deposit was unrecorded as of September 30, 2018 in the preliminary general ledger.

Additionally, the September 30, 2018 bank reconciliation contained invalid outstanding checks, deposits in transit and unreconciled differences in the amount of \$7,417, \$13,465 and \$3,651, respectively.

Recommendation: We recommend that management acquire adequate accounting assistance, formalize bookkeeping procedures and perform bank reconciliation in an appropriate manner.

SECTION II - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* 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 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 is not always 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

The Company'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.



Caroline Islands Air Inc

"Wings of the FSM"

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June 26, 2019

Deloitte & Touche
P.O. Box 753
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We are providing this letter in connection with your audits of the statements of net position of the Caroline Islands Air, Inc. ("CIA" or the "Company"), a component unit of the FSM National 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 preparation and fair presentation in the basic financial statements of the Company's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with GAAP.
- b. The 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. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes

Deloitte & Touch LLP
June 26, 2019
Page 2

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 (net investment in capital assets, 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.
 - b. Communications with 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.

Deloitte & Touch LLP
June 26, 2019
Page 3

5. 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, 2018 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. 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.
7. 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 where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements communicated by from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. 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.
11. 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.
12. 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.
13. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than \$8,000 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.

14. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

Deloitte & Touch LLP
June 26, 2019
Page 4

15. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. 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. CIA is a component unit of the FSM National Government. For the years ended September 30, 2018 and 2017, \$67,538 and \$68,870, respectively, of revenue was from the FSM National Government.
 - d. During the years ended September 30, 2018 and 2017, CIA received \$187,007 and \$18,571, respectively, of subsidies from FSM National Government. During the year ended September 30, 2017, CIA received a \$28,122 capital contribution from the FSM National Government.
 - e. CIA utilizes airplanes owned by the FSM National Government at no cost.
17. 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.
18. 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*.
19. 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.
20. 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.
21. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
22. No department or agency of the Federal Government or the FSM National Government has reported a material instance of noncompliance to us.
23. During fiscal year 2018, CIA implemented the following pronouncements, which had no material impact to the financial statements:
- 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.
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24. 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.
25. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Company and do not include any items consigned to it or any items billed to customers.
26. Details of contract labor for the years ended September 30, 2018 and 2017 are as follows:

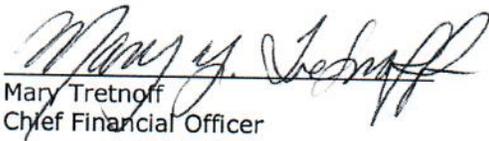
	<u>2018</u>		<u>2017</u>
Overtime in Palau	\$ 39,535	\$	-
Ground handling in Palau	19,383		-
Overtime in the FSM	5,066		-
Airport cleaning and maintenance	3,968		-
Contract employee	<u>2,400</u>		<u>40</u>
	\$ <u>70,352</u>	\$	<u>40</u>

27. We believe that all expenditures that have been deferred to future periods are recoverable.
28. No events have occurred after September 30, 2018, but before June 26, 2019, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Deloitte & Touch LLP
June 26, 2019
Page 7



Alex Tretnoff
Chief Executive Officer



Mary Tretnoff
Chief Financial Officer

Appendix A

**Caroline Islands Air
Summary for Corrected Misstatements
September 30, 2018**

Journal Entries - AJE

GL	Name	Debit	Credit
	1 AJE Prepaid insurance premium		
5033	Travel & Ent: Meals	2,400.00	
1104	Prepaid Expenses	25,486.00	
5020	Insurance: Airplane Ins.	32,114.00	
6001	Subsidies from FSM National Government		60,000.00
		<u>60,000.00</u>	<u>60,000.00</u>
	To adjust year-end prepaid insurance premium		
	2 AJE Fuel inventories		
5004	AIRPLANE MAINT./OPER EXP.: Mobil - Avgas	26,542.00	
1103	Inventory		26,542.00
		<u>26,542.00</u>	<u>26,542.00</u>
	To adjust year-end fuel inventories		
	3 AJE Fixed assets and depreciation		
1206	Company Vehicles: Acquisition Cost	8,892.00	
5037	Depreciation Expense	3,108.60	
1207	Company Vehicles: Accum. Depreciation		3,108.60
5001	Auto Exp.		7,980.00
5018	FSM GOV'T TAXES: Import Tax		315.00
5015	FSM GOV'T TAXES: Docking Fees		597.00
		<u>12,000.60</u>	<u>12,000.60</u>
	To book annual depreciation and additions of fixed assets		
	4 AJE Payroll taxes and liabilities		
2105	Payroll Liabilities	14,821.00	
5050	FSM GOV'T TAXES		9,319.00
5024	Payroll Expenses: Salaries & Wages		5,502.00
		<u>14,821.00</u>	<u>14,821.00</u>
	To correct payroll and related taxes and liabilities		
	5 AJE Palau entry fees		
4071	C.I.A. REVENUE:2018Y12 Entry fee Palau	34,900.00	
5011	Contract Labor		31,300.00
2101	Accounts Payable		3,600.00
		<u>34,900.00</u>	<u>34,900.00</u>
	To correct Palau entry fees		
	6 AJE Charter service revenue		
5020	Insurance: Airplane Ins.	35,000.00	

ATTACHMENT III, CONTINUED

4020	OTHER SERVICES: Charter Services		35,000.00
		<u>35,000.00</u>	<u>35,000.00</u>
	To correct charter service revenue		

7 AJE Prepaid inventory

1105	Prepaid Fuel	73,123.00	
5011	Contract Labor		73,123.00
		<u>73,123.00</u>	<u>73,123.00</u>
	To record prepaid inventory		

8 AJE Landing fees

5008	AIRPLANE MAINT./OPER EXP.: Port Authority Landing Fee	47,363.00	
5011	Contract Labor		37,042.00
2101	Accounts Payable		10,321.00
		<u>47,363.00</u>	<u>47,363.00</u>
	To correct landing fees		

9 AJE Office rent

5026	Rental Expenses: Office Space	2,852.32	
2102	Due to Employees: Mary Tretnoff		2,852.32
		<u>2,852.32</u>	<u>2,852.32</u>
	To correct rent		

10 AJE Outstanding checks

1001	Cash in Bank:111 BFSM - Gen. Checking	7,427.15	
5028	Apartment lease CIA		1,500.00
5031	Travel & Ent: Airline Ticket		1,430.32
5013	Communication: Telephone		500.00
5029	Supplies: Office Administration		1,212.30
5023	Payroll Expenses: Housing Allowance		1,500.00
5001	Auto Exp.		155.00
5024	Payroll Expenses: Salaries & Wages		1,129.53
		<u>7,427.15</u>	<u>7,427.15</u>
	To correct outstanding checks		

11 AJE Deposits in transit

4001	C.I.A. REVENUE: Passenger Airfare - WO Chk	380.00	
4002	C.I.A. REVENUE: Passenger Airfare - PNI	4,035.00	
4005	C.I.A. REVENUE: Passenger Airfare - TA Chk	380.00	
4010	C.I.A. REVENUE: Baggage Fee - PNI	613.00	
4040	C.I.A. REVENUE:2018Y12 Charter Yap-Palau-Yap	2,245.00	
4041	C.I.A. REVENUE:2018Y12 Charter Yap-Ulithi-Yap	260.00	
4050	C.I.A. REVENUE:2018Y12 Baggage Yap-Wolaie-Yap	600.00	
4051	C.I.A. REVENUE:2018Y12 Bagges Yap-ulit-fais	459.00	
4060	C.I.A. REVENUE:2018Y12 Passenger Yap-Wolei-Yap	600.00	
4063	C.I.A. REVENUE:2018Y12 Passenger Airfare ULITH	210.00	
4064	C.I.A. REVENUE:2018Y12 Passenger Airfare-Palau	1,552.00	
4071	C.I.A. REVENUE:2018Y12 Entry fee Palau	1,400.00	
5011	Contract Labor	731.00	
1001	Cash in Bank:111 BFSM - Gen. Checking		13,465.00

ATTACHMENT III, CONTINUED

		<u>13,465.00</u>	<u>13,465.00</u>
	To correct deposits in transit		
	12 AJE Cash at BOG		
1003	Cash in Bank: BOG	12,070.25	
1101	Accounts Receivable	3,360.00	
5010	Bank Service Fees	229.75	
4064	C.I.A. REVENUE:2018Y12 Passenger Airfare-Palau		15,260.00
5029	Supplies: Office Administration		400.00
		<u>15,660.00</u>	<u>15,660.00</u>
	To correct unrecorded cash at bank and passenger airfare revenue		
	13 AJE Subsidies from FSMNG		
1105	Prepaid Fuel	46,920.64	
5003	AIRPLANE MAINT./OPER EXP.:Aircraft repair parts	66,932.12	
5001.3	AIRPLANE MAINT./OPER EXP.	10,755.54	
5005	AIRPLANE MAINT./OPER EXP.: Mobil - Fuel	2,272.16	
5010	Bank Service Fees	126.31	
6001	Subsidies from FSM National Government		127,006.77
		<u>127,006.77</u>	<u>127,006.77</u>
	To record subsidies from FSMNG		
	14 AJE Unrecorded liabilities		
5011	Contract Labor	1,914.75	
5029	Supplies: Office Administration	699.99	
5009	AIRPLANE MAINT./OPER EXP.: Repair/Maint. Supplies	277.61	
5003	AIRPLANE MAINT./OPER EXP.:Aircraft repair parts	6,146.92	
2101	Accounts Payable		9,039.27
		<u>9,039.27</u>	<u>9,039.27</u>
	To correct unrecorded liabilities		
	15 AJE Unrecorded revenues		
1002	Cash	3,608.40	
1101	Accounts Receivable	15.00	
4050	C.I.A. REVENUE:2018Y12 Baggage Yap-Wolaie-Yap		13.00
4060	C.I.A. REVENUE:2018Y12 Passenger Yap-Wolei-Yap		450.00
4063	C.I.A. REVENUE:2018Y12 Passenger Airfare ULITH		80.00
4052	C.I.A. REVENUE:2018Y12 Pass. Exs Bagge, Palau		254.40
4064	C.I.A. REVENUE:2018Y12 Passenger Airfare-Palau		360.00
4071	C.I.A. REVENUE:2018Y12 Entry fee Palau		800.00
4065	C.I.A. REVENUE:2018Y12 Passenger Airfare-Yap		1,190.00
4009	C.I.A. REVENUE: Baggage Fee - WO Chuuk		68.00
4010	C.I.A. REVENUE: Baggage Fee - PNI		135.00
4016	C.I.A. REVENUE: Baggage Fee - Swapafik		273.00
		<u>3,623.40</u>	<u>3,623.40</u>
	To correct unrecorded revenues		
	16 AJE Unreconciled cash balance		
5009	AIRPLANE MAINT./OPER EXP.: Repair/Maint. Supplies	3,651.17	

ATTACHMENT III, CONTINUED

1001	Cash in Bank:111 BFSM - Gen. Checking		3,651.17
		<u>3,651.17</u>	<u>3,651.17</u>
	Variance between cash balance per reconciliation and GL		
	17 AJE Fuel delivery		
5009	AIRPLANE MAINT./OPER EXP.: Repair/Maint. Supplies	7,078.98	
5029	Supplies: Office Administration		7,078.98
		<u>7,078.98</u>	<u>7,078.98</u>
	To correct fuel delivery costs		
	18 AJE Travel expense		
5031	Travel & Ent: Airline Ticket	4,643.87	
5029	Supplies: Office Administration		4,643.87
		<u>4,643.87</u>	<u>4,643.87</u>
	To correct travel expenses		
	19 AJE Repair and maintenance		
5009	AIRPLANE MAINT./OPER EXP.: Repair/Maint. Supplies	5,694.97	
5029	Supplies: Office Administration		5,694.97
		<u>5,694.97</u>	<u>5,694.97</u>
	To correct repair and maintenance		
	20 AJE Chuuk business tax		
5050	FSM GOV'T TAXES	1,000.00	
5029	Supplies: Office Administration		1,000.00
		<u>1,000.00</u>	<u>1,000.00</u>
	To correct government tax		

Appendix B

**Caroline Islands Air
Summary for Uncorrected Misstatements
September 30, 2017**

Name	Debit	Credit
1 PAJE Voided checks related to the prior year		
Cash	2,456.40	
Expenses		2,456.40
	<u>2,456.40</u>	<u>2,456.40</u>
To correct voided checks		