



OFFICE OF THE FSM PUBLIC AUDITOR

Press Release # 2017-07

Annual Financial Audit on the Caroline Islands Air, Inc. for Fiscal Year 2016

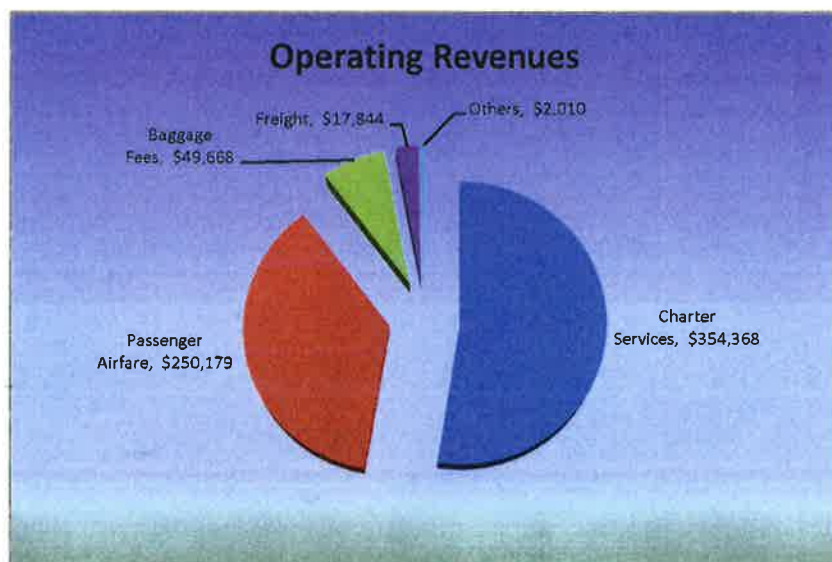
The Office of the National Public Auditor (ONPA) announces the release of the financial audit on the Caroline Islands Air, Inc. (CIA) for the fiscal year ended September 30, 2016. This is a part of the Single Audits for the FSM Government, which is outsourced to Deloitte & Touche under the oversight of the ONPA. A digital copy of the audit is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA in Palikir, Pohnpei.

Background

CIA, a component unit of the FSM National Government, was established by Public Law 10-72 in December 1997, for the purposes of (1) providing air transportation services throughout the FSM, (2) contract with domestic and foreign persons and corporations for the provisions of aircraft and services, (3) operate domestic air transportation, (4) train citizens in professions related to aeronautics, (5) act as a “freely associated state air carrier” within the meaning of the Federal Program and Services Agreement concluded pursuant to the Compact of Free Association, (6) engage in support activities, included but not limited to, freight terminal and delivery activities and passenger services, and (7) enter into joint ventures with other entities in order to effectuate its operations.

It is governed by a six-member Board of Directors. Each of the four state governors recommends a representative. All Board members are appointed by the President with the consent of the Congress. The CEO serves as an ex-officio on the Board.

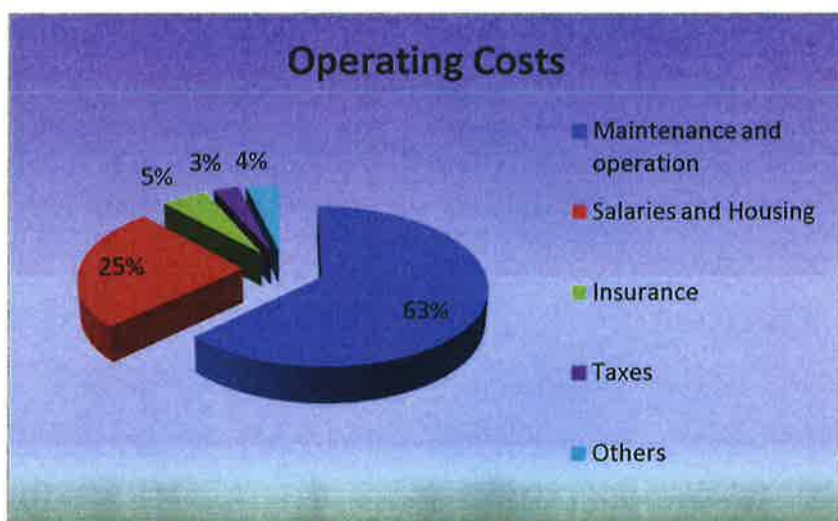
Financial Results



Based on the audit, the total operating revenues for CIA totaled \$674,069. This is an increase of approximately \$241,315 compared to prior year. This increase is due primarily to the increases in charter services and passenger airfare.

The total operating revenues comprised of \$354,368 (52.6%) from charter services, \$250,179 (37.1%) from passenger airfares, \$49,668 (7.4%) from baggage fees, \$17,844 (2.6%) from freights, and \$2,010 (0.3%) from other services such as

service fees and drums.



CIA's total operating costs for FY16 totaled \$527,139. Of this amount, \$331,288 (63%) came from maintenance and operations, \$133,565 (25%) from salaries and housing, \$27,537 (5%) from insurance, \$14,911 (3%) from taxes, and \$19,838 (4%) from other costs such as rent and depreciation.

Gross profit for CIA after deducting the operating costs from operating revenues amounted to \$146,930, compared to \$102,307 in prior year.

The following table summarizes the financial condition and operations for CIA for FY2016, FY2015 and FY2014:

	FY2016	FY2015	FY2014
Assets			
Current assets	\$524,663	\$298,331	\$224,716
Capital assets	4,055	10,136	10,136
Total Assets	\$528,718	\$308,467	\$234,852
Liabilities			
Current liabilities	15,785	11,057	14,768
Total liabilities	\$15,785	\$11,057	\$14,768
Net Position			
Net investment in capital assets	4,055	10,136	10,136
Unrestricted	508,878	287,274	209,948
Total Net Position	\$528,718	\$308,467	\$234,852
Revenues, Expenses and Changes in Net Position			
Operating revenues	\$674,069	\$432,754	\$430,312
Operating costs	(527,139)	(330,447)	(365,184)
Gross Profit	146,930	102,307	65,128
General and Administrative Expenses	(34,714)	(36,573)	(25,552)
Operating Income	112,216	65,734	39,576
Non-Operating Income	103,307	11,592	75,276
Change in Net Position	215,523	77,326	114,852
Net position, beginning of year	297,410	220,084	105,232
Net position, end of year	\$512,933	\$297,410	\$220,084

Audit Findings and Opinion

Findings: There were no unresolved audit findings from the prior year audits for CIA.

Opinion: CIA, Inc. received an **UNMODIFIED** opinion on its 2016 audit. An unmodified opinion means that the entity's financial statements were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the US.

Deficiencies in internal control over financial reporting were identified during the course of the audit, which included the following:

1. Written employment contracts were not utilized for several employees.
2. There were numerous audit adjustments which impacted a significant number of accounts. Many of the adjustments related to the lack of year-end closing entries.
3. Board meetings have not been held since October 2015 because the members' terms have expired. Board members are still involved with CIA's operation since the new members have not been appointed.

Management: Alex Tretnoff, CEO/Pilot/Chief Mechanic and Mary Tretnoff, CFO

The 2016 financial audit for CIA was conducted by Deloitte & Touche under a contract awarded by the Office of the National Public Auditor. The deadline for this audit is June 30, 2017. The full copy of the audit report can be accessed on our office website at www.fsmopa.fm.

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