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November 12, 2020

The Board of Directors
Kosrae Port Authority

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Kosrae Port Authority (the "Authority" or "KPA"), a component unit of Kosrae State Government, as of and for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated November 12, 2020.

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 Authority is responsible.

This report is intended solely for the information and use of management, the Board of Directors, others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte + Touche LLP

cc: The Management of Kosrae Port Authority

Deloitte.

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 September 24, 2019. 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 KPA as of September 30, 2019, 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, 2019.

- To report on KPA'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, 2019 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

KPA's significant accounting policies are set forth in Note 2 to KPA's 2019 financial statements. During the year ended September 30, 2019, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by KPA:

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

During the year ended September 30, 2019, KPA implemented the following pronouncements:

- GASB 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.

- GASB 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 implementation of these statements did not have a material effect on the Authority's 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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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, 2019, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

MATERIAL CORRECTED MISSTATEMENTS

Included in Attachment I is a summary of corrected misstatements which were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as KPA's 2019 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 KPA issues an Annual Report or other documentation that includes the audited financial statements, we will read the other information in KPA's 2019 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 Authority's 2019 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 2019.

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 Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

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MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated November 12, 2020, wherein no matters involving the Authority'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 III, deficiencies in internal control over financial reporting that we identified during our audit.

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

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment IV and should be read in conjunction with this report.

* * * * * *

ATTACHMENT I

#	Name	Debit	Credit
	1 AJE FAR adjustment		
5014	Depreciation expense	698,524.00	
1616A	ARFF Building (B&I):1616A ? ARFF Building - A/D (B&I)		136,012.00
1617A	ARFF Building Phase II & Design:1617A Accumulated ARFF Bui		166,532.00
1612A	Okat Harbor Improvement:1612A Okat Harbor Improvement A/D		27,174.00
1610A	Kosrae Airport Coral Surface St:1610A Kosrae Airport Coral		356,000.00
1618A	Vehicles A/D		12,806.00
1618	Vehicles	2,500.00	
4011	Capital Contributions from FSMNG		2,500.00
		701,024.00	701,024.00
	FY2019 FA addition, depreciation expense and accumulated depreciation which were not recorded as of 09/30/2019		
	2 AJE Utilities for Sep 2019		
5012	Utilities	4,558.08	
2101.3	Accounts Payable:2101.2 Accounts Payable - Others		4,558.08
		4,558.08	4,558.08
	Utilities for the month of September 2019 (journal entry provided by KPA)		
	3 AJE Payroll corrections		
5019	Payroll Expenses	10,116.00	
2400	Payroll Liabilities	12,915.00	
2208	FSMHI Employer/Employee Share		10,116.00
2101.3	Accounts Payable:2101.2 Accounts Payable - Others		12,915.00
		23,031.00	23,031.00
	Unrecorded SS employer share for the first quarters and payroll adjustments		
	4 AJE Bad debt		
5043	Bad Debts	2,869.00	
1302	Accounts Receivable:1302 Allowance for Bad Debts		2,869.00
		2,869.00	2,869.00
	Bad debt for doubtful AR		
	5 AJE Unrecorded revenues		
1100	Accounts Receivable	1,397.00	
4004	Departure Fee		980.00
4005	Port Charges/wharfage		417.00
		1,397.00	1,397.00
	Unrecorded 09/30/2019 fee revenues which were deposited on 10/01/2019		
	6 AJE Unrecorded subsidies		
5021	Travel Expense/Training	19,890.52	
5009	Supplies	20,499.45	
5012	Utilities	4,842.74	
1620	Buildings and Improvements	4,719.55	
4011	Capital Contributions from FSMNG		4,719.55
4010	Subsidies from FSMNG		45,232.71
		49,952.26	49,952.26

Correction of the grants for operation and capital contributions which were not recorded by KPA

7 AJE Unrecorded subsidies

5009	Supplies	2,494.09	
4010	Subsidies from FSMNG		2,494.09
		2,494.09	2,494.09

Correction of the grants for operation and capital contributions which were not recorded by KPA

KOSRAE PORT AUTHORITY
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November 12, 2020

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

We are providing this letter in connection with your audits of the statements of net position of the Kosrae Port Authority (the "Authority" or "KPA"), a component unit of Kosrae State Government, as of September 30, 2019 and 2018, 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 Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of the Authority's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The design, implementation, and maintenance of internal control:

    - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

    - To prevent and detect fraud

c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

    a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

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

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

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

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

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

2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Authority 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 Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority 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 Authority'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 Authority and for all funds administered by the Authority.

    b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. The Authority 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 Authority and do not believe that the financial statements are materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments.*

9. 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 Authority'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 Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information.

11. 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.

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

13. The Authority plans to increase revenue from fees and grants and reduce the loss from operations and believes that it is likely that those plans can be effectively implemented.

Except where otherwise stated below, matters less than $7,000 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. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

15. The Authority 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 Authority'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.

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.

    We are not aware of any estimates at September 30, 2019 that may change and that 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 Authority 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 Authority has complied with all aspects of contractual agreements that may affect the financial statements.

22. No corporation or agency of the Federal Government, the FSM National Government or Kosrae State Government has reported a material instance of noncompliance to us.

23. During fiscal year 2019, KPA implemented the following pronouncements:

    - GASB 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.

    - GASB 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 implementation of these statements did not have a material effect on the Authority's 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 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.

    In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations, which clarifies 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. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

24. The Authority 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 Authority has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

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

26. The Authority has been in the process of evaluating the impact that will result from COVID-19. Management believes that such evaluation is reasonable based on available information and that the expected outcome of uncertainties has been adequately provided to you during your audits.

27. No events have occurred after September 30, 2019, but before November 12, 2020, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

William Tosie, General Manager

Delia Sigrah, Administrative Assistant

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving KPA's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. Due to Primary Government

Comment: The Authority has an amount outstanding since 2008 due the primary government.

Recommendation: We recommend that the Authority attempt to devise a plan to reduce the amount owed, by formally requesting for a write-off of the amount due, or by setting aside funds to repay the balance.

2. Schedule of Accounts Receivable

Comment: The Authority does not regularly reconcile receivables with customers or perform timely follow-up on billings. Further, controls are not in place to analyze collectability of accounts receivable and to verify the sufficiency of the allowance.

Recommendation: We recommend that the Authority maintain customer files and perform regular reconciliations of customer receivables. Further, the Authority should perform periodic analysis of the allowance for uncollectible accounts.

3. Fixed Asset Register

Condition: The Authority does not regularly update the fixed asset register.

Recommendation: We recommend that the Authority design and implement a review process of the fixed asset register. The Authority should perform a periodic update of the accuracy of fixed asset additions, deletions and depreciation.

4. Cash Collection

Condition: There were port charges / wharfage deposited after ten days of collection while policy requires the deposit of cash collections within two working days. The Authority does not regularly reconcile port fees with a seaport entry log. Fees are susceptible to fraud as fees are collected in cash. A risk exists that funds are collected and the passenger is reported as not having boarded or is exempt.

Recommendation: We recommend that:

- passengers per airline manifests and receipts collected be reconciled and discrepancies be documented (e.g. explanation of the # of passengers who did not board the plane or who were exempt);
- cash collected should be deposited timely;
- entry fees and the seaport entry log should be reconciled and the completeness of fee collections should be reviewed.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

KPA'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.