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June 25, 2015

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei Port Authority (the Authority), a component unit of the Pohnpei State Government, as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 25, 2015.

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.

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

Our responsibility under generally accepted auditing standards and the 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 2, 2014. 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 the Authority as of September 30, 2014, 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 performed specified procedures on the required supplementary information for the year ended September 30, 2014; and

- To report on the Authority'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, 2014 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.

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

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.

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 normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2014 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2014, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND 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. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in aggregate, would have a significant effect on the Authority's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2014 financial statements.

In addition, listed in Appendix B to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

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

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2014 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE 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 2014.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Authority's 2014 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. We will read the other information in the Authority's 2014 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.

SIGNIFICANT 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.

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.

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 25, 2015, 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 identified, and included in Attachment II, deficiencies related to the Authority's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention.

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

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 Appendix III and should be read in conjunction with this report.

* * * * * * * *

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

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

ATTACHMENT I

POHNPEI PORT AUTHORITY
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June 25, 2015

Deloitte & Touche LLP
361 S. Marine Drive
Tamuning, Guam 96913-3911

We are providing this letter in connection with your audits of the statements of net position of the Pohnpei Port Authority (the Authority) as of September 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position and results of operations 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 preparation and fair presentation in the financial statements of financial position, changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements that are required by the Governmental Accounting Standards Board.

c. 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

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and 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 it probable that the judgment of a reasonable person relying on the information would be charged 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 audit.

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

   a. Net position components (net investment in capital assets; restricted and unrestricted) are properly classified and, if applicable, approved;

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

   c. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

   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. 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.

   g. Revenues are appropriately classified in the statement of activities

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 provided you:

   a. Records and related data for all financial transactions of the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Authority, and provide the audit trail to be used in a review of accountability. Information presented on the financial reports is supported by the books and records from which the financial statements have been prepared.

   b. Contracts and agreements (including amendments, if any); and

   c. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings up to April 20, 2015, for which minutes of meetings after that date until the date of this letter have not been prepared but did not contain significant matters of audit concern.

4. There have been no:

   a. Action taken by the Authority management that contravenes the provisions of federal laws and Federated State of Micronesia's (FSM) laws and regulations or of contracts and grants applicable of the Plan Actions; and

   b. Communications from regulatory agencies concerning noncompliance with or having 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 risk of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

6. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

7. We have no knowledge of any fraud or suspected fraud affecting the Authority involving

   a. Management

   b. Employees who have significant roles in the Authority's internal control over financial reporting,

   c. Others if 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 Authority received in communications from employees, former employees, analysts, regulators, short sellers, or others.

9. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed by FASB ASC 450, *Contingencies,* and we have not consulted a lawyer concerning litigation, claims, or assessments or potential litigation or unasserted claims or assessments during the year ended September 30, 2014 and to the date of this letter.

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

11. We are responsible for compliance with local and FSM laws, rules and regulations, and 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.

12. 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.

13. Management has identified and disclosed to you all laws and regulations that have direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than $19,500 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.

15. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

16. The following, to the extent applicable, have been properly identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Authority is contingently liable.

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 at least 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. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

19. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 6 to the financial statements.

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 except as disclosed in the notes to the financial statements.

21. The Authority has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

22. No department or agency of the State of Pohnpei has reported a material instance of noncompliance to us.

23. No events have occurred after September 30, 2014 but before June 25, 2015, the date the financial statements were available to be issued, that require consideration as adjustments to, or disclosure in the financial statements.

24. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information

    b. The required supplementary information is measure and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*

    c. The methods of measurement and presentation of the supplement information have not changed from those used in the prior period.

25. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

26. During fiscal year 2014, the Authority implemented the following pronouncements:

    - GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

    - GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans.

    - GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

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

27. In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

28. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

29. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

Nelperson Etse
General Manager

Pohnpei Port Authority **APPENDIX A**
Summary of Audit Adjustments
September 30, 2014

#	Name	Debit	Credit
	1 AJE To adjust pilotage costs		
5304-FCD	Repair and Maintenance	830	-
2502	Accrued Expenses	-	14,488
Dup5309 - 433	Cost of Pilotage Services	13,658	-
		14,488	14,488
	To correct pilotage expense erroneously recorded as accrued expenses as of 9/30/14		
	2 AJE To correct accrued payroll		
2501	Accrued payroll	-	6,242
5101-ADM	Salaries	6,242	-
		6,242	6,242
	To reverse FY13 accrued payroll		
	3 AJE To record FY14 accrued payroll		
2501	Accrued payroll	-	20,330
5101-ADM	Salaries	20,330	-
		20,330	20,330
	To record FY14 accrued payroll		
	4 AJE To reverse payable		
5123-ADM	Health Insurance	7,138	-
2213-ADM	FSM Health Insurance	-	7,138
2214-ADM	ASC Trust Corporation	-	12,479
5125-ADM	Retirement	12,479	-
		19,617	19,617
	To record health insurance for FY14 not recorded		
	5 AJE To adjust FA		
1625-ADM	Buildings and Improvements	338,704	-
1802-ADM	Capital Improvement Projects	-	338,704
		338,704	338,704
	To capitalize CIP		
	6 AJE To record unrecorded depreciation		
1626-ADM	Acc. Dep. - Buildings and Improvements	-	32,258
5551-ADM	Depreciation	32,258	-
		32,258	32,258
	To record unrecorded depreciation expense for FY14		

#	Name	Debit	Credit
	7 AJE To record unrecorded investet		
4701-ADM	Interest income	-	18,603
DTT-Inv	Investment	18,603	-
		18,603	18,603
	To record unrecorded gain on investment		
	8 AJE To reduce overrecording of allowance		
1102-ADM	Allow. D/A - trade rec.	130,180	-
5553-ADM	Bad debts	-	130,180
		130,180	130,180
	To reduce overrecording of allowance		

APPENDIX B

Pohnpei Port Authority
Summary of Uncorrected Misstatements
September 30, 2014

Entity Description	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Profit and Loss Dr (Cr)
PAJE <1>				
Dr. Operating Expense				4,706
Cr. Accounts Payable		(4,706)		
PAJE <2>				
Dr. Cash	6,800			
Cr. Other income				(6,800)
PAJE<3>				
Dr. Expense				19,947
Cr. AP		(19,947)		
	6,800	(24,653)		4,706 13,147

ATTACHMENT II

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2014:

1. Lease Agreements

   Comment: Several terminal concession lease agreements expired before or during FY2014; however, such were not timely renewed.

   Recommendation: Written lease agreements should be timely updated.

2. Seaport Revenues

   Comment: Four of seventy-five seaport revenues tested contained invoiced amounts that did not agree with amounts per Seaport Regulations.

   Recommendation: We recommend that invoices be reviewed for propriety prior to distribution.

3. Stale-Dated Checks

   Comment: Stale-dated checks outstanding for over one year were included in the bank reconciliation.

   Recommendation: We recommend that the Authority regularly monitor bank reconciliations and assess checks that are stale-dated and determine appropriate disposition.

4. Investment Accounting Policy

   Comment: The Authority does not have a formal investment accounting policy.

   Recommendation: We recommend that management formalize an investment accounting policy.

5. Monitoring of Accounts

   Comment: The accrued expenses and allotment payable schedules as of September 30, 2014 were not monitored.

   Recommendation: We recommend that the Authority regularly review the accrued expense and allotment payable schedules for adequacy.

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 qualifications to perform the control effectively.

ATTACHMENT III

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 Authority'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.