

**KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

**FINANCIAL STATEMENTS AND
OTHER INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kosrae Port Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Kosrae Port Authority (the Authority), a component unit of the State of Kosrae, which comprise the statements of net position 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kosrae Port Authority as of September 30, 2018 and 2017, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

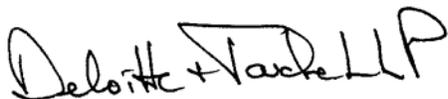
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, on our consideration of the Kosrae Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kosrae Port Authority's internal control over financial reporting and compliance.



December 28, 2018

**KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

This analysis prepared by Kosrae Port Authority (Authority) offers readers of the Authority's financial statements a narrative overview of its activities for fiscal year ended September 30, 2018. This analysis is required by the Government Accounting Standards Board (GASB), which provides guidelines on what must be included and excluded from the analysis.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provides an indication of the Authority's financial condition. The Authority's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in the Authority's financial condition.

The following summarizes the financial position and results of operations of Kosrae Port Authority for the fiscal years 2018, 2017 and 2016.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$ 56,301	\$ 21,047	\$ 103,607
Property and equipment, net	<u>15,337,621</u>	<u>15,934,657</u>	<u>16,676,397</u>
Total assets	\$ <u>15,393,922</u>	\$ <u>15,955,704</u>	\$ <u>16,780,004</u>
Liabilities and Net position:			
Current liabilities	\$ <u>103,637</u>	\$ <u>130,373</u>	\$ <u>113,163</u>
Net position:			
Net investment in capital assets	15,337,621	15,934,657	16,676,397
Unrestricted	<u>(47,336)</u>	<u>(109,326)</u>	<u>(9,556)</u>
Total net position	<u>15,290,285</u>	<u>15,825,331</u>	<u>16,666,841</u>
Total liabilities and net position	\$ <u>15,393,922</u>	\$ <u>15,955,704</u>	\$ <u>16,780,004</u>
Revenues, Expenses and Changes in Net position			
Operating revenues	\$ 523,099	\$ 376,513	\$ 435,106
Operating expenses	<u>1,162,024</u>	<u>1,218,023</u>	<u>1,211,179</u>
Net operating loss	<u>(638,925)</u>	<u>(841,510)</u>	<u>(776,073)</u>
Capital contribution	<u>103,879</u>	-	-
Change in net position	(535,046)	(841,510)	(776,073)
Net position at beginning of the year	<u>15,825,331</u>	<u>16,666,841</u>	<u>17,442,914</u>
Net position at the end of the year	\$ <u>15,290,285</u>	\$ <u>15,825,331</u>	\$ <u>16,666,841</u>

**KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)**

Management's Discussion and Analysis, Continued
Years Ended September 30, 2018 and 2017

Financial Highlights

The Authority's total assets as of September 30, 2018 are comprised of the net amount of its cash, accounts receivable, and property and equipment net of accumulated depreciation. The property and equipment were transferred from the Kosrae State Government in July 2008. In fiscal year 2013, the Authority received an additional capital contribution of \$3,322,632 from Kosrae State for various airport improvement projects which were jointly funded by the US Federal Aviation Administration and the FSM National Government. For additional information with respect to capital assets, please see Note 4 to the financial statements.

Current liabilities comprise accounts payable, accrued liabilities and others, and the due to primary government of \$72,174. There has not been settlement of this debt. The Authority would like to eventually settle for a write-off based on a verbal agreement during the Transfer Negotiation made in July 2008 with the previous Administration.

Operating revenues are mainly from airport landing fees, sea port charges and departure fees. Fiscal year 2018 revenues registered an increase of 39% compared to fiscal year 2017.

Depreciation expense comprised 60% of total operating expenses while salaries and benefits registered 26%. Other expenses such as travel, utilities, supplies and materials, fuel and others totaling \$161,410 comprised 14% of the total operating expenses. There are no significant changes from amounts recorded in 2017.

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the Authority's report on the audit of financial statements, which is dated November 20, 2017. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

Economic factors and Next Year's Budget

The Kosrae Port Authority continuously experiences economic and financial challenges as it relies heavily on revenues realized from both airport and seaport operations. Airport revenues were affected because of the reduction in the flight schedule of the carriers flying into Kosrae State. The expenditures, on the other hand are expected to increase, particularly utilities due to the usage of donated facilities.

Management realizes the problem and has looked to the Port tariff restructuring as means of increasing revenues. In addition, leases will be reviewed as to reasonableness for possible increases as well.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors, and other interested parties a general overview of Kosrae Port Authority's finances. If you have questions about this report or need additional financial information, contact the Office of the General Manager at P. O. Box 960, Tofol, Kosrae FM 96944.

KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Statements of Net Position
September 30, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 9,025	\$ -
Accounts receivable, net	<u>47,276</u>	<u>21,047</u>
Total current assets	56,301	21,047
Property and equipment, net	<u>15,337,621</u>	<u>15,934,657</u>
	<u>\$ 15,393,922</u>	<u>\$ 15,955,704</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 15,198	\$ 47,178
Accrued liabilities and others	16,265	11,021
Due to primary government	<u>72,174</u>	<u>72,174</u>
Total liabilities	<u>103,637</u>	<u>130,373</u>
Contingencies		
Net position:		
Net investment in capital assets	15,337,621	15,934,657
Unrestricted	<u>(47,336)</u>	<u>(109,326)</u>
Total net position	<u>15,290,285</u>	<u>15,825,331</u>
	<u>\$ 15,393,922</u>	<u>\$ 15,955,704</u>

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating revenues:		
Charges for services	\$ 516,099	\$ 385,987
Recoveries (bad debts)	7,000	(9,474)
Total operating revenues	523,099	376,513
Operating expenses:		
Depreciation	700,915	741,740
Salaries and benefits	299,699	255,694
Utilities	56,325	55,578
Travel	44,975	75,638
Supplies and materials	17,068	32,346
Fuel	12,699	18,179
Contractual services	11,868	18,000
Representation and entertainment	5,791	4,441
Communication	5,116	5,234
Repairs	1,860	2,451
Freight and handling	1,313	1,220
Bank service charges	1,274	1,092
Miscellaneous and others	3,121	6,410
Total operating expenses	1,162,024	1,218,023
Loss from operations	(638,925)	(841,510)
Capital contributions from foreign government	103,879	-
Change in net position	(535,046)	(841,510)
Net position at beginning of year	15,825,331	16,666,841
Net position at end of year	\$ 15,290,285	\$ 15,825,331

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 496,870	\$ 404,809
Cash paid to suppliers for goods and services	(193,390)	(197,828)
Cash paid to employees	(294,455)	(261,245)
Net cash (used in) provided by operating activities	9,025	(54,264)
Net change in cash	9,025	(54,264)
Cash at beginning of year	-	54,264
Cash at end of year	\$ 9,025	\$ -
Reconciliation of loss from operations to net cash (used in) provided by operating activities:		
Loss from operations	\$ (638,925)	\$ (841,510)
Adjustments to reconcile loss from operations to net cash (used in) provided by operating activities:		
Depreciation	700,915	741,740
Bad debts	-	9,474
(Increase) decrease in assets:		
Accounts receivable	(26,229)	18,822
Increase (decrease) in liabilities:		
Accounts payable	(31,980)	22,761
Accrued liabilities and others	5,244	(5,551)
Net cash (used in) provided by operating activities	\$ 9,025	\$ (54,264)

Non-cash capital financing activities:

During the year ended September 30, 2018, the Authority received \$103,879 of capital assets from a foreign government.

See accompanying notes to financial statements.

KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Notes to Financial Statements
September 30, 2018 and 2017

(1) Reporting Entity

The Kosrae Port Authority (the Authority), a component unit of the Kosrae State Government, was established by Kosrae State Public Law 7-91. The primary purpose of the Authority is to oversee the use and maintenance of Kosrae State's sea and air ports. The Authority began operating as a separate entity in fiscal year 2008, although the accounting for the Authority was not transferred from the Kosrae State Department of Administration and Finance until July 1, 2008.

The Authority is governed by a five-member Board of Directors. The Board is composed of four directors appointed by the Governor with the advice and consent of the Legislature, and, ex-officio, the Director of the Department of Transportation and Infrastructure. An appointed director serves for a term of four years, subject to reappointment, and until his successor has been appointed and qualifies.

The Authority's financial statements are incorporated into the financial statements of the Kosrae State Government as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

The Authority's equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets, less related debt.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority's revenues are derived primarily from providing various services to major shipping and airline customers under an approved tariff rate schedule and are reported as operating revenues. Capital, grants, interest income, federal program revenue, financing or investing related transactions are reported as non-operating revenues. Revenue is recognized on the accrual basis and is recorded upon billing when services have been completed. All expenses related to operating the Authority are reported as operating expenses.

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2018 and 2017, the cash balance was \$9,025 and \$0, respectively, and the corresponding bank balances were \$14,152 and \$6,180, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits were fully FDIC insured.

Receivables

The Authority's accounts receivable are mostly with businesses and individuals that relate to space rentals, landing fees, port and handling charges, and other fees. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance on the specific identification method.

KOSRAE PORT AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment are stated at cost or at estimated appraised values as of the transfer date, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets. The Authority utilizes a capitalization threshold of \$100,000, which was set by Kosrae State Government upon transfer of these assets to the Authority.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Taxes

Corporate profits are not subject to income tax in the Federated States of Micronesia. The Government of the Federated States of Micronesia imposes a gross receipts tax of 3% on revenues. The Authority is specifically exempt from this tax.

New Accounting Standards

During the year ended September 30, 2018, the Authority implemented the following pronouncements:

- 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.
- 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.

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

KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

**KOSRAE PORT AUTHORITY
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Notes to Financial Statements
September 30, 2018 and 2017

(3) Accounts Receivable

The detail of accounts receivable, net of the allowance for uncollectible accounts, at September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 60,180	\$ 104,807
Less allowance for uncollectible accounts	<u>(12,904)</u>	<u>(83,760)</u>
	<u>\$ 47,276</u>	<u>\$ 21,047</u>

(4) Property and Equipment

Capital asset activity for the years ended September 30, 2018 and 2017, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2017</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2018</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 11,941,369	\$ -	\$ -	\$ 11,941,369
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,972,012	-	-	37,972,012
Vehicles	3 years	<u>17,182</u>	<u>103,879</u>	-	<u>121,061</u>
		50,855,531	103,879	-	50,959,410
Less accumulated depreciation		<u>(34,920,874)</u>	<u>(700,915)</u>	-	<u>(35,621,789)</u>
Property and equipment, net		<u>\$ 15,934,657</u>	<u>\$ (597,036)</u>	<u>\$ -</u>	<u>\$ 15,337,621</u>

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2016</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2017</u>
Depreciable:					
Buildings and improvements	10 to 50 years	\$ 11,941,369	\$ -	\$ -	\$ 11,941,369
Machinery and equipment	5 years	924,968	-	-	924,968
Infrastructure	7 to 80 years	37,972,012	-	-	37,972,012
Vehicles	3 years	<u>17,182</u>	-	-	<u>17,182</u>
		50,855,531	-	-	50,855,531
Less accumulated depreciation		<u>(34,179,134)</u>	<u>(741,740)</u>	-	<u>(34,920,874)</u>
Property and equipment, net		<u>\$ 16,676,397</u>	<u>\$ (741,740)</u>	<u>\$ -</u>	<u>\$ 15,934,657</u>

(5) Risk Management

The Authority purchases insurance to cover life insurance risks. However, the Authority does not purchase insurance to cover risks associated with its buildings and other fixed assets. Management is of the opinion that no material losses have been sustained as a result of this practice since the inception of its operations in July 2008.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Kosrae Port Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kosrae Port Authority (the Authority), which comprise the statement of net position as September 30, 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

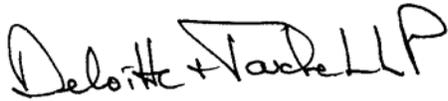
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

December 28, 2018