



OMB CIRCULAR A-133 REPORT ON  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Virgin Islands Port Authority  
(a component unit of the Government of the U.S. Virgin Islands)  
Year Ended September 30, 2008

Ernst & Young LLP

Virgin Islands Port Authority  
OMB Circular A-133 Section  
Federal Financial Assistance Programs  
Year Ended September 30, 2008

**Contents**

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards .....	1
Schedule of Expenditures of Federal Awards .....	4
Notes to Schedule of Expenditures of Federal Awards .....	5
Schedule of Findings and Questioned Costs .....	6
Summary Schedule of Prior Audit Findings .....	15

Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133, and on the  
Schedule of Expenditures of Federal Awards

To the Governing Board  
Virgin Islands Port Authority

***Compliance***

We have audited the compliance of the Virgin Islands Port Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2008. The Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-02 through 08-04.

### ***Internal Control over Compliance***

The management of the Authority is responsible for establishing and maintaining the effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal controls over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 08-02 through 08-04 to be significant deficiencies.

A *material weakness* is significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirements of a Federal program will not be prevented or detected by the entity's internal controls. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs we consider items 08-02 through 08-04 to be material weaknesses.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

#### ***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the Authority as of and for the year ended September 30, 2008, and have issued a report thereon dated December 14, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the audit committee, others within the entity and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

July 13, 2012, except for  
schedule of expenditures  
of federal awards as to  
which the date is  
December 14, 2009

Virgin Islands Port Authority  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2008

Federal Grantor Federal Administrator Project Location	Program Title	Type of Grant	CFDA Number	ID Number	Federal Expenditures
<b>Department of Transportation</b>					
<b>Federal Aviation Administration</b>					
Cyril E. King Airport	Airport Improvement Program	Direct	20.106	03-78-0001-24-2005	\$ 1,693,788
Cyril E. King Airport	Airport Improvement Program	Direct	20.106	03-78-0001-25-2006	472,499
Henry E. Roehlsen Airpot	Airport Improvement Program	Direct	20.106	03-78-0002-26-2004	(251,452)
Henry E. Roehlsen Airpot	Airport Improvement Program	Direct	20.106	03-78-0002-28-2006	420,238
Henry E. Roehlsen Airpot	Airport Improvement Program	Direct	20.106	03-78-0002-29-2007	3,179,878
Henry E. Roehlsen Airpot	Airport Improvement Program	Direct	20.106	03-78-0002-30-2008	<u>36,132</u>
<b>Total Federal Financial Assistance</b>					<b><u>\$ 5,551,083</u></b>

*See notes to the Schedule of Expenditures of Federal Awards.*

# Virgin Islands Port Authority

## Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2008

### **1. General**

The accompanying schedules presents the funds expended by the Virgin Islands Port Authority (the "Authority") from all federal financial assistance programs. The Authority's reporting entity is defined in Note 1 to the financial statements.

### **2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented in the accrual basis of accounting.

### **3. Other Project Expenditures**

The Government of the U.S. Virgin Islands (USVI) issued through its Public Finance Authority (PFA) \$26 million of Federal Highway Reimbursement Anticipation Loan Note Bonds (Bonds) mainly for the construction of two marine access projects: a commercial port with a pier at Enighed Pond on the island of St. John, and a full service ferry and marine terminal at Red Hook (the Projects). During fiscal year 2003, the U.S. Department of Transportation through the Federal Highway Administration (FHWA) authorized the U.S. Virgin Islands Department of Public Works (DPW) to advance the construction of the Projects. The Bonds are secured by the Highway Planning and Construction Federal Aid Program (CFDA #20.205), excluding bond related costs. In connection with these projects FHWA, PFA, DPW and the Authority developed a memorandum agreement to establish the procedures, roles and responsibilities for managing the stewardship and construction of the Projects. In accordance with the memorandum agreement, the Authority is responsible for the construction of the Projects, including design, bidding and awards, project coordination, management, supervision and execution. Also, the Authority is responsible for certifying eligibility for payment to contractor's invoices. As discussed in Note 8 to the financial statements, the Projects' expenditures are recognized as a capital asset and grant income in the Authority's financial statements.

During the fiscal year ended September 30, 2008, the Authority did not receive PFA Bonds proceeds to make capital expenditures for these projects. As of September 30, 2008, total PFA Bonds proceeds to make capital expenditures for these projects disbursed to date amounted to approximately \$13,000,000.

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs

September 30, 2008

Part I – Summary of Auditors' Results

Financial Statement Section

Type of auditor’s report issued on the basic financial statements: .....Unqualified

Internal Control over Financial Reporting

Material weaknesses identified?..... No

Significant deficiencies identified that are not considered to be material weaknesses?..Yes

Non-compliance material to financial statements noted?.....No

Federal Award Section

Internal control over major programs:

Material weaknesses identified?..... Yes

Significant deficiencies identified that are not consider to be material weaknesses?..... No

Identification of Major Programs

CFDA Number	Major Program
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: .....\$300,000

Auditee qualified as low-risk auditee: .....No



Virgin Islands Port Authority

Schedule of Findings and Questioned Costs (continued)

**Part I – Summary of Auditors' Results (continued)**

**Identification of Major Programs (continued)**

Type of auditor's report issued on compliance for major programs:

<b>CFDA Number</b>	<b>Major Program</b>	<b>Type of Report Issued on Compliance</b>
20.106	Airport Improvement Program	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133..... Yes

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs (continued)

**Part II - Findings Related to the Financial Statements Which Are Required to be Reported  
in Accordance With Generally Accepted Auditing Standards**

**Finding Number: 08-01**

**Refer to separately issued Report of Independent Certified Public Accountants 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* dated December 14, 2009.**

## Virgin Islands Port Authority

### Schedule of Findings and Questioned Costs (continued)

#### Part III – Federal Award Findings and Questioned Costs Section

##### **Finding Number: 08-02**

##### **Federal program information**

U.S. Department of Transportation/ Airport Improvement Program/ CFDA: 20.106  
Federal Award No.: 3-78-0001-24-2005 & 3-78-0002-26-2004

##### **Criteria or specific requirement**

General: OMB Circular A-133, Subpart C, Section 320a establishes that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse (FAC) within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

##### **Condition found**

The Authority did not comply with the required submission date of the data collection form and reporting package to the FAC for the fiscal year ended September 30, 2008. The due date for this report was no later than June 30, 2009.

##### **Questioned costs**

Not applicable.

##### **Effect**

The Authority could be exposed to a reduction or elimination of funding by the Federal awarding agencies.

##### **Cause**

The Authority did not have controls in place to ensure that the reporting package is submitted to the FAC within the required timeframe.

##### **Recommendation**

We recommend that the Authority establish controls to ensure the reporting package is submitted to the FAC annually within the required timeframe.

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs (continued)

**Part III – Federal Award Findings and Questioned Costs Section (continued)**

**Finding Number: 08-02 (continued)**

**Views of responsible officials and planned corrective actions**

The Authority agrees. Management is aware of this reporting requirement and has engaged independent auditors to complete the past due reports.

Responsible official for corrective action: Judith V. James

Anticipated completion date: 30 days upon receipt

## Virgin Islands Port Authority

### Schedule of Findings and Questioned Costs (continued)

#### Part III – Federal Award Findings and Questioned Costs Section (continued)

##### **Finding Number: 08-03**

##### **Federal program information**

U.S. Department of Transportation/ Airport Improvement Program/ CFDA: 20.106  
Federal Award No.: 3-78-0001-24-2005 & 3-78-0002-26-2004

##### **Criteria or specific requirement**

Reporting: Pursuant the terms and conditions of accepting AIP grants, under the airport sponsor's assurance no. 26(d), in a format and time prescribed by the Secretary, provide to the Secretary and make available to the public following each of its fiscal years, an annual report listing in detail:

- (I) All amounts paid by the airport to any other unit of government and the purposes for which each such payment was made; and
- (II) All services and property provided by the airport to other units of government and the amount of compensation received for provision of each service and property.

FAA Form 5100-126, *Financial Government Payment Report (OMB No. 2120-0557)*, captures amounts paid and services provided to other units of government. This reporting requirement technically applies to all sponsors of federally assisted airports who accepted grants with assurance no. 26(d)(I)(ii); however, FAA is currently requiring submission only from commercial service airports. Commercial service airports are the airports most likely to generate excess revenue that could be diverted to non-airport uses.

##### **Condition found**

During our testing to verify that the annual Financial Government Payment Reports submitted to the FAA are complete and accurate, we noted that the report for the Cyril E. King Airport does not include the value of office space rental income from the Government of the US Virgin Islands.

##### **Context**

The value of this rental income is approximately \$400,000.

##### **Questioned costs**

Not applicable

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs (continued)

**Part III – Federal Award Findings and Questioned Costs Section (continued)**

**Finding Number: 08-03 (continued)**

**Effect**

Ineffective internal controls to ensure that the annual Financial Government Payment Reports are reviewed prior to submission may lead to inaccurate and incomplete reporting.

**Cause**

Internal controls to ensure Financial Government Payment Reports includes all transactions with other Government units are not working effectively.

**Recommendation**

We recommend the Authority ensures controls over the accuracy of reports submitted to the FAA are being enforced to ensure compliance with post-award reporting requirements.

**Views of responsible officials and planned corrective actions**

The Authority recognizes this error and will correct the report by adding the value of office space rental income from the Government of the US Virgin Islands.

Responsible official for corrective action: Anna M. Penn

Anticipated completion date: September 2012

## Virgin Islands Port Authority

### Schedule of Findings and Questioned Costs (continued)

#### Part III – Federal Award Findings and Questioned Costs Section (continued)

##### **Finding Number: 08-04**

##### **Federal program information**

U.S. Department of Transportation/ Airport Improvement Program/ CFDA: 20.106  
Federal Award No.: 3-78-0001-24-2005 & 3-78-0002-26-2004

##### **Criteria or specific requirement**

Procurement, Suspension, and Debarment: Pursuant 49 CFR 18.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, *Debarment and Suspension*.'

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

##### **Condition found**

During our testing of contracts to verify compliance with suspension and debarment provisions, we were unable to verify that the Authority performs the required verifications to ensure contractors under covered transactions are not suspended or debarred from participating in Federally-assisted programs. Furthermore, we did not observed any clause or conditions in the project contracts reviewed, nor certifications from the contractor asserting they are not suspended or debarred. Nevertheless, we verified through EPLS that none of the contractors were suspended or debarred from participating in federally-assisted programs.

##### **Questioned costs**

No questioned costs were determined.

##### **Context**

This exception was noted on all four contracts of covered transactions which were selected for testing.

Virgin Islands Port Authority

Schedule of Findings and Questioned Costs (continued)

**Part III – Federal Award Findings and Questioned Costs Section (continued)**

**Finding Number: 08-04 (continued)**

**Effect**

The Authority could be entering into contracts with suspended or debarred contractors which may lead to disallowance of Federal funds.

**Cause**

Lack of monitoring activities or control activities that ensure verification with EPLS is performed.

**Recommendation**

We recommend the Authority to review current procedures to ensure compliance with suspension and debarment provisions by verifying the EPLS prior to conferring a contract and including a clause or condition in project contracts, or obtaining a certification from the vendor.

**Views of responsible officials and planned corrective actions**

The Authority will adjust its policy to include the verification of contractors for suspension and debarment to ensure it does not jeopardize its Federal Funding source.

Responsible official for corrective action: Dale Cagney

Anticipated completion date: Fiscal year 2012



Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings

September 30, 2008

Finding Number: 07-02

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<b>CFDA Number</b>	All major programs
<b>Name of Federal Program</b>	All major programs
<b>Major Program</b>	All major programs
<b>Type of Compliance Requirement</b>	Other
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-02.

Finding Number: 07-03

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<b>CFDA Number</b>	All major programs
<b>Name of Federal Program</b>	All major programs
<b>Major Program</b>	All major programs
<b>Type of Compliance Requirement</b>	Other
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Corrected.

Finding Number: 07-04

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<b>CFDA Number</b>	20.106
<b>Name of Federal Program</b>	Airport Improvement Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-03.

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings (continued)

Finding Number: 07-05

<b>CFDA Number</b>	All major programs
<b>Name of Federal Program</b>	All major programs
<b>Major Program</b>	All major programs
<b>Type of Compliance Requirement</b>	Procurement, Suspension and Debarment
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-04.

Finding Number: 07-06

<b>CFDA Number</b>	97.056
<b>Name of Federal Program</b>	Port Security Grant Program
<b>Major Program</b>	No
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	VIPA did not agree with the finding. VIPA stated that section "M" reporting requirements of the grant requires only one final SF 269A.
<b>Auditor's Conclusion</b>	The grant agreement in section "M", specifies when the final SF-269A is due, but is silent on the frequency of such report for periods before project completion. Therefore, as stated on the criteria above, if the Federal agency does not specify the frequency of the report, it will be submitted annually. In conclusion, the finding remains as stated.

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings (continued)

Finding Number: 07-07

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<b>CFDA Number</b>	16.011
<b>Name of Federal Program</b>	Urban Areas Security Initiative
<b>Major Program</b>	No
<b>Type of Compliance Requirement</b>	Equipment and Real Property Management
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Accounting Manager Corrected during fiscal year 2010.

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings (continued)

Finding Number: 06-02

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<b>CFDA Number</b>	All major programs
<b>Name of Federal Program</b>	All major programs
<b>Major Program</b>	All major programs
<b>Type of Compliance Requirement</b>	Other
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-02.

Finding Number: 06-03

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<b>CFDA Number</b>	All major programs
<b>Name of Federal Program</b>	All major programs
<b>Major Program</b>	All major programs
<b>Type of Compliance Requirement</b>	Other
<b>Amount of Questioned Costs</b>	Not applicable
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Corrected

Finding Number: 06-04

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<b>CFDA Number</b>	20.106
<b>Name of Federal Program</b>	Airport Improvement Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Corrected

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings (continued)

Finding Number: 06-05

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<b>CFDA Number</b>	20.106
<b>Name of Federal Program</b>	Airport Improvement Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Corrected

Finding Number: 06-06

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<b>CFDA Number</b>	20.106
<b>Name of Federal Program</b>	Airport Improvement Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-03.

Finding Number: 06-07

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<b>CFDA Number</b>	All major program
<b>Name of Federal Program</b>	All major program
<b>Major Program</b>	All major program
<b>Type of Compliance Requirement</b>	Procurement, Suspension and Debarment
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan</b>	Executive Director
<b>Status</b>	Not corrected. Refer to current year finding 08-04.

Virgin Islands Port Authority

Summary Schedule of Prior Audit Findings (continued)

Finding Number: 06-08

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<b>CFDA Number</b>	97.056
<b>Name of Federal Program</b>	Port Security Grant Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Executive Director Corrected

Finding Number: 06-09

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<b>CFDA Number</b>	97.056
<b>Name of Federal Program</b>	Port Security Grant Program
<b>Major Program</b>	Yes
<b>Type of Compliance Requirement</b>	Reporting
<b>Amount of Questioned Costs</b>	No questioned costs were determined.
<b>Contact Person Responsible for Corrective Action Plan Status</b>	Executive Director VIPA did not agree with the finding. VIPA stated that section “M” reporting requirements of the grant requires only one final SF 269A.
<b>Auditor’s Conclusion</b>	The grant agreement in section “M”, specifies when the final SF-269A is due, but is silent on the frequency of such report for periods before project completion. Therefore, as stated on the criteria above, if the Federal agency does not specify the frequency of the report, it will be submitted annually. In conclusion, the finding remains as stated.

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