Steuben County Land Bank Corporation

Financial Statements as of
December 31, 2017
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

Steuben County Land Bank Corporation

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Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 8, 2018

To the Board of Directors of
Steuben County Land Bank Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Steuben County Land Bank Corporation (the Corporation), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

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(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017, and the changes in its financial position and its cash flows for the year 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 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 March 8, 2018 on our consideration of the Corporation'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 solely 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 the effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.

Bonadio & Co., LLP

STEUBEN COUNTY LAND BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Steuben County Land Bank Corporation (the Corporation), annual financial report presents discussion and analysis of the Corporation's financial performance during the fiscal year ending December 31, 2017. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

GENERAL INFORMATION

This Corporation was incorporated in 2016 to address the problems with vacant, abandoned, or tax delinquent property in the County of Steuben, New York (the County) with the intent to return the properties to productive use. Operations commenced in 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: this section, the Management's Discussion and Analysis (MD&A) and the basic financial statements. The Corporation is a self-supporting entity and follows business-type activity reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Business-type activity statements offer short-term and long-term financial information about the activities and operations of the Corporation. This annual report consists of the financial statements and notes to those statements. The Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, the Statements of Cash Flows and related notes provide a detailed look at the specific financial activities of the Corporation and generally provide an indication of the Company's financial health. The Statements of Net Position include all of the Corporation's assets and liabilities, using the accrual basis of accounting. The Statements of Revenue, Expenses and Changes in Net Position report all of the revenues and expenses during the time period indicated. The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for debt.

FINANCIAL HIGHLIGHTS

- The Corporation's total net position at December 31, 2017 is $126,486.
- Total current assets at December 31, 2017 are $151,630 comprised of cash, inventory and prepaid insurance.
- Total current liabilities at December 31, 2017 are $25,144. Current liabilities are comprised of advanced grant funds which have not yet been expended. The Corporation has provided reasonable assurance that these funds will be used.
- Operating revenues at December 31, 2017 are $167,247 consisting of grant funds and government contributions, as well as in-kind services provided by the County.
- Operating expenses at December 31, 2017 are $40,761.
- Operating income at December 31, 2017 is $126,486.

FINANCIAL ANALYSIS OF THE CORPORATION

Below is an analysis of the assets, liabilities, revenues and expenses of the Corporation.

Summary of Assets, Liabilities, and Net Position

	2017
Current assets	$ 151,630
Current liabilities	25,144
Total Net position - unrestricted:	
Unrestricted	$ 126,486

CURRENT ASSETS

Current assets at December 31, 2017 were comprised of cash from a state provided grant and government contributions, inventory and prepaid expense for 2018 insurance premiums.

INVENTORY

As of December 31, 2017, inventory consists of four properties. Management intends to complete either demolition or rehabilitation of these properties and then sell them.

CAPITAL ASSETS

At this moment, the Corporation does not possess any capital assets.

CURRENT LIABILITIES

Current liabilities are comprised of advanced grant funds on a grant award from the Local Initiatives Support Corporation (LISC) not yet spent for their designated purpose. As of December 31, 2017, $102,473 has been received from LISC on a total award of $500,000 and $77,329 has been spent to date.

BUDGET

The Corporation budgeted total revenues of $158,000 of which $75,000 related to municipal subsidy grants and $83,000 to sales of properties. In-kind transactions were not budgeted for and the LISC grant award was not included in the operating budget. No properties were sold in 2017.

The Corporation budgeted $66,500 of expenses for the year ending December 31, 2017, which includes a contingency amount of $25,000. The budget did not include any value related to in-kind services.

FINANCIAL ANALYSIS OF THE CORPORATION (Continued)

Summary of Revenues, Expenses, and Change in Net Position

	2017
OPERATING REVENUES:	
Grant and government subsidy revenue	$ 152,329
In-Kind revenue	14,918
Total operating revenues	167,247
OPERATING EXPENSES:	
Cost of sales	50
Management fees	15,500
Insurance	7,928
Professional services	1,000
General and administrative expenses	1,365
In-Kind expense	14,918
Total operating expenses	40,761
OPERATING INCOME	126,486
CHANGE IN NET POSITION	126,486
NET POSITION - beginning of year	-
NET POSITION - end of year	$ 126,486

OPERATING REVENUES

There were no property sales during the year ended December 31, 2017. Operating revenue was made up of revenue from grants and government contributions, as well as services rendered in-kind.

OPERATING EXPENSES

Operating expenses in 2017 were primarily comprised of management fees, insurance premiums and services rendered in-kind.

OPERATING RESULTS

The Corporation had operating income of $126,486 for the year ended December 31, 2017.

REQUEST FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Corporation's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Steuben Land Bank Corporation - Steuben County Office Building, 3 East Pulteney Square, Bath, NY 14810.

STEUBEN COUNTY LAND BANK CORPORATION

STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS	
CURRENT ASSETS:	
Cash	$ 48,027
Inventory	61,779
Prepaid expenses	16,680
Restricted cash	25,144
Total current assets	151,630
Total assets	151,630
LIABILITIES	
CURRENT LIABILITIES:	
Grant and government subsidy revenue advance	25,144
Total liabilities	25,144
NET POSITION	
Unrestricted	126,486
Total net position	$ 126,486

The accompanying notes are an integral part of these statements.

STEUBEN COUNTY LAND BANK CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES:	
Grant and government subsidy revenue	$ 152,329
In-Kind revenue	14,918
Total operating revenues	167,247
OPERATING EXPENSES:	
Cost of sales	50
Management fees	15,500
Insurance	7,928
Professional services	1,000
General and administrative expenses	1,365
In-Kind expense	14,918
Total operating expenses	40,761
OPERATING INCOME	126,486
CHANGE IN NET POSITION	126,486
NET POSITION - beginning of year	-
NET POSITION - end of year	$ 126,486

The accompanying notes are an integral part of these statements.

STEUBEN COUNTY LAND BANK CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grants and government subsidies	$	177,473
Cash paid for inventory		(61,829)
Cash paid for management fees		(15,500)
Cash paid for insurance		(24,608)
Cash paid for professional services		(1,000)
Cash paid for general and administrative expenses		(1,365)
Net cash from operating activities		73,171
CHANGE IN CASH		73,171
CASH - beginning of year		-
CASH - end of year	$	73,171
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION:		
Cash	$	48,027
Restricted cash		25,144
Total	$	73,171
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$	126,486
Adjustments to reconcile operating income to net cash flow from operating activities:		
Changes in:		
Inventory		(61,779)
Prepaid expenses		(16,680)
Grant and government subsidy revenue advance		25,144
Net cash from operating activities	$	73,171

NONCASH ACTIVITIES:

The County paid $14,918, mostly comprised of salaries and benefits, to manage and operate the Corporation during the fiscal year ending December 31, 2017. This transaction is reflected as in-kind operating revenue and operating expense.

1. ORGANIZATION

The Steuben County Land Bank Corporation (the Corporation), was formed in 2016 to assist communities within the County of Steuben, New York (the County) in addressing the issues of blight caused by vacant, abandoned, condemned and foreclosed properties. Operations commenced in 2017. The Corporation endeavors to reverse the trend of declining property values and further deterioration of Steuben County's housing and commercial stock by stabilizing neighborhoods, encouraging private investment and improving the quality of life for Steuben County residents.

The Corporation was formed with the County as its sole member. However, due to the immateriality of the Corporation to the County, it is not presented as a blended component unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The basic financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial principles.

Measurement Focus and Basis of Accounting

The Corporation operates as a proprietary fund. Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

The Corporation utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

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 these estimates.

Income Tax Status

The Corporation was organized as a not-for-profit corporation under the laws of the State of New York, and submitted an Application for Recognition of Exempt Status to the Internal Revenue Service with respect to Section 501(c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory
Inventory consists of vacant, abandoned, or tax delinquent property in the County purchased by the Corporation or donated by the County. Inventory is valued at the lower of cost or market. Market value is defined as estimated selling price, not to be in excess of assessed value. Cost includes but is not limited to, property purchase cost, appraisal, inspection and recording fees, renovation costs and professional services.

Prepaid Expenses
Prepaid expenses at December 31, 2017 are comprised of amounts for 2018 insurance policies paid prior to fiscal year end.

Grant and Government Subsidy Revenue Advance
Grant advances consist of grant and government subsidy revenue amounts received for which the definition of earned has not been met. Such amounts are reflected as a liability until the amount is deemed earned and then recognized as revenue.

Operating and Non-operating Revenues and Expenses
As a business-type activity, the Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues are mostly comprised of grant and government subsidy revenue resulting from exchange transactions and in-kind services associated with the principal activities of the Corporation. Operating expenses generally result from the acquisition, demolition and renovation of properties, and general and administrative expenses in accordance with the Corporation's mission. There are no non-operating revenues and expenses at December 31, 2017.

Cost of Sales
At the time of sale of inventory, the book value of inventory is recognized as expense under cost of sales. Cost of sales also include expenses incurred to maintain properties held in inventory that do not meet the definition to be treated as inventory. These include, but are not limited to, property taxes, mowing, and other property maintenance costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position
Equity is classified as net position and displayed in three components:

a. Net investment in capital assets - capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Corporation does not have net investment in capital assets at December 31, 2017.
b. Restricted net position - net position with constraints placed on their use either by (1) external groups such as creditors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The Corporation does not have restricted net position at December 31, 2017.
c. Unrestricted net position - all other net position that does not meet the definition of net investment in capital assets or restricted net position.

It is the Corporation's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The Corporation follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conform with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the CFO.

Monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within and authorized to do business in New York State (NYS). Collateral is required for deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are those identified in NYS General Municipal Law, Section 10 and outlined in the NYS Comptroller's Financial Management Guide.

Interest Rate Risk
Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk
The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

The Corporation restricts the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations partially insured or guaranteed by an agency of the United States of America;
- Obligations issued or fully insured or guaranteed by NYS;
- Obligations issued by a municipal corporation, school district or district corporation of NYS;
- Obligations issued by states (other than NYS) of the United States of America rated in one of the two highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO).

The Corporation maintained cash balances with a financial institution insured by the FDIC up to $250,000, for interest bearing and non-interest bearing accounts. At December 31, 2017, the Corporation's deposits consisted of $73,456 in cash and was insured in full by FDIC.

4. CONCENTRATIONS OF CREDIT RISK

The Corporation receives significant support from certain governmental entities. The primary source of funding is through a grant award from Local Initiatives Support Corporation (LISC). Funding from LISC comprised 46% of revenue for the year ended December 31, 2017.

5. AGREEMENT WITH ARBOR HOUSING AND DEVELOPMENT

In July 2017, the Corporation entered into an agreement with Arbor Housing and Development (the Agent) wherein the Agent will provide services including program management related to administering the grant award received from LISC, as well as construction, demolition and rehabilitation oversight. The agreement is in effect for an initial period of two years and can be renewed up to five years. The Corporation will pay the Agent $31,000 annually for these services. Management fees paid related to this agreement for the year ended December 31, 2017 totaled $15,500.

6. AGREEMENT WITH COUNTY OF STEUBEN, NEW YORK

The Corporation has an agreement with the County wherein the County provides legal, managerial and demolition services. The total value of these in-kind services provided by the County are $14,918 for the year ending December 31, 2017 and are recorded as in-kind operating revenue and expenses for the year ending December 31, 2017.

7. NEW AND UPCOMING PRONOUNCEMENTS

New Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB) included in the general purposes external financial reports of statement local governmental OPEB plans for making decisions and assessing accountability. The Corporation adopted the provisions of Statement No. 74 for the year ending December 31, 2017 with no material effect.

In January 2016, the GASB issues Statement No. 80, *Blending Requirements for Certain Component Units; an Amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirement established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. The Corporation adopted the provisions of Statement No. 80 for the year ending December 31, 2017 with no material effect.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve 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. The Corporation adopted the provisions of Statement No. 74 for the year ending December 31, 2017 with no material effect.

In March 2016, the GASB issued Statement No. 82, *Pension Issues; an amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Pending the measurement date of the employer's pension liability, the Corporation is required to adopt the provisions of Statement No. 82 for the year ended December 31, 2017 or 2018. The Corporation adopted the provisions of the Statement No. 82 for the year ending December 31, 2017 with no material effect.

7. NEW AND UPCOMING PRONOUNCEMENTS (Continued)

Upcoming Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (other postemployment benefits or OPEB). The Corporation is required to adopt the provisions of Statement No. 75 for the year ending December 31, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. This Statement also requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments with a focus on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is address practice issues specific to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Corporation is required to adopt the provisions of this Statement for the year ending December 31, 2020.

The Corporation has not yet assessed the impact of these pronouncements on its future financial statements.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

March 8, 2018

To the Board of Directors of
Steuben County Land Bank Corporation:

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 Steuben County Land Bank Corporation (the Corporation), as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

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(Continued)

INDEPENDENT AUDITOR'S 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*
(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Corporation'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.

Bonadio & Co., LLP