

**TIOGA COUNTY PROPERTY DEVELOPMENT
CORPORATION**

**Financial Statements as of
December 31, 2022 and 2021
Together with Independent
Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

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INDEPENDENT AUDITOR’S REPORT

March 20, 2023

To the Board of Directors of the
Tioga County Property Development Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Tioga County Property Development Corporation (the Corporation) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements as listed in the table of contents.

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, 2022 and 2021, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 20, 2023 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.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Management's Discussion and Analysis (Unaudited)

This section of the Tioga County Property Development Corporation (the Corporation) annual financial report presents discussion and analysis of the Corporation's financial performance during the fiscal years ending December 31, 2022, 2021 and 2020. Please read it in conjunction with the Corporation's financial statements and accompanying notes.

GENERAL INFORMATION

The Corporation was incorporated in March 2017, but activity began in 2019. The mission was to foster economic and community development by acquiring, holding, managing, developing and marketing distressed, vacant, abandoned, tax foreclosed and under-utilized residential and commercial properties.

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 Revenues, Expenses and Change 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 Corporation'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 Revenues, Expenses and Change 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, 2022 is \$207,752 compared to \$154,405 at December 31, 2021 and \$55,067 at December 31, 2020.
- Total current assets at December 31, 2022 are \$689,149, \$792,462 at December 31, 2021 and \$301,446 at December 31, 2020. It is comprised of cash on hand, inventory, receivables, and prepaid expenses.
- Total current liabilities at December 31, 2022 are \$481,397, \$638,057 at December 31, 2021 and \$246,379 at December 31, 2020. The liabilities are comprised of grant advances and accrued liabilities.
- Operating revenues in 2022, 2021 and 2020 were \$294,591, \$533,349 and \$85,710, respectively, primarily as a result of grant and government subsidy revenue and property sales. Operating expenses of \$241,244 in 2022 were primarily due to cost of sales and professional services. Operating expenses of \$434,011 in 2021 included primarily unrealized loss on inventory and professional services. Operating expenses of \$95,207 in 2020 included primarily cost of sales and professional services.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Management’s Discussion and Analysis (Unaudited)

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 689,149	\$ 792,462	\$ 301,446
Current liabilities	<u>481,397</u>	<u>638,057</u>	<u>246,379</u>
Total net position	<u>\$ 207,752</u>	<u>\$ 154,405</u>	<u>\$ 55,067</u>

CURRENT ASSETS

Current assets at December 31, 2022 were comprised of cash, inventory, a grant receivable, and prepaid expenses. Current assets at December 31, 2021 were comprised of cash and inventory, while current assets at December 31, 2020 were comprised of cash, inventory and accounts receivable.

INVENTORY

Properties held for sale comprise inventory. At December 31, 2022, 2021 and 2020, the Corporation owned 20, 14, and 5 properties, respectively.

CAPITAL ASSETS

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

CURRENT LIABILITIES

Current liabilities are comprised of grant advances and accrued liabilities. One grant advance is part of the American Rescue Plan Act (ARPA) funds received from Tioga County. All \$500,000 in funds per the agreement were disbursed in 2021. Revenue is recognized as funds are spent on allowable expenses.

In addition, another grant advance is part of a grant awarded from the Floyd Hooker Foundation. All \$65,000 in funds per the agreement were disbursed in 2022. Revenue is recognized as funds are spent on allowable expenses.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Management's Discussion and Analysis (Unaudited)

Summary of Revenues, Expenses and Change in Net Position

	<u>2022</u>	<u>% of Total</u>	<u>2021</u>	<u>% of Total</u>	<u>2020</u>	<u>% of Total</u>
OPERATING REVENUES:						
Grant and government subsidy revenue	\$ 294,512	99.97%	\$ 532,349	99.81%	\$ 50,910	59.40%
Property sales	-	0.00%	1,000	0.19%	34,750	40.54%
Other revenue	<u>79</u>	0.03%	<u>-</u>	0.00%	<u>50</u>	0.06%
Total operating revenues	<u>294,591</u>		<u>533,349</u>		<u>85,710</u>	
OPERATING EXPENSES:						
Cost of sales	207,977	86.21%	50,152	11.56%	47,648	50.05%
Unrealized loss on inventory	2	0.00%	343,522	79.15%	-	0.00%
General & admin expenses	1,081	0.45%	317	0.07%	2,015	2.12%
Professional services	30,917	12.81%	38,916	8.97%	45,544	47.83%
Insurance	768	0.32%	1,104	0.25%	-	0.00%
Other expense	<u>499</u>	0.21%	<u>-</u>	0.00%	<u>-</u>	0.00%
Total operating expenses	<u>241,244</u>		<u>434,011</u>		<u>95,207</u>	
OPERATING INCOME (LOSS):	<u>53,347</u>		<u>99,338</u>		<u>(9,497)</u>	
CHANGE IN NET POSITION:	53,347		99,338		(9,497)	
NET POSITION - beginning of year	<u>154,405</u>		<u>55,067</u>		<u>64,564</u>	
NET POSITION - end of year	<u>\$ 207,752</u>		<u>\$ 154,405</u>		<u>\$ 55,067</u>	

OPERATING REVENUES

Operating revenues primarily include grant revenue and property sales. The number of properties sold in 2022, 2021, and 2020 were 0, 1, and 8, respectively.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Management's Discussion and Analysis (Unaudited)

OPERATING EXPENSES

Operating expenses primarily include cost of sales, unrealized loss on property, and professional services.

OPERATING RESULTS

The Corporation had operating income of \$53,347 for the year ended December 31, 2022 and operating income of \$99,338 for the year ended December 31, 2021. The decrease was related to an approximate 45% decrease in grant revenue recognized in 2022 paired with an approximate 44% decrease in operating expenses. Grant revenue decreased primarily as the result of the closing of the \$1,060,000 Enterprise Community Partners, Inc. Grant in March of 2022. Cost of sales increased by approximately \$158,000 due to a significant increase in demolitions in 2022, while unrealized loss on inventory decreased by approximately \$344,000 as the result of the Corporation adopting a new inventory valuation policy.

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 Tioga County Property Development Corporation, 56 Main Street #203, Owego, NY 13827.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Statements of Net Position December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash - unrestricted	\$ 53,114	\$ 35,850
Cash - restricted	445,397	638,057
Grant receivable	18,082	-
Inventory	171,934	118,555
Prepaid expenses	<u>622</u>	<u>-</u>
Total current assets	<u>689,149</u>	<u>792,462</u>
Total assets	<u>689,149</u>	<u>792,462</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accrued expenses	36,000	-
Grant and government subsidy revenue advance	<u>445,397</u>	<u>638,057</u>
Total current liabilities	<u>481,397</u>	<u>638,057</u>
Total liabilities	<u>481,397</u>	<u>638,057</u>
NET POSITION		
Unrestricted	<u>207,752</u>	<u>154,405</u>
Total net position	<u>\$ 207,752</u>	<u>\$ 154,405</u>

The accompanying notes are an integral part of these statements.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Statements of Revenues, Expenses and Change in Net Position For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Grant and government subsidy revenue	\$ 294,512	\$ 532,349
Property sales	-	1,000
Other revenue	79	-
	<hr/>	<hr/>
Total operating revenues	294,591	533,349
	<hr/>	<hr/>
OPERATING EXPENSES:		
Cost of sales	207,977	50,152
Unrealized loss on inventory	2	343,522
General and administrative expenses	1,081	317
Professional services	30,917	38,916
Insurance	768	1,104
Other expense	499	-
	<hr/>	<hr/>
Total operating expenses	241,244	434,011
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	53,347	99,338
	<hr/>	<hr/>
CHANGE IN NET POSITION	53,347	99,338
	<hr/>	<hr/>
NET POSITION - beginning of year	154,405	55,067
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NET POSITION - end of year	\$ 207,752	\$ 154,405
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The accompanying notes are an integral part of these statements.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Statements of Cash Flows

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from grant and government subsidies	\$ 83,770	\$ 924,027
Cash received from sale of property	-	1,000
Cash received from other revenue	79	-
Cash paid for inventory	(225,358)	(492,012)
Cash paid for general and administrative expenses	(1,081)	(317)
Cash paid for professional services	(30,917)	(35,918)
Cash paid for insurance	(1,390)	(1,104)
Cash paid for other expense	(499)	-
	(175,396)	395,676
Net cash from operating activities	(175,396)	395,676
CHANGE IN CASH	(175,396)	395,676
CASH - beginning of year	673,907	278,231
CASH - end of year	\$ 498,511	\$ 673,907
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION:		
Cash - unrestricted	\$ 53,114	\$ 35,850
Cash - restricted	445,397	638,057
Total	\$ 498,511	\$ 673,907
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ 53,347	\$ 99,338
Adjustments to reconcile operating income (loss) to net cash flow from operating activities:		
Unrealized loss on inventory	2	343,522
Changes in:		
Inventory	(53,381)	(441,860)
Accounts receivable	-	2,998
Grant receivable	(18,082)	-
Prepaid expenses	(622)	-
Accrued expenses	36,000	-
Grant and government subsidy revenue advance	(192,660)	391,678
Net cash from operating activities	\$ (175,396)	\$ 395,676

The accompanying notes are an integral part of these statements.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

December 31, 2022 and 2021

1. ORGANIZATION

The Tioga County Property Development Corporation (the Corporation) was formed in 2017 to address the problems of vacant, abandoned, or tax delinquent property in the County of Tioga, New York (the County) in a coordinated manner through the acquisition of real property. Operations did not commence until 2019. The mission of the Corporation is to return that property to productive use in order to strengthen the economy, improve the quality of life, and improve the financial condition of the municipalities, through the use of the powers and tools granted to land banks by New York State (NYS).

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 Section 501(c)(3) of the Internal Revenue Code.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

December 31, 2022 and 2021

Cash

Custodial credit risk related to cash deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits.

The Corporation had a bank balance of \$507,819 at December 31, 2022 of which \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$257,819 was uncollateralized. A bank balance of \$679,708 was held at December 31, 2021 of which \$250,000 was insured by the FDIC and \$429,708 was uncollateralized.

Restricted Cash

Certain amounts of cash are classified as restricted because their use is restricted by grant agreements. Restricted cash balances have been offset by grant and government subsidy revenue advances at December 31, 2022 and 2021.

Inventory

Inventory consists of vacant, abandoned, or tax delinquent property in the County purchased by the Corporation. Inventory is valued at the lower of cost or market. Market value is defined as estimated selling price and is based on assessed value for rehabilitation candidate properties, assessed land value for vacant lots and demolition candidate properties, and third-party appraisals or other methods as deemed appropriate. Cost includes, but is not limited to, property purchase cost, appraisal, inspection and recording fees, renovation costs and professional services.

Grant Receivable

Grant receivable represents funds earned but not yet received by the Corporation related to grant and government subsidy revenue. Management does not believe a reserve for uncollectible receivables is necessary at December 31, 2022 and 2021.

Grant and Government Subsidy Revenue Advance

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

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

December 31, 2022 and 2021

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 sale of properties 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 were no non-operating revenues and expenses for the years ended December 31, 2022 and 2021.

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.

Unrealized Loss on Inventory

Deterioration, damage, changing prices and other factors have caused the cost of certain inventory to exceed its market value. In accordance with GAAP, inventory has been reduced to market value and an unrealized loss has been recognized for the year ended December 31, 2022 and 2021.

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 did not have net investment in capital assets at December 31, 2022 and 2021.
- 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 did not have restricted net position at December 31, 2022 and 2021.
- 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.

TIOGA COUNTY PROPERTY DEVELOPMENT CORPORATION

Notes to Basic Financial Statements

December 31, 2022 and 2021

3. CONCENTRATIONS

The Corporation receives significant support from certain governmental entities. Their primary source of funding is through grant awards. A grant from Enterprise Community Partners, Inc. comprised approximately 46% of revenue for the year ended December 31, 2022. Other revenue sources for the year included that from American Rescue Plan Act (ARPA) funding received from Tioga County (approximately 33% of revenue), Housing Trust Fund Corporation funding received for the Land Bank Initiative (LBI) Phase I Grant (approximately 12% of revenue), and funding received from the Floyd Hooker Foundation (approximately 8% of revenue).

For the year ended December 31, 2021, the Corporation's primary source of funding was through the Enterprise Community Partners, Inc. grant. Funding from this source comprised nearly 100% of revenue.

4. AGREEMENT WITH COUNTY OF TIOGA, NEW YORK

The Corporation entered into an agreement with Tioga County for the period of January 1, 2022 through December 31, 2023, under which the County provides administrative services, office space, and equipment for the Corporation to operate. The Corporation is to pay an administrative fee of \$6,250 quarterly for the term of the agreement. For the year ended December 31, 2022, \$15,972 in expenses were incurred by the Corporation under this agreement. A reduced rate of \$1,736 was charged by the County for the first two quarters of 2022 due to a modification of the agreement, which was agreed upon by both the County and the Corporation.

The Corporation was previously in an agreement with the County for the period of January 1, 2019 through December 31, 2020, which was extended through December 31, 2021. The Corporation was to pay an administrative fee of up to \$65,065 annually for the term of the agreement. For the year ended December 31, 2021, \$32,532 in expenses were incurred under this agreement. A reduced rate of \$1,736 was charged by the County for the last quarter of 2021 due to a modification of the agreement, which was agreed upon by both the County and the Corporation.

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 20, 2023

To the Board of Directors of the
Tioga County Property Development 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 Tioga County Property Development Corporation (the Corporation) as of and for the year ended December 31, 2022, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.