Build NYC Resource Corporation

(a component unit of the City of New York)

Financial Statements

Years Ended June 30, 2018 and 2017
With Report of Independent Auditor

Build NYC Resource Corporation

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Financial Statements

June 30, 2018 and 2017

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I. Financial Section

Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

Report of Independent Auditors

The Management and the Board of Directors
Build NYC Resource Corporation

Report on the Financial Statements

We have audited the accompanying statements of net position of Build NYC Resource Corporation (Build NYC or the Corporation), a component unit of The City of New York, as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, as listed in the table of contents, 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 which 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, 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 also have issued our report dated September 30, 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 Build NYC Resource 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.

Ernst + Young LLP

September 30, 2018

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Management's Discussion and Analysis

June 30, 2018

This section of the Build NYC Resource Corporation ("Build NYC" or the "Corporation") annual financial report presents our discussion and analysis of financial performance during the years ended June 30, 2018 and 2017. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2018 Financial Highlights

- Current assets decreased by $687,881 (or 6%)
- Current liabilities decreased by $192,667 (or 66 %)
- Net position decreased by $1,504,638 (or 13%)
- Operating revenues decreased by $1,785,853 (or 50%)
- Operating expenses decreased by $1,822 (or 0.1%)
- Non-operating revenue increased by $262,760 (or > 100%)

Overview of the Financial Statements

This annual financial report consists of two parts: *Management's discussion and analysis* (this section) and the *basic financial statements*. Build NYC is considered a component unit of the City of New York (the "City") for the City's financial reporting purposes. Build NYC is a local development corporation that was organized under the Not-For-Profit Corporation Law of the State of New York to assist entities eligible under the federal tax laws in obtaining tax-exempt and taxable bond financing.

Build NYC is a self-supporting entity and follows enterprise fund reporting. Enterprise fund statements offer short-term and long-term financial information about the Corporation's activities. The Corporation operates in a manner similar to a private business.

Financial Analysis of the Corporation

Net Position–The following table summarizes the Corporation's financial position at June 30, 2018, 2017, and 2016, and the percentage changes between June 30, 2018, 2017, and 2016:

				% Change	
	2018	**2017**	**2016**	**2018–2017**	**2017–2016**
Current assets	**$ 9,955,494**	$ 10,643,375	$ 8,639,514	**(6)%**	23%
Non-current assets	**-**	1,009,423	2,808,144	**(100)%**	(64)%
Total assets	**9,955,494**	11,652,798	11,447,658	**(15)%**	2%
Current liabilities	**97,835**	290,502	101,995	**(66)%**	185%
Total unrestricted net position	**$ 9,857,658**	$ 11,362,296	$ 11,345,663	**(13)%**	.15%

In fiscal year 2018, total assets decreased by 1,697,304 or 15% primarily as a result of a reduction in current assets to cover the operating net deficit. Additionally, a call redemption of all long-term investments at year-end resulted in the elimination of non-current assets.

In fiscal year 2017, current assets increased by $2,003,861 or 23% primarily as a result of an increase in short-term investments. Non-current assets decreased by $1,798,722 or 64% primarily due to a decrease of investments in long-term debt securities.

As a result of a change in fee revenue generated from a number of bond transactions and the maintenance of the Corporation's contractual obligations, net position decreased by $1,504,638 or 13% in fiscal year 2018 and increased by $16,663 or 0.15% in fiscal year 2017.

Operating Activities

Build NYC was organized to assist entities in obtaining tax-exempt and taxable bond financing. Build NYC's primary goal is to facilitate access to private activity tax-exempt bond financing for entities to acquire, construct, renovate, and/or equip their facilities as well as refinance previous financing transactions.

Operating Activities (continued)

The Corporation charges various program fees that include application fees, financing fees, and compliance fees.

The following table summarizes changes in Build NYC's net position for fiscal years 2018, 2017, and 2016 and the percentage changes between June 30, 2018, 2017, and 2016:

				% Change	
	2018	**2017**	**2016**	**2018-2017**	**2017-2016**
Operating revenues	**$ 1,779,797**	$ 3,565,650	$ 5,284,557	**(50)%**	(33)%
Operating expenses	**3,383,978**	3,385,800	2,072,197	**(0.1)%**	63%
Operating (loss)/income	**(1,604,181)**	179,850	3,212,360	**(992)%**	(94)%
Non-operating (expenses) revenues	**99,543**	(163,217)	(107,388)	**(161)%**	52%
Change in net position	**$ (1,504,638)**	$ 16,633	$ 3,104,972	**(9114)%**	(99)%

Fiscal Year 2018 Activities

In fiscal year 2018, operating revenues decreased by $1,785,853 or 50%. This is a direct result of a decrease in fee revenue generated from bond transactions and the one-time recaptured benefits revenue in 2017.

Total operating expenses decreased by $1,822 in fiscal year 2018 or 0.1%, as a result of a decrease in advertising and marketing expenses.

The non-operating expense/revenue category had a total increase of $262,760 in fiscal year 2018, a 161% increase year over year, primarily due to an increase in investment income.

Fiscal Year 2017 Activities

In fiscal year 2017, operating revenues decreased by $1,718,907 or 33%. This is a direct result of a decrease in bond transactions, partially offset by recapture of benefits.

Total operating expenses increased by $1,313,603 in fiscal year 2017 or 63%. This is a direct result of a board approved increase in management expenses.

Fiscal Year 2017 Activities (continued)

The non-operating expense/revenue category had a net deficit of $163,217 in fiscal year 2017, a 52% increase year over year, primarily due to an increase in a combination of current year and prior year board approved special projects costs.

Contacting the Corporation's Financial Management

This financial report is designed to provide our customers, clients and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer, Build NYC Resource Corporation, 110 William Street, New York, NY 10038.

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Statements of Net Position

	June 30	
	2018	**2017**
Assets		
Current assets:		
Cash and cash equivalents *(Note 3)*	**$ 3,563,619**	$ 2,545,818
Investments *(Note 3)*	**6,384,025**	8,084,587
Fees receivable	**7,850**	12,970
Total current assets	**9,955,494**	10,643,375
Non-current assets:		
Investments *(Note 3)*	**-**	1,009,423
Total non-current assets	**-**	1,009,423
Total assets	**9,955,494**	11,652,798
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	**45,300**	41,509
Due to New York City Economic Development Corporation	**14,937**	180,393
Unearned revenue and other liabilities	**37,599**	68,600
Total current liabilities	**97,836**	290,502
Net position – unrestricted	**$ 9,857,658**	$11,362,296

See accompanying notes.

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2018	**2017**
Operating revenues		
Fee income *(Note 2)*	**$ 1,779,797**	$ 2,753,763
Recapture income *(Note 2)*	**-**	811,887
Total operating revenues	**1,779,797**	3,565,650
Operating expenses		
Management fees *(Note 4)*	**3,300,000**	3,300,000
Public hearing expenses	**33,993**	50,016
Auditing expenses	**46,272**	31,656
Marketing expenses	**1,537**	2,162
Other expenses	**2,176**	1,966
Total operating expenses	**3,383,978**	3,385,800
Operating (loss)/income	**(1,604,181)**	179,850
Non-operating revenues (expenses)		
Investment income	**129,543**	58,875
Special projects costs *(Note 5)*	**(30,000)**	(222,093)
Total non-operating revenues (expenses)	**99,543**	(163,217)
Change in net position	**(1,504,638)**	16,633
Unrestricted net position, beginning of year	**11,362,296**	11,345,663
Unrestricted net position, end of year	**$ 9,857,658**	$ 11,362,296

See accompanying notes.

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Statements of Cash Flows

	Year Ended June 30	
	2018	**2017**
Operating activities		
Financing and other fees	**$ 1,753,916**	$ 2,764,053
Recapture benefits received	**-**	811,887
Management fees paid	**(3,300,000)**	(3,300,000)
Audit expenses paid	**(44,020)**	(27,932)
Marketing expenses paid	**(1,194)**	(1,194)
Public hearing expenses paid	**(32,047)**	(40,163)
Miscellaneous expenses paid	**(90)**	(16,037)
Net cash (used in)/ provided by operating activities	**(1,623,434)**	190,614
Investing activities		
Interest income	**9,318**	8,400
Sale of investments	**11,195,348**	5,660,069
Purchase of investments	**(8,365,138)**	(6,744,855)
Net cash provided by/(used in) investing activities	**2,839,528**	(1,076,387)
Non-capital financing activities		
Special projects	**(198,293)**	(53,800)
Net cash used in non-capital financing activities	**(198,293)**	(53,800)
Net increase/(decrease) in cash and cash equivalents	**1,017,801**	(939,573)
Cash and cash equivalents at beginning of year	**2,545,818**	3,485,390
Cash and cash equivalents at end of year	**$ 3,563,619**	$ 2,545,818
Reconciliation of operating (loss)/ income to net cash (used in)/provided by operating activities		
Operating (loss)/income	**$ (1,604,181)**	$ 179,850
Adjustments to reconcile operating (loss)/income to net cash (used in)/provided by operating activities:		
Changes in operating assets and liabilities:		
Fees receivable	**5,120**	(9,450)
Accounts payable and accrued expenses	**3,791**	7,685
Due to NYC Economic Development Corp.	**2,837**	2,789
Unearned revenue and other liabilities	**(31,001)**	9,740
Net cash (used in)/provided by operating activities	**$ (1,623,434)**	$ 190,614

Build NYC Resource Corporation
(A Component Unit of the City of New York)

Notes to Financial Statements

June 30, 2018

1. Background and Organization

Build NYC Resource Corporation ("Build NYC" or the "Corporation"), a component unit of the City of New York ("the City"), is a local development corporation, organized under section 1411 of the Not-For-Profit Corporation Law of the State of New York that commenced operation in 2011. Build NYC was organized to assist entities under the federal tax laws in obtaining tax-exempt and taxable bond financing. Build NYC's primary goal is to facilitate access to private activity tax-exempt bond financing for eligible entities to acquire, construct, renovate, and/or equip their facilities and to refinance previous financing transactions.

The Corporation is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financial assistance. Its membership is prescribed by the Corporation's Certificate of Incorporation and By-Laws which include a public official and appointees of the Mayor.

Bonds issued by Build NYC are special nonrecourse conduit debt obligations of the Corporation which are payable solely from the payments and revenues provided for in the loan agreements with participating organizations ("Beneficiaries"). The bonds are secured by collateral interests in the loan agreements and other security provided by the Beneficiaries. Both the bonds and certain provisions of the loan agreements are administered by independent bond trustees appointed by the Corporation.

The total conduit debt obligations outstanding totaled $2,995,456,576 and $2,932,700,440 for the years ended June 30, 2018 and 2017, respectively.

Due to the facts that (1) the bonds are nonrecourse conduit debt obligations of the Corporation, (2) the Corporation assigns its interests in the loan agreements as collateral, and (3) the Corporation has no substantive obligations under the loan agreements, the Corporation has, in effect, none of the risks and rewards of the loan agreements and related bond financing. Accordingly, with the exception of certain fees derived from financing transactions, these financing transactions are given no accounting recognition in the accompanying financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

Build NYC has been classified as an "enterprise fund" as defined by the Governmental Accounting Standards Board ("GASB") and, as such, the financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. In its accounting and financial reporting, Build NYC follows the pronouncements of the GASB.

Updated Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements 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. Provisions of this Statement are effective for fiscal years beginning after December 15, 2019. The Corporation does not anticipate any related impact on its financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. The Corporation does not anticipate any related impact on its financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Provisions of this Statement are effective for fiscal years beginning after December 15, 2019. The Corporation does not anticipate any related impact on its financial statements.

2. Summary of Significant Accounting Policies (continued)

Updated Pronouncements

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Provisions of this Statement are effective for fiscal years beginning after December 15, 2018. The Corporation does not anticipate any related impact on its financial statements.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with original maturities of 90 days or less to be cash equivalents.

Investments

Investments held by Build NYC are recorded at fair value.

Revenue Recognition

Operating revenues consist of income from application fees, financing fees, recaptured benefits, compliance monitoring fees and late fees. Application and financing fees are recognized as earned. Build NYC's recapture of benefits are solely based upon the mortgage recording tax waiver; this benefit eliminates the mortgage recording taxes correlated with any mortgages taken for the project. Recapture of this benefit is collected as a result of a violation of the agreement Compliance monitoring fees are received annually, in advance, and deferred and amortized into income as earned.

Build NYC's operating expenses include management fees and related administration expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

3. Deposits and Investments

At year-end, Build NYC's cash balance was $3,563,619. Of this amount, $250,000 was insured by the Federal Depository Insurance Corporation. For the remaining balance, $2,563,477 was invested in funds comprised of U.S. government backed securities.

3. Deposits and Investments (continued)

In February 2015 the GASB issued Statement No.72, *Fair Value Measurement and Application*. This Statement requires that investments by categorized Based on the methodology used in determining fair value. The hierarchy is as follows:

> Level 1- value based on quoted prices in active markets for identical assets.
>
> Level 2- value based on significant other observable inputs such as a matrix pricing technique. Matric pricing is used to value securities based on the securities' relationship to benchmark quoted prices.
>
> Level 3- value based on inputs that are unobservable and significant to the fair value measurement such as discounted cash flows.

Money Market Funds, categorized as Level 1 inputs, are valued at the unadjusted prices that are quoted in active principal markets for identical assets. US Agencies securities, categorized as Level 2, are valued on models using observable inputs

As of June 30, 2018 and 2017, the Corporation had the following investments (in thousands). Investments maturities are shown only for June 30, 2018.

	Fair Value		2018 Investment Maturities (In Years)	
	2018	**2017**	**Less Than 1**	**1 to 2**
Money Market Funds	**$ 2,563**	$ 4	**$ 2,563**	$ –
Federal Farm Credit Bank	–	997	–	–
Federal Home Loan Mort. Corp. Notes	–	2,802	–	–
Federal Home Loan Bank Notes	**1,004**	2,009	**1,004**	–
Federal National Mortgage Association	–	1,300	–	–
US Treasury Note	**1,998**	–	**1,998**	–
Commercial Paper	**3,382**	1,986	**3,382**	–
Subtotal Investments	**8,947**	9,098		
Less investments classified as cash equivalents	**$ (2,563)**	$ (4)		
Total Investments	**$ 6,384**	$ 9,094		

3. Deposits and Investments (continued)

Interest Rate Risk: The Corporation has a formal investment policy, which limits investment maturities up to a maximum of two years from the date of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates. Currently, all of the Corporation's investments have maturities of one year or less.

Credit Risk: It is the Corporation's policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies or other securities guaranteed by the U.S. government. As of June 30, 2018, the Corporation's investments in Federal Home Loan Bank Notes ("FHLB"), U.S. Treasury Note, AA+ by Standard & Poor's ("S&P"), Aaa by Moody's and AAA by Fitch Ratings. Money market funds share the same credit ratings as the Corporation's federally held securities with the exception of S&P, which does not rate such funds. Investments in commercial paper ("CP") were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and F1+ by Fitch Ratings).

Custodial Credit Risk: For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of the counterparty. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Corporation. The Corporation manages this credit risk by limiting its custodial exposure to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation.

3. Deposits and Investments (continued)

Concentration of Credit Risk: The Corporation places no limit on the amount it may invest in any U.S. government backed securities. The following table shows investments that represent 5% or more of total investments as of June 30, 2018 and 2017 (dollars in thousands):

Issuer	Dollar Amount and Percentage of Total Investments					
	June 30, 2018			**June 30, 2017**		
Federal Home Loan Bank	**$**	**1,004**	**15.72%**	$	2,009	22.09%
Federal Home Loan Mortgage Corp.		–	–		2,802	30.82
Federal National Mortgage Assoc.		–	–		1,300	14.29
Federal Farm Credit Bank		–	–		997	10.97
US Treasury Note		**1,998**	**31.30**		–	–
American Honda Finance Corp		**999**	**15.65**		–	–
Nat’l Sec Clearing Corp		**2,383**	**37.32**		–	–
CP-Coca-Cola Co.		–	–		993	10.92
CP-MetLife Short Term Fund		–	–		993	10.92

4. Management Fee

To support the activities of Build NYC, the Corporation annually enters into a contract with the New York City Economic Development Corporation (“NYCEDC”), a not-for-profit corporation and a component unit of the City organized to administer economic development programs which foster business expansion in the City. Under the terms set forth in the contract, NYCEDC provides Build NYC with all the professional, administrative and technical assistance it needs to accomplish its objectives. The fixed annual fee for these services under the agreement between NYCEDC and the Corporation is $3,300,000 for the years ended June 30, 2018 and 2017, respectively.

5. Commitments

Pursuant to approved agreements between Build NYC and NYCEDC, Build NYC committed to fund three projects being performed by NYCEDC related to the City's community and economic development initiatives. Total special project commitments under these agreements amounted to approximately $3,375,000 with an outstanding obligation at June 30, 2018, of $3,017,907. The special project commitments, related approval, dates, original and outstanding commitment balances are as follows:

Project	Approval Date	Total Commitment	Life To- Date	Current Total De-Obligate	Outstanding Commitment
Advanced Manufacturing Technology Grant Program	5/12/2015	$300,000	$270,000	$30,000	$0
Nonprofit Real Estate Lecture Series	12/13/2016	75,000	57,093	-	17,907
Power Station at BerkleeNYC	11/8/2017	3,000,000	-	-	3,000,000
		$3,375,000	$327,093	$30,000	$3,017,907

For the year ended June 30, 2018, $30,000 has been incurred by the Corporation related to the above projects and included in special project costs on the accompanying statements of revenue, expenses and changes in net position.

6. Risk Management

Although there should not be any liability for personal injuries as a result of its lending activities, Build NYC could be named a party to such litigation. Therefore, Build NYC requires all project companies to purchase and maintain commercial insurance coverage for these risks and to name Build NYC as additional insured. Build NYC is also named as an additional insured on NYCEDC's general liability policy. Build NYC has no threatened material litigations, claims or assessments as of June 30, 2018.

II. Government Auditing Standards Section

Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Management and the Board of Directors
Build NYC Resource Corporation

We have audited, in accordance with auditing standards generally accepted in the United States 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 Build NYC Resource Corporation (the Corporation), a component unit of The City of New York, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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 result 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.

Ernst + Young LLP

September 30, 2018