

FINANCIAL STATEMENTS

Build NYC Resource Corporation
(a component unit of The City of New York)
Years Ended June 30, 2015 and 2014
With Report of Independent Auditors

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

Financial Statements

June 30, 2015 and 2014

Contents

I. Financial Section

Report of Independent Auditors.....1
Management’s Discussion and Analysis3

Financial Statements

Statements of Net Position.....7
Statements of Revenues, Expenses, and Changes in Net Position8
Statements of Cash Flows.....9
Notes to Financial Statements.....10

II. Government Auditing Standards Section

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*17

I. Financial Section



Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6350
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, 2015 and 2014, 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, 2015 and 2014, 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 28, 2015, 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 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 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.



September 28, 2015

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

Management's Discussion and Analysis

June 30, 2015

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, 2015 and 2014. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2015 Financial Highlights

- Cash, cash equivalents and investments increased by \$2,502,492 (or 43%)
- Current liabilities increased by \$6,983 (or 9%)
- Net position increased by \$2,498,809 (or 44%)
- Operating revenues increased by \$1,070,700 (or 33%)
- Operating expenses increased by \$1,487,762 (or 693%)
- Operating income decreased by \$417,062 (or 14%)
- Non-operating expenses increased \$128,381 (or 4,349%)

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 bond 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.

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

Notes to Financial Statements (continued)

Financial Analysis of the Corporation

Net Position—The following table summarizes the Corporation’s financial position at June 30, 2015, 2014, and 2013, and the percentage changes between June 30, 2015, 2014, and 2013:

	2015	2014	2013	% Change	
				2015–2014	2014–2013
Current assets	\$ 8,326,944	\$ 5,821,152	\$ 2,761,985	43%	111%
Current liabilities	86,253	79,270	64,355	9%	23%
Total unrestricted net position	<u>\$ 8,240,691</u>	<u>\$ 5,741,882</u>	<u>\$ 2,697,630</u>	44%	113%

In fiscal year 2015, current assets increased by \$2,505,792 or 43% primarily as a result of fees generated from 23 bond transactions including an ESDC Liberty Project Bond.

In fiscal year 2014, current assets increased by \$3,059,167 or 111% primarily as a result of fees generated from 22 bond transactions.

As a result of fees generated from multiple bond transactions, the Corporation’s net position increased by \$2,498,809 or 44% in fiscal year 2015 and \$3,044,252 or 113% in fiscal year 2014.

Operating Activities

Build NYC was organized to assist entities eligible under the federal tax laws in obtaining tax-exempt bond 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 as well as refinance previous financing transactions.

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

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

Notes to Financial Statements (continued)

The following table summarizes changes in Build NYC's net position for fiscal years 2015, 2014 and 2013 and the percentage changes between June 30, 2015 and 2014:

	2015	2014	2013	% Change	
				2015-2014	2014-2013
Operating revenues	\$ 4,326,655	\$ 3,255,955	\$ 2,795,060	33%	16%
Operating expenses	1,702,417	214,655	275,699	693%	(22)%
Operating income	2,624,238	3,041,300	2,519,361	(14)%	21%
Non-operating (expenses) revenues	(125,429)	2,952	(999,528)	(4,349)%	100%
Transfer from CRC	—	—	583,343	—	(100)%
Change in net position	\$ 2,498,809	\$ 3,044,252	\$ 2,103,176	(18)%	45%

Fiscal Year 2015 Activities

In fiscal year 2015, operating revenues increased by \$1,070,700 or 33%. This is a result of an increase in compliance and project finance fees, including fees related to one ESDC Liberty Project Bond.

Total operating expenses increased by \$1,487,762 in fiscal year 2015 or 693%. This is a direct result of a board approved increase in management expenses responding to a volume shift of bond transactions to Build NYC from the New York City Industrial Development Agency ("IDA"). IDA, a component unit of The City of New York (the "City") and public benefit agency of the State of New York, was established to encourage and develop an economically sound commerce and industry base in the City.

Non-operating expenses increased by \$128,381 or 4,349% in fiscal year 2015 due to a board approved grant to the NYC Neighborhood Capital Corporation ("NYCNCC") for the payment of consulting, professional services and other miscellaneous start-up costs for fiscal year 2015.

Fiscal Year 2014 Activities

In fiscal year 2014, operating revenues increased by \$460,895 or 16%. This is a result of an increase in project finance fees and compliance fees.

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

Notes to Financial Statements (continued)

Fiscal Year 2014 Activities (continued)

Total operating expenses decreased by \$61,044 in fiscal year 2014 or 22%. This is a result of a decrease in public hearing and auditing expenses.

Non-operating expenses decreased by \$1,003,424 or 100% in fiscal year 2014 due to the expiration of the Hurricane Emergency Loan Program (“HELP”) which was established during fiscal year 2013 to provide small business loans to entities within New York City in order to assist them in addressing the aftermath of Superstorm Sandy.

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 Public Information Officer, New York City Economic Development 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	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents (<i>Note 3</i>)	\$ 4,289,466	\$ 1,519,328
Investments (<i>Note 3</i>)	4,034,178	4,301,824
Fees receivable-net of allowance for doubtful accounts	3,300	-
Total current assets	8,326,944	5,821,152
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	47,153	49,915
Due to New York City Economic Development Corporation	15,000	415
Unearned revenue and other liabilities	24,100	28,940
Total current liabilities	86,253	79,270
Net position – unrestricted	\$ 8,240,691	\$ 5,741,882

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	
	2015	2014
Operating revenues		
Fee income <i>(Note 2)</i>	\$ 4,326,655	\$ 3,255,955
Total operating revenues	4,326,655	3,255,955
Operating expenses		
Management fees <i>(Note 4)</i>	1,500,000	80,000
Public hearing expenses	164,191	86,603
Auditing expenses	36,476	38,400
Marketing expenses	–	9,652
Other expenses	1,750	–
Total operating expenses	1,702,417	214,655
Operating income	2,624,238	3,041,300
Non-operating revenues (expenses)		
Investment income	14,571	2,952
Special projects costs <i>(Note 6)</i>	(15,000)	–
Contribution to NYC Neighborhood Capital Corporation <i>(Note 5)</i>	(125,000)	–
Total non-operating (expenses) revenues	(125,429)	2,952
Change in net position	2,498,809	3,044,252
Unrestricted net position, beginning of year	5,741,882	2,697,630
Unrestricted net position, end of year	\$ 8,240,691	\$ 5,741,882

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
Operating activities		
Financing and other fees	\$ 4,317,197	\$ 3,274,595
Management fees paid	(1,500,000)	(80,000)
Audit expenses paid	(32,650)	(58,323)
Marketing expenses paid	(965)	(4,275)
Public hearing expenses paid	(170,079)	(75,732)
Miscellaneous expenses paid	(582)	(50)
Net cash provided by operating activities	2,612,921	3,056,215
Investing activities		
Interest income	1,047	3,080
Sale of investments	5,908,359	698,048
Purchase of investments	(5,627,189)	(5,000,000)
Net cash provided by (used in) investing activities	282,217	(4,298,872)
Non-capital financing activities		
Contribution to NYC Neighborhood Capital Corporation paid	(125,000)	-
Net cash used in non-capital financing activities	(125,000)	-
Net increase (decrease) in cash and cash equivalents	2,770,138	(1,242,657)
Cash and cash equivalents at beginning of year	1,519,328	2,761,985
Cash and cash equivalents at end of year	\$ 4,289,466	\$ 1,519,328
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,624,238	\$ 3,041,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Fees receivable	(3,300)	-
Account payable and accrued expenses	(2,762)	(3,940)
Due to NYC Economic Development Corp.	(415)	415
Unearned revenue and other liabilities	(4,840)	18,440
Net cash provided by operating activities	\$ 2,612,921	\$ 3,056,215

See accompanying notes.

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

Notes to Financial Statements

June 30, 2015

1. Background and Organization

Build NYC Resource Corporation (“Build NYC” or the “Corporation”), a component unit of The City of New York, is a local development corporation that commenced operation in 2011. Build NYC was organized to assist entities eligible under the federal tax laws in obtaining tax-exempt bond 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 as well as refinance previous financing transactions.

The Corporation is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by the Corporation’s Certificate of Incorporation and By-Laws and includes public officials 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 interest in the loan agreements and other security provided by the borrowers. 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 \$1,815,492,210 and \$1,131,745,205 for the years ended June 30, 2015 and 2014, respectively.

Due to the fact that (1) the bonds are nonrecourse conduit debt obligations of the Corporation, (2) the Corporation assigns its interest 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.

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

Notes to Financial Statements (continued)

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.

Upcoming Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (“GASB No.72”). This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Build NYC is currently evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB No.76”). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (“GAAP”). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. Build NYC is currently evaluating the impact this standard will have on its financial statements.

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Revenue Recognition

Operating revenues consist of income from application fees, financing fees, compliance monitoring fees and late fees. Application and financing fees are recognized as earned. 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.

Investments

All investments are carried at fair value based on quoted market prices, except for certificates of deposit, which are valued at cost. All investments are either Federal Depository Insurance Corporation ("FDIC") insured or registered and held by the Corporation or by its agent in the Corporation's name.

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

Notes to Financial Statements (continued)

3. Deposits and Investments

Deposits

At year-end, Build NYC's bank balance was \$3,350,008. Of this amount, \$250,000 was covered by FDIC.

Investments

As of June 30, 2015 and 2014, the Corporation had the following investments (in thousands). Investments maturities are shown for June 30, 2015, only (in thousands).

	Fair Value		2015	
			Investment Maturities (In Years)	
	2015	2014	Less Than 1	1 to 2
Money Market & Mutual Funds	\$ 979	\$ 698	\$ 979	\$ -
Federal Home Loan Mort. Corp. Notes	1,001	1,016	-	1,001
Federal Home Loan Bank Notes	2,293	1,008	1,212	1,081
Certificates of Deposit	241	1,678	241	-
Commercial Paper	499	600	499	-
Total	5,013	5,000	2,931	2,082
Less investments classified as cash equivalents, unrestricted cash equivalents	(979)	(698)		
Total Investment	\$ 4,034	\$ 4,302		

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

Notes to Financial Statements (continued)

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 two 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, 2015, the Corporation's investments in Federal Home Loan Bank Notes ("FHLB") and the Federal Home Loan Mortgage Corporation Notes ("FHLMC") were rated AA+ by Standard & Poor's, Aaa by Moody's and AAA by Fitch Ratings. Investments in commercial paper 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). Money market and mutual funds are not rated.

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 outside party. 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 custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation.

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

Notes to Financial Statements (continued)

3. Deposits and Investments (continued)

Concentration of Credit Risk: The Corporation places no limit on the amount the Corporation may invest in any one issuer. The following table shows investments that represent 5% or more of total investments (dollars in thousands):

Issuer	Dollar Amount and Percentage of Total Investments			
	June 30, 2015		June 30, 2014	
Federal Home Loan Bank	\$ 2,293	56.84%	\$ 1,008	23.44%
Federal Home Loan Mortgage Corp.	1,001	24.81	1,016	23.62
Honeywell International	499	12.39	–	–
Goldman Sachs Bank NY CD	241	5.97	–	–
G.E Capital Corp	–	–	300	6.97
Deutsche Bank Fin LLC	–	–	300	6.97
Apple Bank	–	–	240	5.58
Bank of Baroda NY	–	–	240	5.58
Bank of China NY	–	–	240	5.58
Bank of India NY	–	–	240	5.58
Safra National Bank	–	–	240	5.58
Bank of Hapoalim BM IL	–	–	239	5.55
First Niagara Bank	–	–	239	5.55

4. Management Fee

To support the activities of the Board of Directors, 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 of New York (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. These services include comprehensive financial management, processing and presentation of projects to the Board of Directors, and project compliance monitoring. The fixed annual fee for these services under the agreement between NYCEDC and the Corporation increased to \$1,500,000 from \$80,000 for the years ended June 30, 2015 and 2014 due to a volume shift of bond transactions to Build NYC from the New York City Industrial Development Agency.

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

Notes to Financial Statements (continued)

5. Contribution to NYC Neighborhood Capital Corporation

Build NYC’s Board of Directors gave authorization of initial funding in the amount of \$125,000 to the NYC Neighborhood Capital Corporation (“NYCNCC”) for the payment of consulting, professional services and other miscellaneous start-up costs for fiscal year 2015. NYCNCC is a New York not-for-profit corporation, which intends to service low-income communities throughout New York City by participating in the Federal New Markets Tax Credit Program.

6. Commitments

Pursuant to approved agreements between Build NYC and NYCEDC, Build NYC was committed to fund two projects being performed by NYCEDC related to the City’s community and economic development (the “Project Commitments”). Total Project Commitments under these agreements amounted to approximately \$375,000 with an outstanding obligation at June 30, 2015, of approximately \$360,000. The Project Commitments related approval dates, original and outstanding commitment balances are as follows:

Project	Approval Date	Total Commitment	Total Expenditures	Current Total De-Obligate	Outstanding Commitment
Citywide Industrial Fund	4/14/2015	\$ 75,000	\$ 15,000	\$ —	\$ 60,000
Advanced Manufacturing Technology Grant Program	5/12/2015	300,000	—	—	300,000
		<u>375,000</u>	<u>15,000</u>	<u>—</u>	<u>360,000</u>

For the year ended June 30, 2015, \$15,000 has been incurred by the Corporation related to the above projects and are included in special project costs on the accompanying statements of revenue, expenses and changes in net position; of such amounts, \$15,000 remained unpaid as of June 30, 2015 and are included in Due to New York City Economic Development Corporation on the accompanying statements of net position.

7. 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 litigations, claims or assessments as of June 30, 2015.

II. Government Auditing Standards Section

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, 2015, 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 28, 2015.

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 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 28, 2015

