

Newburgh Community Land Bank

**Financial Statements as of
June 30, 2019
Together with
Independent Auditor's Reports**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

February 18, 2020

To the Board of Directors of
Newburgh Community Land Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of Newburgh Community Land Bank (Land Bank) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Land Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

6 Wembley Court
Albany, New York 12205
p (518) 464-4080
f (518) 464-4087

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newburgh Community Land Bank , as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the accompanying 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, 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 February 18, 2020 on our consideration of the Land Bank'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 Land Bank'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 Land Bank's internal control over financial reporting and compliance.

NEWBURGH COMMUNITY LAND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2019

The following is a discussion and analysis of the Newburgh Community Land Bank's (the Land Bank) financial performance for the fiscal year ended June 30, 2019. The section is a summary of the Land Bank's financial activities based on currently known facts, decisions, or conditions. Because this is the first year of operations for the Land Bank, only the results on the current year are discussed below. This section is only an introduction and should be read in conjunction with the Land Bank's financial statements, which immediately follow this section.

Financial Highlights

- The Land Bank's net position increased approximately \$609,000 this year. Much of this increase is attributable to grant funding.
- The Land Bank disposed of 14 properties in fiscal year 2019 that had a cost of approximately \$405,000.
- Revenue from property sales in fiscal year 2019 was \$312,000, an increase of 147% from the approximately \$126,000 in property sales in fiscal year 2018.
- The increase of property sales, addition of new properties and commensurate increase in property improvements and ongoing maintenance resulted in a corresponding increase in operating expenses, including professional fees, insurance and other related expenses.
- Property held for sale was valued at approximately \$1.1 million in fiscal year 2019.
- The Land Bank is in a stronger financial position as it finishes its eighth year of operations; however, the Land Bank still relies heavily on grant funds to operate.

Overview of Financial Statements

The basic financial statements include the statement of net position, statement of changes, statement of cash flows, and notes to the financial statements.

The first of these statements is the statement of net position. This statement presents information that includes all of the Land Bank's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Land Bank as a whole is improving or deteriorating. Evaluation of the overall economic health of the Land Bank must include other non-financial factors such as the economic picture of the City and the State, in addition to the financial information provided in this report.

The second statement is the statement of revenue, expenses and changes in net position, which reports how the Land Bank's net position changed during the current fiscal year. Revenues and expenses are included when earned or incurred, regardless of when cash is received or paid. The third statement is the statement of cash flows, which shows the sources and uses of cash.

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis

Below is a summary of the statements of net position and the statements of changes for the years ended June 30, 2019 and 2018:

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Current assets	\$ 976,483	\$ 1,025,123	\$ (48,640)	-5%
Non-current assets	<u>1,288,673</u>	<u>557,889</u>	<u>730,784</u>	131%
Total assets	<u>2,265,156</u>	<u>1,583,012</u>	<u>682,144</u>	43%
Current liabilities	<u>699,748</u>	<u>626,585</u>	<u>73,163</u>	12%
Total liabilities	<u>699,748</u>	<u>626,585</u>	<u>73,163</u>	12%
Net position				
Net investment in capital assets	175,182	186,480	(11,298)	-6%
Unrestricted	<u>1,390,226</u>	<u>769,947</u>	<u>620,279</u>	81%
	<u>\$ 1,565,408</u>	<u>\$ 956,427</u>	<u>\$ 608,981</u>	64%

In the eighth year of the Land Bank's existence, the Land Bank's net position increased by approximately \$609,000. This increase resulted primarily through increasing inventory of property held for sale from capital improvements made to the Land Bank' properties through grant funds. The Land Bank accepted fourteen properties to its inventory which were recorded at a nominal amount of \$14. To further increase the property inventory value, the Land Bank made approximately \$1.8 million in capital improvements to its property that were held for sale. The Land Bank sold fourteen properties during the year that removed approximately \$405,000 in property cost from its inventory.

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue:				
Sale of property	\$ 312,000	\$ 126,095	\$ 185,905	147%
Operating grants	<u>795,353</u>	<u>587,128</u>	<u>208,225</u>	35%
Total operating revenues	1,107,353	713,223	394,130	55%
Operating Expenses	<u>2,336,270</u>	<u>861,862</u>	<u>1,474,408</u>	171%
Operating loss	<u>(1,228,917)</u>	<u>(148,639)</u>	<u>(1,080,278)</u>	727%
Non-operating revenues:				
Other	<u>41,312</u>	<u>39,407</u>	<u>1,905</u>	5%
Total non-operating revenues	<u>41,312</u>	<u>39,407</u>	<u>1,905</u>	5%
Other Additions:				
Capital grants	<u>1,796,586</u>	<u>-</u>	<u>1,796,586</u>	100%
Total other additions	<u>1,796,586</u>	<u>-</u>	<u>1,796,586</u>	100%
Change in net position	608,981	(109,232)	718,213	-658%
Net position - beginning of year	<u>956,427</u>	<u>1,065,659</u>	<u>(109,232)</u>	-10%
Net position - end of year	<u>\$ 1,565,408</u>	<u>\$ 956,427</u>	<u>\$ 608,981</u>	64%

Financial Analysis (Continued)

The Land Bank in its eighth year of operations saw an increase in operating revenues and expenses. Operating revenues increased 147% due to selling fourteen properties in fiscal year 2019. This increase in activity also affected operating expenses, increasing them by approximately \$1.5 million. Grant revenues also experienced a corresponding increase in 2019 increasing approximately \$2 million to approximately \$2.6 million.

Economic Factors

While the City of Newburgh, New York suffers a complicated and distressed economic environment, the Land Bank successfully sought and obtained private foundation and public grant funds for both its operations and the acquisition and rehabilitation of property. The Land Bank will continue to look for funding opportunities to further its mission of promoting local development. Each year, the Land Bank will evaluate opportunities for investment of its resources in furthering this mission.

CONTACTING ADMINISTRATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Land Bank's finances and to show the accountability for the money received. If you have questions about this report or need additional financial information, contact the Newburgh Community Land Bank at P.O. Box 152, Newburgh, New York 12550.

NEWBURGH COMMUNITY LAND BANK

STATEMENT OF NET POSITION JUNE 30, 2019

ASSETS

Cash	\$ 941,374
Grants receivable	1,950
Prepaid expenses	<u>33,159</u>

Total current assets 976,483

Property held for sale	1,113,491
Capital assets, net	<u>175,182</u>

Total assets 2,265,156

LIABILITIES

Accounts payable and accrued liabilities	304,142
Accrued expenses	15,999
Unearned revenues	<u>379,607</u>

Total current liabilities 699,748

Total liabilities 699,748

NET POSITION

Net investment in capital assets	175,182
Unrestricted - property held for resale	1,113,491
Unrestricted - available for operations	<u>276,735</u>

\$ 1,565,408

The accompanying notes are an integral part of these statements.

NEWBURGH COMMUNITY LAND BANK

STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2019

OPERATING REVENUE:

Sale of properties	\$ 312,000
Grants	<u>795,353</u>
Total operating revenue	<u>1,107,353</u>

OPERATING EXPENSES:

Property maintenance	781,834
Property held for sale valuation adjustment	649,025
Cost of sales	405,490
Salaries and benefits	245,363
Insurance	75,520
Professional fees	71,561
Other operating	58,339
Office and general	18,999
Payroll taxes	18,841
Depreciation	<u>11,298</u>
Total operating expenses	<u>2,336,270</u>

Operating loss (1,228,917)

NON-OPERATING REVENUE:

Contributions	9,967
Rental and other income	<u>31,345</u>
Total non-operating revenues	<u>41,312</u>

OTHER ADDITIONS AND DEDUCTIONS:

Capital grant revenue	<u>1,796,586</u>
Total other additions and deductions	<u>1,796,586</u>

CHANGE IN NET POSITION 608,981

NET POSITION - beginning of year 956,427

NET POSITION - end of year \$ 1,565,408

The accompanying notes are an integral part of these statements.

NEWBURGH COMMUNITY LAND BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from property sales	\$ 312,250
Receipts of grants	795,353
Payments to employees for salaries and benefits	(262,407)
Payments to vendors for goods and services	<u>(2,561,368)</u>

Net cash flows from operating activities (1,716,172)

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES

Receipts of contributions	9,967
Receipts of grants	<u>1,617,591</u>

Net cash flows from non-capital and related financing activities 1,627,558

CASH FLOWS FROM INVESTING ACTIVITIES

Rental receipts	<u>31,345</u>
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Net cash flows from investing activities 31,345

Net change in cash (57,269)

Cash, beginning of year 998,643

Cash, end of year \$ 941,374

RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES:

Operating loss	\$ (1,228,917)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	11,298
Inventory valuation adjustment	649,025
Change in assets and liabilities:	
Accounts receivable	250
Property held for resale	(1,391,107)
Prepaid expenses	(28,797)
Accounts payable	265,600
Accrued expenses	<u>6,476</u>

Net cash flows from operating activities \$ (1,716,172)

The accompanying notes are an integral part of these statements.

NEWBURGH COMMUNITY LAND BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Newburgh Community Land Bank (the Land Bank), a private not-for-profit corporation as defined in Section 201 of the New York Not-For-Profit Corporation Law, was established on July 6, 2012 for the purpose of stimulating planning, economic development, and neighborhood revitalization by acquiring, rehabilitating, and disposing of vacant, abandoned, and under-utilized properties within the City of Newburgh, New York (the City).

The Land Bank is a public instrumentality of and supporting organization for, but is separate and apart from, the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Land Bank's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus, in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. In accordance with the Land Bank's investment policy, all deposits of the Land Bank including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate amount of deposits.

The Land Bank had bank balances of \$948,488, at June 30, 2019, of which \$469,677 is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2019, the remaining bank balance was collateralized with securities held in the Land Bank's name.

Prepaid Expenses

Prepaid expenses represent payments made by the Land Bank for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are reported in the statement of net position as an asset using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense is reported in the year the goods or services are consumed.

Property Held for Sale

Property held for sale includes various real estate parcels in the City. Such properties are typically acquired by the Land Bank for a nominal fee. Expenditures for the acquisition, renewal, betterment, and stabilization of the properties are capitalized within the cost of each parcel. The carrying values of the individual parcels are evaluated on a periodic basis and adjusted to the lower of cost or net estimated realizable value through property stabilization and rehabilitation costs.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Capital Assets, Net

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capitalization thresholds, (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Statement of Net Position are as follows:

	Capitalization <u>Threshold</u>	Depreciation <u>Method</u>	Estimated <u>Useful Life</u>
Furniture and equipment	\$1,000	SL	5 years

Net Position Classifications

In the financial statements, there are three possible classifications of net position:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of those assets.

The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or the liability will be liquidated with the restricted assets reported. The Land Bank does not have restricted net position at June 30, 2019.

The unrestricted component of net position is the net amounts of the assets and liabilities that are not included in the determination of net investment of capital assets or the restricted component of net position.

The Land Bank's policy is to first utilize available restricted, when available, and then unrestricted resources in the conduct of its operations.

Classification of Revenue and Expense

Operating revenues are those that result from the provision of services related to the Land Bank's principal purposes and are generally associated with exchange transactions. Nonoperating revenues result from activities that are not directly related to the Land Bank's principal purposes, but that exist to support them, and generally consist of nonexchange transactions. Other additions arise from nonexchange transactions which provide for resources related to capital improvements and are non-exchange transactions.

Grant Revenue

The Land Bank has been awarded various grants to promote community revitalization efforts and complete its rehabilitation projects. Payments under the grants are based on estimated needs of the Land Bank on a quarterly basis or based upon project budgets. Revenues under the grants are recognized as eligible project expenditures are incurred. Funds received in advance of disbursement are recognized as unearned grant revenue and disbursements exceeding amounts received are recognized as due from New York State.

Income Taxes

The Land Bank is a not-for-profit local development corporation under Article 16 of New York State not-for-profit corporation law and is exempt from federal income taxes and New York State taxes. Accordingly, no income tax provision has been made.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Use of 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of depreciation using useful lives of assets and the fair value of donated property.

2. PROPERTY HELD FOR SALE

The Land Bank's activity related to property held for sale during fiscal year ending June 30, 2019 is as follows:

<u>Balance at Beginning of Year</u>	<u>Cost of Property Acquired</u>	<u>Capital Improvements</u>	<u>Property Impairment</u>	<u>Cost of Property Sales</u>	<u>Balance at End of Year</u>
<u>\$ 371,409</u>	<u>\$ 14</u>	<u>\$ 1,796,586</u>	<u>\$ (649,028)</u>	<u>\$ (405,490)</u>	<u>\$ 1,113,491</u>

The Land Bank acquired fourteen parcels of property in fiscal year 2019. The Land Bank sold fourteen parcels of property for total consideration of \$312,000 resulting in a loss on disposition of those properties of \$93,490.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows.

	<u>Beginning balance</u>	<u>Additions and transfers</u>	<u>Retirements and transfers</u>	<u>Ending balance</u>
Capital assets, not being depreciated				
Land	<u>\$ 1,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,252</u>
Total capital assets not being depreciated	<u>1,252</u>	<u>-</u>	<u>-</u>	<u>1,252</u>
Capital assets, being depreciated				
Building and improvements	216,597	-	-	216,597
Equipment	<u>3,480</u>	<u>-</u>	<u>-</u>	<u>3,480</u>
Total capital assets being depreciated	<u>220,077</u>	<u>-</u>	<u>-</u>	<u>220,077</u>
Less accumulated depreciation for				
Building and improvements	33,125	10,830	-	43,955
Equipment	<u>1,724</u>	<u>468</u>	<u>-</u>	<u>2,192</u>
Total accumulated depreciation	<u>34,849</u>	<u>11,298</u>	<u>-</u>	<u>46,147</u>
Carrying value of all capital assets, net	<u>\$ 186,480</u>	<u>\$ 11,298</u>	<u>\$ -</u>	<u>\$ 175,182</u>

4. CONCENTRATIONS

The Land Bank received 88% of its total revenue from state and local government grants for the year ended June 30, 2019.

5. COMMITMENTS AND CONTINGENCIES

A substantial portion of the Land Bank's revenue is derived from direct and sub-recipient grants. These grants are subject to financial and compliance audits by the grantors or their representatives. The audits of these grants may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the Land Bank's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Land Bank believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

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

February 18, 2020

To the Board of Directors of
Newburgh Community Land Bank:

We have audited, in accordance with the 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 Newburgh Community Land Bank (the Land Bank) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Land Bank's basic financial statements, and have issued our report thereon dated February 18, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

6 Wembley Court
Albany, New York 12205
p (518) 464-4080
f (518) 464-4087

www.bonadio.com

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Land Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.