

**Sherburne Area Local
Development Corporation
(A New York Public Authority)**

Financial Report

December 31, 2013 and 2012

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(A New York Public Authority)**

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Independent Auditor's Report

Board of Directors
Sherburne Area Local Development Corporation
Sherburne, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Sherburne Area Local Development Corporation (Corporation), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 respective financial position of the Sherburne Area Local Development Corporation as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

The financial statements of the Sherburne Area Local Development Corporation, as of and for the year ended December 31, 2012, were audited by Bollam, Sheedy, Torani & Co. LLP which merged with Sax Macy Fromm & Co., PC to form SaxBST LLP on January 1, 2014. Bollam, Sheedy, Torani & Co. LLP's report, dated February 6, 2013, expressed an unmodified opinion on those statements.

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014, 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 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.

SaxBST LLP

Albany, New York
February 4, 2014

Sherburne Area Local Development Corporation

Statements of Net Position

		December 31,	
		2013	2012
ASSETS			
CURRENT ASSETS			
Cash		\$ 61,553	\$ 66,127
CAPITAL ASSETS			
Land and land improvements		748,314	748,314
Building		1,644,358	1,644,358
		2,392,672	2,392,672
Accumulated depreciation		(89,069)	(47,960)
		2,303,603	2,344,712
OTHER ASSETS			
Cash held with fiscal agent		170,000	170,000
Organizational costs, net		16,660	17,701
		186,660	187,701
		\$2,551,816	\$2,598,540
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accrued interest		\$ 27,305	\$ 22,656
NONCURRENT LIABILITIES			
Loan payable		170,000	170,000
Unearned rental income		603,084	659,790
Mortgage payable		190,531	190,531
Bonds payable		1,246,100	1,397,400
		2,209,715	2,417,721
NET POSITION			
Net investment in capital assets		866,972	756,781
Unrestricted		(552,176)	(598,618)
		314,796	158,163
		\$2,551,816	\$2,598,540

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2013	2012
REVENUES		
Rental income	\$ 268,131	\$ 207,526
Grant income	-	100,000
	268,131	307,526
EXPENSES		
Amortization	1,041	1,041
Audit and accounting	4,700	9,080
Depreciation	41,109	41,109
Interest expense	64,774	72,086
Other	-	1,435
	111,624	124,751
Operating income	156,507	182,775
OTHER INCOME		
Interest income	126	167
	126	167
CHANGE IN NET POSITION	156,633	182,942
NET POSITION, beginning of year	158,163	(24,779)
NET POSITION, end of year	\$ 314,796	\$ 158,163

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from rents	\$ 211,425	\$ 218,127
Cash received from grants	-	100,000
Cash paid to vendors	(64,825)	(77,342)
	146,600	240,785
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Interest income	126	167
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Repayment of mortgage payable	-	(100,000)
Repayment of bond payable	(151,300)	(151,300)
	(151,300)	(251,300)
Net decrease in cash	(4,574)	(10,348)
CASH, beginning of year	66,127	76,475
CASH, end of year	\$ 61,553	\$ 66,127
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 156,507	\$ 182,775
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Amortization	1,041	1,041
Depreciation	41,109	41,109
Increase (decrease) in		
Accrued interest	4,649	5,259
Unearned rental income	(56,706)	10,601
	\$ 146,600	\$ 240,785

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies

a. Organization and Purpose

The Sherburne Area Local Development Corporation (Corporation) was created in February 2008, under the provisions of Section 1411 of the Not-For-Profit Law of the State of New York, for the purpose of relieving and reducing unemployment by promoting and providing job opportunities in the Village of Sherburne, New York (Village) and surrounding communities. This is accomplished by making revolving loans to local businesses to enhance redevelopment, as well as further development of the central business district of the Village, including real estate and infrastructure development and management, real estate and infrastructure project finance, and other community-based economic development.

The Corporation is a public instrumentality of and supporting organization for, but separate and apart from the Village.

b. Basis of Accounting and Financial Statement Presentation

The Corporation's financial statements are prepared using the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Corporation is determined by its measurement focus. The transactions of the Corporation are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) is segregated into restricted and unrestricted components, as follows:

- *Net investment in capita assets consists of capital assets, net of accumulated depreciation less the outstanding indebtedness used to finance those capital assets.*
- *Unrestricted net position consists of assets and liabilities that do not meet the definition of "restricted net assets" or "net investment in capital assets."*

Revenues are recognized when earned, and expenses are recognized when incurred. The Corporation distinguishes operating revenues and expenses from nonoperating items. Operating revenues are determined based on the services provided by the Corporation. Operating expenses include the costs associated with providing those services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

d. Capital Assets

Capital assets are reported at the lower of cost or expected realizable value. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repairs costs, if any, are expensed as incurred. When, and if, capital assets are retired or disposed of, the appropriate accounts are relieved of costs, and any resultant gain or loss is credited to operations.

Depreciation is recorded under the straight-line method using an estimated useful life of forty years.

The Corporation evaluated prominent events or changes in circumstances affecting capital assets to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2013 or 2012.

e. Tax Status

The Corporation is exempt from income taxes as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law. Accordingly, no provisions have been made for income taxes in these financial statements.

f. Subsequent Events

The Corporation has evaluated subsequent events for potential recognition or disclosure through February 4, 2014, the date the financial statements were available to be issued.

g. New Accounting Pronouncements

Effective December 31, 2013, the Corporation adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statements element deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements. The statement establishes standards of accounting and financial reporting for debt issuance costs, stating that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.

There was no significant impact to the financial statements related to this adoption.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 2 - Cash and Deposits

The Corporation's investment policies are governed by New York State statutes. In addition, the Corporation has its own written investment policy. Corporation monies must be deposited in Federal Deposit Insurance Corporation insured commercial banks or trust companies located within the State. The Corporation is authorized to use demand accounts, money market accounts, and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and agencies of the United States of America and obligations of New York State.

Collateral is required for demand deposits and certificates of deposit. Certificates of deposits purchased with a maturity of three months or less are considered cash equivalents. Obligations that may be pledged as collateral are obligations of the United States and its agencies, New York State, irrevocable letters of credit issued by a qualified bank, or a surety bond.

Cash balances at December 31, and 2012, were fully collateralized.

Note 3 - Capital Assets

Capital assets are comprised of land purchased for eventual resale, a building, and building related costs. Costs to acquire and develop the land and building are capitalized as incurred. No depreciation expense is recorded on the land held for eventual resale.

A summary of the Corporation's capital assets is as follows:

	December 31, 2013		
	Balance at Beginning of Year	Additions	Balance at End of Year
Land	\$ 748,314	\$ -	\$ 748,314
Building	1,644,358	-	1,644,358
	2,392,672	-	2,392,672
Less accumulated depreciation	(47,960)	(41,109)	(89,069)
	\$ 2,344,712	\$ (41,109)	\$ 2,303,603
	December 31, 2012		
	Balance at Beginning of Year	Additions	Balance at End of Year
Land	\$ 748,314	\$ -	\$ 748,314
Building	1,644,358	-	1,644,358
	2,392,672	-	2,392,672
Less accumulated depreciation	(6,851)	(41,109)	(47,960)
	\$ 2,385,821	\$ (41,109)	\$ 2,344,712

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 3 - Capital Assets - Continued

Land and related acquisition and development costs at December 31, 2013 and 2012, represent a 30.919 acre parcel of land located adjacent to Classic Street within the Village. The land was purchased and is being developed for the purpose of undertaking the development of a multi-tenant industrial park to be known as "Sherburne Electric Business Park."

A summary of land costs as of December 31, 2013 and 2012, is as follows:

Acquisition of land	\$ 197,356
Other acquisition and development costs	
Survey	2,063
Engineering	105,076
Legal	11,349
Development	408,405
Design	17,000
Other	7,065
	<u>\$ 748,314</u>

Note 4 - Organizational Costs

The Corporation incurred certain start-up costs in regard to its creation and organization. These costs include legal and other professional fees totaling \$20,824.

These costs will be amortized over 20 years, on a straight-line basis, beginning January 1, 2010. Future annual amortization expense is \$1,041.

Note 5 - Indebtedness, Village of Sherburne

During 2008 and 2009, the Village loaned the Corporation \$295,000 to finance the acquisition of a certain parcel of land and related costs (Note 3) and to provide funding for certain organizational costs of the Corporation (Note 4). During 2012, the Corporation made a \$100,000 payment to the Village to begin its pay down of principal on this mortgage. The balance of the mortgage at December 31, 2013 and 2012, was \$190,531.

Terms of the mortgage include monthly payments of interest at 2.44%, with a balloon payment of \$190,531 in April 2019, the due date of the mortgage. The loan is secured by the property financed and all fixtures and personal property which now is or which later may be attached to the property.

The Corporation is currently in arrears with its scheduled payments of interest. Unpaid scheduled interest totaled \$27,305 and \$22,656 at December 31, 2013 and 2012, respectively.

Interest expense incurred and paid on this indebtedness totaled \$4,649 and \$-0-, respectively, for the year ended December 31, 2013, and \$5,259 and \$-0-, respectively, for the year ended December 31, 2012.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 5 - Indebtedness, Village of Sherburne - Continued

In addition, during 2011, the Village made a \$170,000 loan to the Corporation to provide partial funding for the acquisition and construction of a building (Note 3). The loan is non-interest bearing and will be repaid to the Village when certain cash balances are released by NBT Bank, in accordance with the terms of a bond issuance (Note 6). The balance of this loan payable was \$170,000 at December 31, 2013 and 2012.

Note 6 - Bonds Payable

On June 1, 2011, the Corporation issued two tax-exempt Revenue Bonds, Series 2011, for the (1) acquisition of certain lands located within the Sherburne Electric Business Park; (2) planning, design, and construction of a 15,000 square foot facility for lease to the Village and use by the Village's Electric Department and Department of Public Works; (3) acquisition of certain equipment, machinery, and other tangible personal property, and (4) paying of certain costs and expenses incidental to the issuance of the bonds.

Beginning January 1, 2011, the Corporation is obligated to make annual payments of principal and interest at 4.25% through January 2021. The terms of one of the bonds also includes a balloon payment on January 1, 2021. Interest expense incurred and paid on these bonds was \$60,125 and \$66,827 for the years ended December 31, 2013 and 2012, respectively. The Corporation paid the annual installment of principal and interest, due January 1, 2013 and 2012, during December 2012 and 2011, respectively.

The bonds are secured by a mortgage and Security Agreement, dated June 1, 2011, and are collateralized by the land, building, and equipment described above. In addition, the bonds are secured by an assignment of certain leases and rents (Note 7).

A summary of bonds payable is as follows:

	December 31,	
	2013	2012
Revenue Bond, Series 2011, payable in annual installments of principal of \$18,700 plus interest at 4.25%, maturing January 1, 2021, with a balloon payment of \$205,700	\$ 317,900	\$ 336,600
Revenue Bond, Series 2011, payable in annual installments of principal of \$132,600 plus interest at 4.25%, maturing January 1, 2021.	<u>928,200</u>	<u>1,060,800</u>
	<u><u>\$ 1,246,100</u></u>	<u><u>\$ 1,397,400</u></u>

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 6 - Bonds Payable - Continued

The following is a summary of annual principal and interest payments for the bonds:

	Principal	Interest	Total
For the year ending December 31,			
2014	\$ -	\$ -	\$ -
2015	151,300	53,694	204,994
2016	151,300	47,176	198,476
2017	151,300	40,767	192,067
2018	151,300	34,136	185,436
2019 through 2021	640,900	63,330	704,230
	\$ 1,246,100	\$ 239,103	\$ 1,485,203

In addition, under the terms of the bond issuance, the Corporation was required to leave \$170,000 of the bond proceeds on deposit with NBT Bank, until certain outstanding bond balances are achieved. This deposit is included in cash held by fiscal agent in these financial statements.

Note 7 - Rental Agreement

On June 1, 2011, the Corporation entered into a lease agreement with the Village for the rental of a building owned by the Corporation (Note 3).

Base rents under the agreement are in an amount sufficient to pay the interest and principal due and payable on the bonds on each bond payment date. The lease terminates on December 1, 2021. Rental income related to this agreement for the years ended December 31, 2013 and 2012, totaled \$218,127 and \$157,522, respectively. The Village paid the January 2014 and 2013 rent payments of \$211,425 and \$218,127, respectively, during December 2013 and 2012, respectively. These amounts have been reported as deferred rental income at December 31, 2013 and 2012.

The Village is responsible for most building related expenses, including water, gas, oil, electricity, heat, telephone, sewage, trash removal, janitorial service, insurance, and snow removal.

A schedule of future minimum rental receipts is as follows:

For the year ending December 31,	
2014	\$ -
2015	204,994
2016	198,476
2017	192,067
2018	185,436
2019 through 2021	704,230
	\$ 1,485,203

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2013 and 2012

Note 7 - Rental Agreement - Continued

In addition to the lease agreement described above, during October 2009, the Corporation entered into an agreement with the Village which required the Village to place a \$500,000 deposit with the Corporation, to be utilized by the Corporation in furtherance of the land development and construction of the building. This deposit is considered additional rent under the lease agreement and will be amortized into rental income on a straight-line basis, over a ten-year period beginning November 1, 2011, and expiring October 31, 2021. Rental income recognized from this deposit totaled \$50,004 for both the years ended December 31, 2013 and 2012.

Amortization of this deferred rental income is as follows:

For the year ending December 31,	
2014	\$ 50,004
2015	50,004
2016	50,004
2017	50,004
2018	50,004
2019 through 2021	<u>141,639</u>
	<u>\$ 391,659</u>

Note 8 - Accounting Standards Issued But Not Yet Implemented

During January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, including mergers and acquisitions. This statement requires disclosures to be made that will enable financial statement users to evaluate the nature and financial effect of those transactions. This statement is effective for periods beginning after December 15, 2013, with earlier application encouraged.

During April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. An obligation guaranteed in a nonexchange transaction will need to be reported until it is legally released as an obligor. This statement is effective for periods beginning after June 15, 2013, with earlier application encouraged.

The estimated potential impact of these pronouncements on the Corporation's financial statements has not been determined at this time.

**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***

Board of Directors
Sherburne Area Local Development Corporation
Sherburne, New York

We have audited the financial statements of the Sherburne Area Local Development Corporation (Corporation) as of and for the year ended December 31, 2013, and have issued our report thereon dated February 4, 2014. 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.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 13.01.

The Corporation's response to the finding identified in our report is described in the accompanying Schedule of Findings and Responses. We did not audit the Corporation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Corporation, and the New York State Budget Office and is not intended to be and should not be used by anyone other than these specified parties.

SaxBST LLP

Albany, New York
February 4, 2014

Sherburne Area Local Development Corporation

Schedule of Findings and Responses Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements? _____ Yes X No

Section II - Financial Statement Findings

None.

Section III - Compliance Findings

13.01. Posting and Maintaining Reports and Policies on Public Authority Website

Criteria: The New York State Authority Budget Office (ABO), in response to the Public Authorities Reform Act (PARA) of 2009, issued guidance and requirements to public authorities to make specific information available to the public through the internet.

Condition: The Corporation is not in full compliance with PARA requirements.

Effect: Required Corporation reports are not currently available to the public through the internet as follows:

- Report on operations and accomplishments, and
- Management's assessment of internal control structure and procedures.

Cause: The Corporation has not updated its website for the inclusion of these reports.

Recommendation: Using available ABO guidance, the Corporation should develop its website and schedule periodic maintenance and review to ensure required information is available to the public in a timely manner.

View of Responsible Officials: The Corporation is in the process of updating its website to be in compliance with ABO requirements.