

**MONROE COUNTY SPORTS
DEVELOPMENT CORPORATION**

**Financial Statements
as of December 31, 2010 and 2009
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

March 3, 2011

To the Board of Directors of
Monroe County Sports Development Corporation:

We have audited the accompanying financial statements of the business-type activities of Monroe County Sports Development Corporation (the Organization), a not-for-profit corporation and a New York public benefit corporation, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Organization as of December 31, 2010 and 2009, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2011, on our consideration of the Organization'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* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT (Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 5 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, 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.

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

The following Management's Discussion and Analysis (MD&A) of Monroe County Sports Development Corporation's (the Organization's) financial statements provides an overview of the Organization's financial activities for the years ended December 31, 2010 and 2009. The MD&A should be read in conjunction with the Organization's financial statements and related notes, which follow the MD&A.

The Organization is a New York not-for-profit corporation organized to maximize the positive impact of sports and to improve the economic vitality and quality of life of the Rochester, New York/Monroe County community. Continued funding is expected from hotel/motel tax revenue received directly and indirectly from Monroe County, as well as contributions from the Greater Rochester Sports Authority.

FINANCIAL HIGHLIGHTS

- The Organization's net assets increased by \$25,040 in 2010 and decreased by \$2,989 in 2009, as a result of the individual year's operations.
- The assets of the Organization exceeded its liabilities by \$144,904 and \$119,864 at December 31, 2010 and 2009, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The statements of net assets and the statements of revenue, expense, and changes in net assets report information about the Organization as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Revenue and expenses are recorded when earned and incurred, respectively, regardless of when cash is received or paid.

These two statements report the Organization's net assets and changes in them from one year to the next. The Organization's net assets, the difference between assets and liabilities, are one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Organization's income and the fluctuation of the Organization's expenses, to assess the overall health of the Organization.

NOTES TO FINANCIAL STATEMENTS

The financial statements also include the notes to the financial statements, which explain certain information in the financial statements. They are essential to a full understanding of the information provided in the financial statements.

THE ORGANIZATION

The analysis below summarizes the statements of net assets (Table 1) and change in net assets (Table 2) of the Organization as of and for the years ended December 31, 2010, 2009 and 2008.

Table 1 - Statements of Net Assets (000s omitted)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Cash	\$ 83	\$ 89	\$ 185
Accounts receivable	33	33	38
Prepaid expenses	<u>26</u>	<u>-</u>	<u>-</u>
Total current assets	142	122	223
Capital assets, net	<u>3</u>	<u>10</u>	<u>18</u>
	<u>145</u>	<u>132</u>	<u>241</u>
Liabilities:			
Accounts payable	-	12	5
Deferred revenue	<u>-</u>	<u>-</u>	<u>113</u>
	<u>-</u>	<u>12</u>	<u>118</u>
Net assets:			
Unrestricted	<u>\$ 145</u>	<u>\$ 120</u>	<u>\$ 123</u>

Cash decreased slightly at December 31, 2010 as a result of the operations of the Organization. Prepaid expenses increased in 2010 because a January 2011 consulting expense was paid in December 2010. Net assets increased at December 31, 2010 as a result of the activities of the Organization in 2010 as summarized in Table 2.

Cash decreased at December 31, 2009 as a result of the operations of the Organization and a decrease in accounts receivable offset by an increase in capital assets, net. Net assets decreased at December 31, 2009 as a result of the activities of the Organization in 2009 as summarized in Table 2.

THE ORGANIZATION (Continued)

Table 2 shows the change in net assets for the years ended December 31, 2010, 2009 and 2008.

Table 2 - Change in Net Assets (000s omitted)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenue and support:			
Grants	\$ 400	\$ 425	\$ 475
Hotel/motel tax	83	83	83
Sponsorships	57	32	18
Other	<u>5</u>	<u>48</u>	<u>46</u>
Total revenues and support	<u>545</u>	<u>588</u>	<u>622</u>
Expenses:			
Consulting	314	306	306
Event-related expenses	109	146	203
Marketing and advertising	34	32	18
Travel	31	36	32
Management fees	5	43	43
Other	<u>27</u>	<u>28</u>	<u>29</u>
Total expenses	<u>520</u>	<u>591</u>	<u>631</u>
Change in net assets	<u>\$ 25</u>	<u>\$ (3)</u>	<u>\$ (9)</u>

Grant revenue consists of amounts pledged from other organizations to support sports events and economic development. Grant revenue decreased due to changes in the timing of contributions provided to the Organization. The Organization receives an annual allocation based on amounts collected by the County determined on an annual basis.

Sponsorships and event-related expenses vary with the number and scope of events staged by the Organization. During 2010, the Organization's event sponsorship increased because of a new event held. During 2009, the Organization's event sponsorship increased because of increased attendance at various events.

The Organization's major expense is consulting payments made under contract. The objective of the contract payments is to maximize the positive impact of sports and improve the economic vitality and quality of life of the Rochester, New York/Monroe County community.

Management services for the Organization are contributed by the County and are recorded as contribution support and management fee expense.

REQUEST FOR INFORMATION

This financial report is designed to provide financial statement users with a general overview of the Organization'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 Monroe County Sports Development Corporation's Executive Director at 50 West Main Street, Suite 8100, Rochester, New York, 14614.

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

STATEMENTS OF NET ASSETS DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 83,282	\$ 89,141
Accounts receivable	32,712	32,712
Prepaid expenses	<u>26,475</u>	<u>-</u>
Total current assets	<u>142,469</u>	<u>121,853</u>
CAPITAL ASSETS:		
Computers and equipment	23,232	23,232
Less: Accumulated depreciation	<u>(20,462)</u>	<u>(12,834)</u>
Total capital assets, net	<u>2,770</u>	<u>10,398</u>
	<u>145,239</u>	<u>132,251</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	<u>335</u>	<u>12,387</u>
Total current liabilities	<u>335</u>	<u>12,387</u>
NET ASSETS:		
Invested in capital assets	2,770	10,398
Unrestricted	<u>142,134</u>	<u>109,466</u>
Total net assets	<u>\$ 144,904</u>	<u>\$ 119,864</u>

The accompanying notes are an integral part of these statements.

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
REVENUE AND SUPPORT:		
Grant revenue	\$ 400,000	\$ 425,000
Hotel/motel tax revenue	82,500	82,500
Sponsorships	57,285	32,115
In-kind contributions	5,000	43,000
Interest income	128	389
Other	259	5,495
	<hr/>	<hr/>
Total revenue and support	545,172	588,499
EXPENSES:		
Consulting	313,943	306,006
Event-related expenses	108,894	146,195
Marketing and advertising	33,510	31,618
Travel	30,535	35,859
Depreciation	7,628	7,744
Dues and subscriptions	6,199	3,700
Legal and professional	5,500	7,250
Management fees	5,000	43,000
Telephone	2,225	2,663
Supplies	473	1,003
Other	6,225	6,450
	<hr/>	<hr/>
Total expenses	520,132	591,488
CHANGE IN NET ASSETS	25,040	(2,989)
NET ASSETS - beginning of year	<hr/> 119,864	<hr/> 122,853
NET ASSETS - ending of year	<u>\$ 144,904</u>	<u>\$ 119,864</u>

The accompanying notes are an integral part of these statements.

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from grants	\$ 400,000	\$ 312,500
Receipts from providing services	140,172	126,025
Payments to service providers and suppliers	<u>(546,031)</u>	<u>(533,883)</u>
Net cash flow from operating activities	<u>(5,859)</u>	<u>(95,358)</u>
NET CHANGE IN CASH	(5,859)	(95,358)
CASH - beginning of year	<u>89,141</u>	<u>184,499</u>
CASH - end of year	<u><u>\$ 83,282</u></u>	<u><u>\$ 89,141</u></u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 25,040	\$ (2,989)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	7,628	7,744
Changes in:		
Accounts receivable	-	5,526
Prepaid expenses	(26,475)	-
Accounts payable	(12,052)	6,861
Deferred revenue	<u>-</u>	<u>(112,500)</u>
Net cash flow from operating activities	<u><u>\$ (5,859)</u></u>	<u><u>\$ (95,358)</u></u>

The accompanying notes are an integral part of these statements.

MONROE COUNTY SPORTS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. THE ORGANIZATION

The Monroe County Sports Development Corporation (the Organization) is a New York not-for-profit corporation organized to maximize the positive impact of sports and to improve the economic vitality and quality of life of the Rochester, New York/Monroe County community. Continued funding is expected from hotel/motel tax revenue received from Monroe County and grant revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board for proprietary funds. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The Organization has elected not to follow subsequent private sector guidance.

Basis of Presentation

GASB requires the classification of net assets into three classifications defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted net assets - This component of net assets consists of amounts which have external constraints placed on their use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2010 and 2009, the Organization has no restricted net assets.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt", or "restricted".

Cash

The Organization maintains cash in demand deposit and money market accounts. At times, the balances in these accounts may exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant custodial credit risk with respect to these cash balances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable relate to the Organization's funding from Monroe County as well as from other not-for-profit corporations. Accounts receivable are written off when they are deemed to be uncollectible based upon a review of outstanding balances. At December 31, 2010 and 2009, the Organization deemed all accounts receivable to be fully collectible.

Capital Assets

Capital assets are stated at cost. Assets are capitalized if the cost is equal to or greater than \$1,000 with a useful life of at least one year. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which is three years.

Donated Services

Volunteers have donated time to program service and administrative functions for the Organization. However, the value of these services is not reflected in the accompanying financial statements as these services do not meet the criteria for recognition as set forth under generally accepted accounting principles.

In-Kind Contributions

Management services valued at \$5,000 and \$43,000 were provided without charge to the Organization by Monroe County during 2010 and 2009, respectively. These management services are reflected as in-kind contribution revenue and management fees expense in the accompanying financial statements.

Marketing and Advertising

The Organization expenses marketing and advertising costs as incurred.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from federal income taxes as a corporation qualified under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Policies

The Organization follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conform with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Executive Director.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Policies (Continued)

The Organization's monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies located within and authorized to do business in New York State. Permissible investments include certificates of deposit and obligations of the United States or of federal agencies whose principal and interest payments are fully guaranteed by the federal government, or of New York State or in general obligations of the State's political subdivisions.

Collateral is required for deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are those identified in New York State General Municipal Law, Section 10 and outlined in the New York State Comptroller's Financial Management Guide.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Organization's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Organization's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Organization's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Special time deposit accounts;
- Certificates of deposit;
- Obligations of the United States;
- Obligations of the State of New York
- Obligations guaranteed by agencies of the United States where payment of principal and interest are guaranteed by the United States.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk 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 Organization's investment and deposit policy, all deposits of the Organization, 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 100% of the aggregate amount of deposits and the agreed upon interest; or an "irrevocable letter of credit issued by a qualified bank with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest; or by an eligible surety bond payable for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest. The Organization restricts the securities to the following eligible items:

- Obligations of the United States of America;
- Obligations where payment of principal and interest are guaranteed by the United States of America;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development; the Inter-American Development Bank, the Asian Development Bank and the African Development Bank.
- Mortgage related securities as defined in the Securities Exchange Act of 1934;
- Commercial paper and bankers' acceptances issued by a bank with maturities of not longer than 60 days from the date they are pledged;
- Obligations of the State of New York;
- Certificates of deposit.

At December 31, 2010 and 2009, all of the Organization's deposits were covered by FDIC insurance.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance <u>January 1</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31</u>
Capital assets:				
Computers and equipment	\$ <u>23,232</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,232</u>
Total capital assets being depreciated	<u>23,232</u>	<u>-</u>	<u>-</u>	<u>23,232</u>
Less accumulated depreciation for:				
Computers and equipment	<u>(12,834)</u>	<u>(7,628)</u>	<u>-</u>	<u>(20,462)</u>
Total accumulated depreciation	<u>(12,834)</u>	<u>(7,628)</u>	<u>-</u>	<u>(20,462)</u>
Capital assets, net	\$ <u>10,398</u>	\$ <u>(7,628)</u>	\$ <u>-</u>	\$ <u>2,770</u>

4. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2009 was as follows:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
Capital assets:				
Computers and equipment	\$ 23,232	\$ -	\$ -	\$ 23,232
Total capital assets being depreciated	<u>23,232</u>	<u>-</u>	<u>-</u>	<u>23,232</u>
Less accumulated depreciation for:				
Computers and equipment	<u>(5,090)</u>	<u>(7,744)</u>	<u>-</u>	<u>(12,834)</u>
Total accumulated depreciation	<u>(5,090)</u>	<u>(7,744)</u>	<u>-</u>	<u>(12,834)</u>
Capital assets, net	<u>\$ 18,142</u>	<u>\$ (7,744)</u>	<u>\$ -</u>	<u>\$ 10,398</u>

5. CONCENTRATIONS

The Organization received 83% and 78% of its revenue and support in 2010 and 2009, respectively, from three funding sources. Approximately 14% in 2010 and 2009 was in the form of allocations of hotel/motel taxes collected by Monroe County. During each of 2010 and 2009 the Organization's allocation of these taxes was \$82,500.

Accounts receivable related to hotel/motel tax revenue at both December 31, 2010 and 2009 was \$20,625. Accounts receivable related to other funding sources, including the Greater Rochester Visitor Association (GRVA), was approximately \$10,400 at December 31, 2010 and 2009.

6. COMMITMENT

Consulting Arrangement

The Organization had entered into a contract with an independent consultant to perform services related to advancing the objectives of the Organization through July 2008. In June 2008, this contract was renewed for another three year term. In September 2008, the contract was further amended. Under the terms of the agreement, in addition to annual amounts due, the consultant earns a 15% commission of sponsored events. Under the terms of the amended contract, approximately \$159,000 is to be paid in 2011. In 2010 and 2009, the Organization recognized expense of \$313,943 and \$306,006, respectively, related to this contract.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 3, 2011

We have audited the financial statements of the business-type activities of Monroe County Sports Development Corporation (the Organization) as of and for the year ended December 31, 2010, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated March 3, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity'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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting (2010-1). *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.

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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)

Internal Control Over Financial Reporting (Continued)

Finding 2010-1

Condition: Revenue and cash were overstated by \$68,750 because a first installment of a 2011 payment due to the Organization was recorded in 2010. In addition, expenses were overstated by \$26,475 because a 2011 expense was reported as a 2010 expense rather than a prepaid asset.

Criteria: In accordance with generally accepted accounting principles, revenue should only be recorded when earned and expenses should only be recorded when incurred. In this case, the \$68,750 payment to the Organization was not earned until 2011 and the \$26,475 expense was not incurred until 2011.

Effect: Financial statements for December 31, 2010 were improperly presented.

Cause: There were improper controls over financial reporting in place that did not catch the material errors.

Recommendation: Management must take steps to ensure that cash, revenue, and expenses are appropriately reconciled and recorded in the financial statements.

Response: Management will review its year-end closing procedures to ensure that revenues and expenses are captured in the correct period.

The Organization's response to the finding identified in our audit is described above. We did not audit the Organization's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

We noted certain other matters that we reported to management of the Organization in a separate letter dated March 3, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, New York State Authorities Budget Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.