

March 21, 2011

To the Board of Directors of
Monroe Security & Safety Systems Local Development Corporation:

We have audited the financial statements of Monroe Security & Safety Systems Local Development Corporation (the Corporation) for the year ended December 31, 2010, and have issued our report thereon dated March 21, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 22, 2010. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies.

The significant accounting policies used by the Corporation are described in Note 2 to the financial statements. As 2010 represents the initial year of operations for the Corporation, the accounting policies have been adopted by the Board concurrent with the issuance of these statements. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The Corporation's financial statements do not include any particularly significant accounting estimates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

There are no particularly sensitive disclosures contained in the financial statements.

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SIGNIFICANT AUDIT FINDINGS (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The misstatements identified and corrected by management are displayed on Exhibit A.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report.

We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors.

As this is the initial engagement with the Corporation, our retention was based on a competitive bidding process. It is expected that going forward, these discussions will occur in the normal course of our professional relationship and our responses will not be a condition of our retention.

This information is intended solely for the use of the Board of Directors and management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

**SUMMARY OF ADJUSTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Change in net assets - unaudited	\$ (63,993)
Client adjustments:	
To capitalize project development costs expended during the year.	231,322
To record the value of the interest rate swap liability at year-end.	(1,267,989)
To record accrued interest expense.	(112,119)
To record amortization expense on bond issuance costs.	(38,269)
To record unrealized loss on investments.	<u>(26,387)</u>
Total adjustments	<u>(1,213,442)</u>
Change in net assets - audited	\$ <u>(1,277,435)</u>

**MONROE SECURITY & SAFETY SYSTEMS
LOCAL DEVELOPMENT CORPORATION**

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

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 21, 2011

To the Board of Directors of
Monroe Security & Safety Systems Local Development Corporation:

We have audited the accompanying balance sheet of Monroe Security & Safety Systems Local Development Corporation (the Corporation) (a nonprofit organization) as of December 31, 2010, and the related statements of activities and change in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 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 audit provides 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 Corporation as of December 31, 2010, and the changes in its net assets and its cash flows for the year 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 21, 2011 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* and should be considered in assessing the results of our audit.

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MONROE SECURITY & SAFETY SYSTEMS LOCAL DEVELOPMENT CORPORATION

**BALANCE SHEET
DECEMBER 31, 2010**

ASSETS

CURRENT ASSETS:

Cash	\$ 93,528
Prepaid expenses	<u>19,652</u>
Total current assets	<u>113,180</u>

NONCURRENT ASSETS:

Project development costs	15,868,954
Debt issuance costs, net	1,492,509
Limited use assets	<u>43,953,937</u>
Total noncurrent assets	<u>61,315,400</u>

Total assets	<u>\$ 61,428,580</u>
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LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 1,990,907
Accrued interest	<u>112,119</u>

Total current liabilities	2,103,026
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INTEREST RATE SWAP LIABILITY	1,267,989
BONDS PAYABLE	<u>59,335,000</u>

Total liabilities	62,706,015
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NET ASSETS

UNRESTRICTED	<u>(1,277,435)</u>
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Total liabilities and net assets	<u>\$ 61,428,580</u>
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The accompanying notes are an integral part of these statements.

MONROE SECURITY & SAFETY SYSTEMS LOCAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2010

REVENUES:

Maintenance and support services	\$ 2,714,571
Interest on project development costs	331,661
Investment gain, net	<u>41,941</u>

Total revenues 3,088,173

EXPENSES:

Project costs -	
Interest, amortization and fees	1,896,218
Management services	1,086,631
Network management and maintenance	<u>3,500</u>

Total project costs 2,986,349

Administration -

Professional fees	111,124
Other	<u>146</u>

Total administration 111,270

Total expenses 3,097,619

CHANGE IN NET ASSETS FROM OPERATIONS (9,446)

OTHER:

Loss on interest rate swap agreement	<u>(1,267,989)</u>
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CHANGE IN NET ASSETS (1,277,435)

NET ASSETS - beginning of year -

NET ASSETS - end of year \$ (1,277,435)

The accompanying notes are an integral part of these statements.

MONROE SECURITY & SAFETY SYSTEMS LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOW FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (1,277,435)
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Amortization of debt issuance costs	38,269
Unrealized loss on investments	28,994
Loss on interest rate swap agreement	1,267,989
Changes in:	
Prepaid expenses	(19,652)
Accrued interest	112,119
Accounts payable	<u>1,990,907</u>
Net cash flow from operating activities	<u>2,141,191</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Project development costs	(15,868,954)
Purchases of limited use assets	(247,180,721)
Proceeds from sale of limited use assets	<u>203,197,790</u>
Net cash flow from investing activities	<u>(59,851,885)</u>
CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds from bond issuance	59,335,000
Debt issuance costs	<u>(1,530,778)</u>
Net cash flow from financing activities	<u>57,804,222</u>
CHANGE IN CASH	93,528
CASH - beginning of year	<u>-</u>
CASH - end of year	<u>\$ 93,528</u>

The accompanying notes are an integral part of these statements.

MONROE SECURITY & SAFETY SYSTEMS LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

1. THE ORGANIZATION

Monroe Security & Safety Systems Local Development Corporation (the Corporation) is a New York not-for-profit corporation organized in May 2009 to provide certain public safety and related security services to the County of Monroe, New York (the County) and Monroe County Water Authority (the Authority). No activity occurred until May 14, 2010, when the Corporation closed on the initial bond issuance. The Corporation was formed as a local development corporation of the County. All service revenue derived by the Corporation is currently received solely from the County and as such the Corporation's existence is dependent upon this continuing relationship. Although the County is not financially accountable for the Corporation, it does appoint a voting majority of the board and as such is considered a related party to the Corporation.

The Service Agreement between the County and the Corporation engages the Corporation to design and implement an approximate \$82 million multi-faceted public safety capital program principally comprised of radio communications infrastructure; paging, mobile data, access, and video control systems; physical security improvements; and a Monitoring and Reaction Center, as well as provide on-going services and equipment purchases in support of existing legacy public safety enterprises. The project began in 2010 and certain components are expected to be fully operational at various stages through 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

All of the Corporation's net assets were unrestricted at December 31, 2010.

Cash

Cash consists of bank demand deposit accounts. At times, the balances in these accounts may exceed federally insured limits. The Corporation has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

Project Development Costs

The cost of security equipment purchased by the Corporation and leased to the County is currently being recorded as project development costs on the accompanying balance sheet since the components have not yet been placed substantially in service. In the future, it is anticipated that this will meet the criteria to be recorded as a direct financing lease. Unearned income will be calculated using the interest rate in place on the bonds that were issued to facilitate the purchase of the underlying equipment. Lease principal payments will be recognized concurrent with the repayment schedule on the outstanding bonds. For the year ended December 31, 2010, no principal repayment was due on the bonds, and as such only interest was earned on the project development costs totaling approximately \$332,000.

Debt Issuance Costs

Costs incurred in connection with the bond issuance have been capitalized and are being amortized on the straight-line method over the 20-year term of the related bond.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Limited Use Assets

Limited use assets consist of funds required under the bond indenture and are invested by the trustee in money market funds or U.S. government obligations and are recorded at fair market value based on quoted market prices. Interest, dividends, investment management fees, and gains (losses) on limited use assets are shown as investment income (loss), net in the accompanying financial statements.

Fair Value Measurement - Definition and Hierarchy

Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Corporation uses various valuation techniques in determining fair value. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions about the assumptions market participants would use in pricing the liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

The Corporation's U.S. government money market funds utilize Level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

The Corporation's mortgage-backed securities, commercial paper, and corporate bonds utilize Level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Corporation's interest rate swap contract is valued utilizing Level 3 inputs.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)

Fair value of the Corporation's mortgage-backed securities is valued at the quoted price of the underlying assets of the pool. Fair value of the Corporation's corporate bonds and commercial paper is valued at the quoted closing price reported on the active market on which the individual securities are traded.

Fair value of the Corporation's interest rate swap contract is derived using the difference between the average value of the SIFMA Index over all possible future interest rate environments, discounted to the present time as calculated by the bank and the fixed rate of interest at the stated rate in the swap agreement.

Financial Interests Measured at Fair Value

The Corporation has financial instruments which are recorded at fair value in the accompanying balance sheet. The Corporation made estimates regarding the valuation of the liability associated with the interest rate swap contract measured at fair value in the financial statements.

The fair value of long-term debt is based on quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

Income Taxes

The Corporation is a not-for-profit corporation organized pursuant to sections 402 and 1411 of the New York State Not-for-Profit Corporation law and is, therefore, exempt from income taxes. The Corporation is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

For tax exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2010, the Corporation does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.

Revenue Recognition

- Interest on investment in project development costs - The interest imputed over the term of the projected direct-financing lease is recorded in this financial category.
- Maintenance and Support Services - Under the Corporation's agreement with the County, annual payments received are also intended to cover operating costs incurred in connection with the agreement such as maintenance of equipment and technology upgrades. The portion of the County's annual payment not allocated to interest or payment of principal is recorded as maintenance and support revenue.

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. PROJECT DEVELOPMENT COSTS

The Corporation will lease its security equipment to the County under the terms of a direct-financing lease agreement that states that the Corporation will be paid average annual payments of approximately \$10,600,000 per year by the County commencing January 1, 2010 and terminating December 31, 2029. The annual lease payments also cover certain operating costs such as maintenance, technology upgrades and license fees. The annual continuation of this agreement is solely dependent upon appropriations granted by the County under the annual budgetary process and therefore is not guaranteed. At December 31, 2010, the entire project was not completed, nor was a substantial portion placed in service. Therefore, until such time as the County takes control of, and construction and installation is completed, the costs are being accumulated as project development costs. To date, \$15,868,954 has been expended towards the completion of the project.

Revenue Concentration

The revenue that the Corporation recognized during 2010 is composed entirely of payments from the County.

4. DEBT ISSUANCE COSTS

The debt issuance costs capitalized as of December 31, 2010 were \$1,530,778, and amortization expense and accumulated amortization for 2010 was \$38,269.

5. LIMITED USE ASSETS

Limited use assets consist of investments held by the trustee for the benefit of the Corporation and were invested as follows at December 31, 2010:

Mortgage-backed securities	\$ 18,192,711
U.S. government money market funds	11,872,238
Commercial paper	10,745,695
Corporate bonds	<u>3,143,293</u>
	<u>\$ 43,953,937</u>

At December 31, 2010, \$669,436 of the investments is designated for debt service payments. The remaining investments are designated for funding future costs associated with the installation of the security equipment and related contract costs for the County.

Net investment income (loss) consisted of the following for the year ended December 31, 2010:

Interest and dividend income	\$ 111,795
Investment management fees	(40,860)
Unrealized loss	<u>(28,994)</u>
	<u>\$ 41,941</u>

6. BONDS PAYABLE

The Corporation issued Series 2010 Variable Rate Demand Revenue Bonds (the Bonds) in order to fund a telecommunications and technology project. The Bonds were issued on May 14, 2010 in the amount of \$59,335,000 and mature on June 1, 2029. The bondholders are paid interest monthly on the bonds at a variable rate (0.34% at December 31, 2010) as determined by the Remarketing Agent at the bank weekly. The Bonds are subject to redemption, prior to maturity, at the option of the bank. The Bonds are collateralized under the terms of the bond agreement. The collateral on the bonds is an interest in the Corporation's management contract with Navitech Services Corporation (see Note 9) and an interest in the Corporation's lease with the County (see Note 3). Cash paid for interest was \$682,954 in 2010. Interest expense was \$795,073 in 2010.

The bond agreement requires a letter of credit to be maintained with the bank in the amount of \$59,921,966, of which \$59,335,000 is available to pay the principal on the bonds and \$586,966 is available to pay interest on the bonds. The letter of credit may be reduced as the outstanding principal is reduced. The letter of credit expires on May 14, 2015 at which time the Bonds will be callable unless an extension on the letter of credit is approved. The bonds are subject to mandatory sinking fund installments on June 1 of each year commencing on June 1, 2012, and are used to repay the outstanding bonds and will continue annually each year until the outstanding principal amount of the bonds has been paid.

The schedule of sinking fund repayments is as follows:

<u>Payment Date</u>	<u>Installment</u>
June 1, 2012	\$ 1,300,000
June 1, 2013	2,000,000
June 1, 2014	2,865,000
June 1, 2015	3,085,000
June 1, 2016	3,540,000
June 1, 2017	3,515,000
June 1, 2018	3,800,000
June 1, 2019	4,100,000
June 1, 2020	4,415,000
June 1, 2021	4,745,000
June 1, 2022	3,000,000
June 1, 2023	3,480,000
June 1, 2024	3,575,000
June 1, 2025	7,635,000
June 1, 2026	1,910,000
June 1, 2027	2,005,000
June 1, 2028	2,110,000
June 1, 2029	<u>2,255,000</u>
	<u>\$ 59,335,000</u>

The bonds contain a remarketing feature that permits the bonds to be remarketed on a weekly basis for purposes of resetting interest rates on the outstanding bonds. Failure of the bonds to be remarketed would require the use of the Corporation's letter of credit to purchase any unmarketed bonds. In the event a tender advance is made on the letter of credit, the Corporation would be required to repay the bank subject to the terms of the agreement on demand.

6. BONDS PAYABLE (Continued)

Letter of Credit Covenants

In connection with the letter of credit agreement, the Corporation is required to meet certain financial and operational covenants. As of December 31, 2010, the Corporation was in compliance with these covenants.

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation has an interest rate swap which is qualified as a hedge under generally accepted accounting principles. As a result, the swap was recorded on the balance sheet at fair value. The Corporation had assumed no ineffectiveness in the swap due to the fact that, among other things, the notional amount of the swap was equal to the principal amount of the bonds and the variable rate that the Corporation received under the swap matched the variable rate of the bonds. Changes in fair value of the swap have been accounted for in the statement of activities and change in net assets as a "loss on interest rate swap agreement." The effective fixed interest rate of the swap was 2.09% during 2010.

The fair value of the swap contract at December 31, 2010 was a liability of \$1,267,989. The Corporation is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap contract. However, the Corporation does not anticipate nonperformance by the counterparty.

Fair value of the Corporation's derivative instrument at December 31, 2010 is as follows:

Derivative Instruments Designated as Hedging Instruments	Balance Sheet Location	Liability Derivative
		Fair Value
Interest rate swap	Long-term liability	<u>\$ 1,267,989</u>

The effect of the derivative instrument on the statement of activities and change in net assets for the year ended December 31, 2010 consist of the following:

Derivatives in Fair Value Hedging Relationships	Location of Loss Recognized in Change in Net Assets	Amount of Loss Recognized in Change in Net Assets
Interest rate swap	Other	<u>\$ (1,267,989)</u>

8. FAIR VALUE MEASUREMENTS

The following are measured at fair value on a recurring basis at December 31, 2010:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. government money market funds	\$ 11,872,238	\$ -	\$ -
Mortgage-backed securities	-	18,192,711	-
Commercial paper	-	10,745,695	-
Corporate bonds	-	3,143,293	-
	<u>\$ 11,872,238</u>	<u>\$ 32,081,699</u>	<u>\$ -</u>
Interest rate swap contract	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,267,989)</u>

The following is a reconciliation of the beginning and ending balances for the Corporation's interest rate swap contract measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance at January 1	\$ -
Unrealized loss	<u>(1,267,989)</u>
Balance at December 31	<u>\$ (1,267,989)</u>

9. COMMITMENTS

The Corporation has entered into an agreement with Navitech Services Corporation (Navitech) to provide and install certain security and safety systems as well as provide certain managing services to the County. This agreement is effective from January 1, 2010 until December 31, 2019 with two optional five year extensions. Navitech will provide as necessary the appropriate business management services needed to coordinate the day to day business activities of the Corporation and the fees for these services are shown in the business management payments column below. In addition, Navitech will monitor the security systems of the County and the Authority and the fees for these services are shown in the monitor and reaction center below. Finally, the Corporation has an option to annually engage Navitech to provide ongoing support in accordance with the contract. The expected payments required for these services are shown in the ongoing support in the table below.

	<u>Business Management</u>	<u>Monitor and Reaction Center</u>	<u>Ongoing Support (Optional)</u>	<u>Total</u>
2011	\$ 368,500	\$ 674,360	\$ 76,500	\$ 1,119,360
2012	377,713	685,860	78,030	1,141,603
2013	387,155	697,590	79,590	1,164,335
2014	396,834	709,555	81,182	1,187,571
2015	406,755	721,758	82,806	1,211,319
2016	416,924	734,206	84,462	1,235,592
2017	427,347	746,903	86,151	1,260,401
2018	438,031	759,854	87,874	1,285,759
2019	448,981	773,064	89,631	1,311,676
2020-2024*				
(Optional extension)	2,418,994	4,072,903	475,776	6,967,673
2025-2029*				
(Optional extension)	<u>2,736,869</u>	<u>4,445,107</u>	<u>525,294</u>	<u>7,707,270</u>
	<u>\$ 8,824,103</u>	<u>\$ 15,021,160</u>	<u>\$ 1,747,296</u>	<u>\$ 25,592,559</u>

The Corporation has expensed approximately \$514,000 in 2010 as part of this agreement and is included in management fees in the accompanying statement of activities and change in net assets.

* - These represent the optional extension years under the contract and are presented for informational purposes only. The Corporation has no obligation to pay them at this time.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 21, 2011, which is the date the financial statements were issued.

**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 21, 2011

To the Board of Directors of
Monroe Security & Safety Systems Local Development Corporation:

We have audited the financial statements of Monroe Security & Safety Systems Local Development Corporation (the Corporation), (a New York nonprofit organization), as of and for the year ended December 31, 2010, and have issued our report thereon dated March 21, 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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.

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(Continued)

**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 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*.

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

Bonadio & Co., LLP