

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

**Financial Statements as of  
December 31, 2011 and 2010  
Together with  
Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

March 12, 2012

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

We have audited the accompanying balance sheets of Monroe Security & Safety Systems Local Development Corporation (the Corporation) (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities and change in net assets, and cash flows for the years 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 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 Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its 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 12, 2012 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 SHEETS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,093,769	\$ 93,528
Prepaid expenses and other current assets	52,153	19,652
Current portion of investment in direct-financing lease	<u>782,953</u>	<u>-</u>
Total current assets	<u>1,928,875</u>	<u>113,180</u>
<b>NONCURRENT ASSETS:</b>		
Investment in direct financing lease, net of current portion	34,952,814	-
Project development costs	-	15,868,954
Debt issuance costs, net	1,415,970	1,492,509
Limited use assets	<u>24,213,128</u>	<u>43,953,937</u>
Total noncurrent assets	<u>60,581,912</u>	<u>61,315,400</u>
Total assets	<u>\$ 62,510,787</u>	<u>\$ 61,428,580</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of bonds payable	\$ 1,300,000	\$ -
Accounts payable	432,732	1,990,907
Accrued interest	<u>112,100</u>	<u>112,119</u>
Total current liabilities	1,844,832	2,103,026
INTEREST RATE SWAP LIABILITY	2,697,962	1,267,989
BONDS PAYABLE, net of current portion	<u>58,035,000</u>	<u>59,335,000</u>
Total liabilities	62,577,794	62,706,015
<b>NET ASSETS</b>		
UNRESTRICTED	<u>(67,007)</u>	<u>(1,277,435)</u>
Total liabilities and net assets	<u>\$ 62,510,787</u>	<u>\$ 61,428,580</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>REVENUES:</b>		
Maintenance and support services	\$ 6,534,930	\$ 2,714,571
Interest on investment in direct financing lease	746,878	-
Interest on project development costs	-	331,661
Investment gain, net	<u>6,812</u>	<u>41,941</u>
Total revenues	<u>7,288,620</u>	<u>3,088,173</u>
<b>EXPENSES:</b>		
Project costs -		
Interest and bank fees	2,444,036	1,857,960
Amortization of debt issuance costs	76,539	38,269
Management services	1,890,623	1,086,631
Other	<u>-</u>	<u>3,500</u>
Total project costs	<u>4,411,198</u>	<u>2,986,360</u>
Administration -		
Professional fees	237,021	111,124
Other	<u>-</u>	<u>135</u>
Total administration	<u>237,021</u>	<u>111,259</u>
Total expenses	<u>4,648,219</u>	<u>3,097,619</u>
CHANGE IN NET ASSETS FROM OPERATIONS	2,640,401	(9,446)
<b>OTHER:</b>		
Loss on interest rate swap agreement	<u>(1,429,973)</u>	<u>(1,267,989)</u>
CHANGE IN NET ASSETS	1,210,428	(1,277,435)
NET ASSETS - beginning of year	<u>(1,277,435)</u>	<u>-</u>
NET ASSETS - end of year	<u>\$ (67,007)</u>	<u>\$ (1,277,435)</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,210,428	\$ (1,277,435)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Amortization of debt issuance costs	76,539	38,269
Depreciation on investments	194,777	28,994
Loss on interest rate swap agreement	1,429,973	1,267,989
Changes in:		
Prepaid expenses and other current assets	(32,501)	(19,652)
Accrued interest	(19)	112,119
Accounts payable	<u>(1,558,175)</u>	<u>1,990,907</u>
Net cash flow from operating activities	<u>1,321,022</u>	<u>2,141,191</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Investment in direct financing lease	(35,735,767)	-
Project development costs	15,868,954	(15,868,954)
Purchases of limited use assets	(139,645,914)	(247,180,721)
Proceeds from sale of limited use assets	<u>159,191,946</u>	<u>203,197,790</u>
Net cash flow from investing activities	<u>(320,781)</u>	<u>(59,851,885)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from bond issuance	-	59,335,000
Debt issuance costs	<u>-</u>	<u>(1,530,778)</u>
Net cash flow from financing activities	<u>-</u>	<u>57,804,222</u>
<b>CHANGE IN CASH</b>	<b>1,000,241</b>	<b>93,528</b>
CASH - beginning of year	<u>93,528</u>	<u>-</u>
CASH - end of year	<u>\$ 1,093,769</u>	<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, 2011 AND 2010

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### 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). 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. 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 (the Agreement) between the County and the Corporation engages the Corporation to design and implement an approximately \$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 (the Project) for the County and certain component units, 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, 2011 and 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 was recorded as project development costs on the accompanying balance sheet. During 2011, the Project was substantially placed in service, resulting in the conversion of these costs to the investment in direct-financing lease.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Investment in Direct-Financing Lease**

The cost of the Project purchased by the Corporation and leased to the County is recorded as a direct-financing lease. Unearned income is 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, 2011 and 2010, no principal repayment was due on the bonds, and as such only interest was earned on the project development costs totaling approximately \$747,000 and \$332,000, respectively. Investment in direct-financing lease is stated at unpaid principal balances, less an allowance for losses, if applicable. Management periodically evaluates the lease for collectability based on inherent collection risks and adverse situations that may affect the borrower's ability to repay. If no contractual payments have been received for a period of time the lease would be considered delinquent. After all collection efforts are exhausted, any amounts deemed uncollectible based upon an assessment of the debtor's financial condition are written off. As of December 31, 2011, management determined that an allowance is not necessary.

### **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.

### **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. Limited use assets are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain limited use assets, it is at least reasonably possible that changes in the values of limited use assets will occur in the near term and that such change could materially affect the amounts reported 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair Value Measurement - Definition and Hierarchy (Continued)

- 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.

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, 2011 and 2010, the Corporation does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue Recognition

- Interest on project development costs and interest on investment in direct-financing lease - The interest imputed over the term of the projected direct-financing lease is recorded in these financial categories.
- 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. INVESTMENT IN DIRECT-FINANCING LEASE

The Corporation has leased its 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 \$9,800,000 per year by the County, which commenced May 15, 2010 and terminate March 15, 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. The portion of the annual lease payments relating to the operating costs and future equipment upgrades have not been included in the investment in direct-financing lease on the accompanying balance sheet. The following table summarizes the components of the direct-financing lease at December 31:

	<u>2011</u>
Future lease payments - gross	\$ 42,250,915
Less: Unearned income (2.09% interest)	<u>(6,515,148)</u>
	35,735,767
Less: Current portion	<u>(782,953)</u>
	<u>\$ 34,952,814</u>

Future scheduled payments under this agreement are as follows for the years ending December 31:

2012	\$ 782,953
2013	1,204,543
2014	1,725,507
2015	1,858,007
2016	2,132,040
Thereafter	<u>28,032,717</u>
	<u>\$ 35,735,767</u>

**3. INVESTMENT IN DIRECT-FINANCING LEASE (Continued)**

**Revenue Concentration**

In both 2011 and 2010, the County accounted for 99% of total revenue for the Corporation

**4. DEBT ISSUANCE COSTS**

The debt issuance costs capitalized as of December 31, 2011 and 2010 was \$1,530,778, and amortization expense was \$76,539 and \$38,269 for 2011 and 2010, respectively. Accumulated amortization at December 31, 2011 and 2010 was \$114,808 and \$38,269, respectively.

**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:

	<u>2011</u>	<u>2010</u>
Mortgage-backed securities	\$ 14,644,171	\$ 18,192,711
U.S. government money market funds	3,197,804	11,872,238
Commercial paper	6,371,153	10,745,695
Corporate bonds	<u>-</u>	<u>3,143,293</u>
	<u>\$ 24,213,128</u>	<u>\$ 43,953,937</u>

At December 31, 2011 and 2010, \$199,157 and \$669,436, respectively, 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:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 260,082	\$ 111,795
Investment management fees	(58,493)	(40,860)
Depreciation on investments	<u>(194,777)</u>	<u>(28,994)</u>
	<u>\$ 6,812</u>	<u>\$ 41,941</u>

**6. BONDS PAYABLE**

The Corporation issued Series 2010 Variable Rate Demand Revenue Bonds (the Bonds) in order to fund the public safety and related security 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 (0.10% and 0.34% at December 31, 2011 and 2010, respectively) as determined by the Remarking 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 \$1,240,102 and \$682,954 in 2011 and 2010, respectively. Interest expense was \$1,240,083 and \$795,073 in 2011 and 2010, respectively.

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 \$568,966 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
Thereafter	<u>46,545,000</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 un-marketed 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.

**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, 2011 and 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 2011 and 2010.

The fair value of the swap contract at December 31, 2011 and 2010 was a liability of \$2,697,962 and \$1,267,989, respectively. 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 is as follows:

		<u>Liability Derivatives</u>	
		<u>Fair Value</u>	
<u>Derivative Instruments Designated as Hedging Instruments</u>	<u>Balance Sheet Location</u>	<u>2011</u>	<u>2010</u>
Interest rate swap	Long-term liability	\$ (2,697,962)	\$ (1,267,989)

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

<u>Derivatives in Fair Value Hedging Relationships</u>	<u>Location of Gain (Loss) Recognized in Change in Net Assets</u>	<u>Amount of Loss Recognized in Change in Net Assets</u>	
		<u>2011</u>	<u>2010</u>
Loss on interest rate swap agreement	Other	\$ (1,429,973)	\$ (1,267,989)

As of December 31, 2011 the total notional amount of the Organization's pay-variable interest rate swaps was \$59,335,000.

**8. FAIR VALUE MEASUREMENTS**

The following are measured at fair value on a recurring basis at December 31, 2011:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. government money market funds	\$ 3,197,804	\$ -	\$ -
Mortgage-backed securities	-	14,644,171	-
Commercial paper	-	6,371,153	-
	<u>\$ 3,197,804</u>	<u>\$ 21,015,324</u>	<u>\$ -</u>
Interest rate swap contract	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,697,962)</u>

**8. FAIR VALUE MEASUREMENTS (Continued)**

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):

	<u>2011</u>	<u>2010</u>
Balance at January 1	\$ (1,267,989)	\$ -
Unrealized loss	<u>(1,429,973)</u>	<u>(1,267,989)</u>
Balance at December 31	<u>\$ (2,697,962)</u>	<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 management 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 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 following table.

9. **COMMITMENTS (Continued)**

	<u>Business Management</u>	<u>Monitor and Reaction Center</u>	<u>Ongoing Support (Optional)</u>	<u>Total</u>
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>\$ 8,455,603</u>	<u>\$ 14,346,800</u>	<u>\$ 1,670,796</u>	<u>\$ 24,473,199</u>

The Corporation has expensed approximately \$1,120,000 and \$514,000 in 2011 and 2010, respectively, 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 12, 2012, 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 12, 2012

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, 2011, and have issued our report thereon dated March 12, 2012. 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**

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 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*