

Gray

Certified Public Accounting, P.C.

To the Board of Directors of the Genesee County Industrial Development Agency
D/B/A Genesee County Economic Development Center

This letter includes observations from our recently completed audit of the year 2007, which was designed and intended to help you:

- safeguard your assets,
- report your financial activity and account balances accurately and properly, and
- operate more efficiently.

Our responsibilities to you

We have a responsibility to advise you about what CPAs refer to as “**control deficiencies**” where the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to detect misstatements on a timely basis. A “**significant deficiency**” is a control deficiency, or combination of control deficiencies, that adversely affects your ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal controls.

We also have a responsibility to advise you about what we refer to as “**material weaknesses**”, which are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal controls.

We did not become aware of any significant deficiencies or material weaknesses. However, we did note some control deficiencies which are explained on pages 2 and 3.

Your responsibilities

It is your responsibility to be sure that proper standards of business practice have been set, that policies and procedures exist to ensure that your directives are carried out, that you have an appropriate system for recording and reporting financial transactions, that you have appropriate controls, and that transactions are properly documented.

The role of internal controls

Internal controls include proper standards of business practice and separation of the duties of custody of assets from recordkeeping for those assets. They are designed to improve accuracy, reliability and consistency, to reduce errors, and to help assure that assets are used according to your mission.

General observations

- Most recordkeeping appears to be done in a timely, complete, and conscientious manner.
- Separation of duties is difficult given your limited staff size.
- The attitude of management regarding the importance of proper systems and controls seems appropriate.

Review of Control Deficiencies from 2006:

- All salaries and bonuses should be approved by the Board *and noted in the minutes before payment* for evidence that payments were approved by the Board. Bonuses for 2006 were paid to the staff in January 2007. There was no record of the Board approving this large expenditure. We were advised that the Board had approved the payment of bonuses in executive session but had never made a motion to be entered into the minutes to approve them. The Board formally approved the 2006 bonuses at its first February 2007 meeting. *We are pleased to note that 2007 bonuses were formally approved by the Board and documented in the minutes.*
- We examined a loan given by the Genesee Gateway Local Development Corporation (“GGLDC”) which specified payments were to begin December 1, 2006 and noted that a payment was not received. Further discussion revealed that principle payments had not begun because the loan was not fully discharged to the recipient. To protect the GCEDC and the GGLDC, all agreements should be amended when terms change. These amendments must be written and signed by all parties. Given the volume of grants, loans, etc., that you make, it would be worthwhile to have someone on staff examine them regularly for current accuracy. *We are pleased to note that all agreements examined during our audit of 2007 were current and amendments were created when necessary.*
- The GGLDC is a 501(c)(3) organization, rather than a governmental body, and as such cannot obtain collateral on its bank accounts. The GGLDC only has protection for the first \$100,000 held in total at each individual bank as provided by the Federal Deposit Insurance Corporation (“FDIC”). As of December 31, 2006, the GGLDC had \$184,618 of uncollateralized cash at The Bank of Castile. Transferring some of your accounts to other financial institutions will ensure that all funds are covered by federal deposit insurance. *Money was transferred to Five Star Bank in 2007, but at December 31, 2007 the GGLDC still had \$424,158 of uncollateralized funds. We understand the Board is comfortable that this situation exists and that funds must be available for use. However, it is our duty to inform you of this finding.*
- We recommend that the Board review and assess the GCEDC’s and GGLDC’s susceptibility to fraudulent activity *at least once a year*. Specific accounts and processes that may be more vulnerable than others should be identified and controls should be implemented to help prevent, deter, and detect fraud. Any allegations of fraud or suspicions of fraud affecting the entities should be discussed. You already communicate the importance of ethical behavior and appropriate business practices to employees throughout the year.

Procedures should be reviewed to determine that internal controls are in place and operating effectively. No one person should have complete control of any account. Back-up procedures should be written for when someone is absent to ensure that proper controls remain in place at all times. Reviews and updates of the entities' internal control procedures will help to prevent, deter, and detect possible fraudulent activity.

You cannot rely on your annual audit to prevent, deter, and detect fraud because auditors do not see everything. Though auditors are always mindful of the possibility of fraud and abuse, the objective of an audit is not to detect fraud and/or abuse; your own internal controls satisfy that purpose. *We are pleased to note that a risk assessment will be performed by the Audit Committee during 2008.*

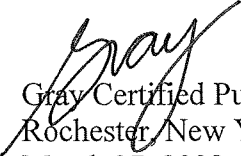
Control Deficiencies from 2007:

- All checks written by the GCEDC are required to have two signatures. During our audit, we found a few canceled checks that cleared the bank with only one signature. These checks were each for small amounts and were examined to ensure that the vendors on the cancelled checks matched the vendors per the general ledger postings. All checks should be reviewed prior to being mailed to make sure that they include the proper signatures. It is possible that the bank could return checks lacking proper signatures.
- A new Senior Vice President was hired during 2007. He was paid in accordance with the salary on his offer letter for the first month of his employment. After that, his salary was increased, but there is no documentation in the employee's personnel file. The 2007 adjusted salary is properly reflected on the worksheet used to determine 2008 salary increases, which is approved by the CEO. We recommend giving employees a letter each time their salaries are changed. A copy of the letter should be placed in the employee's personnel file. This practice will protect the GCEDC in case there is ever a dispute over an employee's salary or benefits and provides documentation that salaries have been properly approved.

SAS 99

Statement on Auditing Standards 99 is intended to improve audit quality and meet public expectations that auditors are focused on fraud. During our audit, we discussed the possibility of material misstatements on your financial statements due to fraud with randomly-selected members of your staff. We did not find any areas that were obviously susceptible to material fraudulent activity.

This report is intended solely for the information and use of your board of directors and officers. Please contact us if you have any questions about this letter or if we can help in any way.


Gray Certified Public Accounting, P.C.
Rochester, New York
March 27, 2008