COUNTY OF OTSEGO
INDUSTRIAL DEVELOPMENT AGENCY

REPORT TO THE BOARD

Year ended December 31, 2015

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March 22, 2016

Board of Directors
County of Otsego Industrial Development Agency
Oneonta, New York

Dear Members of the Board:

We are pleased to present the results of our audit of the financial statements of the County of Otsego Industrial Development Agency ("COIDA") for the year ended December 31, 2015.

Our audit plan for the 2015 audit included a commitment to understand and deliver on management's expectations. Our approach to the audit was designed to combine a historical perspective with a focus on COIDA's industry and current emerging governmental issues.

This report to the Board of Directors summarizes our audit process, the scope of our engagement, the reports issued and various observations related to COIDA's financial position and results of operations. The document also reviews the Board of Directors communications required by our professional standards, as well as current accounting issues that will affect COIDA.

The completion of this year's audit was accomplished through the effective support and the assistance of COIDA's personnel. As always, we strive to continually improve the quality of our audit services.

We appreciate the opportunity to serve you. If you have any questions or comments, please call us at (607) 432-8700.

Sincerely,

Mostert, Manzanero & Scott, LLP

Mostert, Manzanero & Scott, LLP

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SUMMARY OF WHAT WE AGREED TO DO

Our Approach

As communicated to the board of directors and management in our planning letter dated November 2, 2015, our audit plan represented an approach responsive to the assessment of risk of COIDA. Specifically, we designed our audit to:

- Issue an opinion on the financial statements of COIDA for the year ended December 31, 2015.
- Issue a management letter to the Board of Directors and management.
- Issue an Independent Auditors' 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.*

Areas of Audit Emphasis

The principal areas of audit emphasis were as follows:

- Revenue and related receivables;
- Accounts payable and accrued expenses;
- Audit risk assessment;
- Related party activity; and
- Payroll and related expenses.

There were no changes to our planned approach or areas of audit emphasis.

REQUIRED COMMUNICATIONS

Board of Directors
County of Otsego Industrial Development Agency
Oneonta, New York

We have audited the financial statements of the County of Otsego Industrial Development Agency ("COIDA") for the year ended December 31, 2015, and have issued our report thereon dated March 22, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 November 2, 2015. 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 COIDA are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by COIDA 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 prepared by management 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.

Management's estimate of the allowance for bad debt is based on management's analysis of the collectability of outstanding notes receivable. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material either individually or in the aggregate to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 22, 2016.

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 COIDA's financial statements or a determination of the type of auditor's 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 COIDA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplemental information on Page 23 – 25 which accompany the financial statements but are not RSI, but is supplemental information required by the Office of the New York State Comptroller. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 22, 2016

MANAGEMENT LETTER

County of Otsego Industrial Development Agency
Oneonta, New York

In planning and performing our audit of the financial statements of the County of Otsego Industrial Development Agency ("COIDA") as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered COIDA's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of COIDA's internal control. Accordingly, we do not express an opinion on the effectiveness of COIDA's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 COIDA's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in internal control to be significant deficiencies:

Unrecorded Receivables and Payables for Grants

During the audit we noted that there were accounts receivable and accounts payable transactions that had not been recorded as of December 31, 2015. The accounts receivable not recorded consisted of grants receivable of $263,588 for Community Development Block Grant (CDBG) and Empire State Development (ESD) grants. Accounts payable for a CDBG grant of $85,498 that had also not been recorded.

In order for the financial reports generated by the accounting system to be accurate, we recommend that the accounting procedures for various grants be reviewed and a process put in place to ensure the proper recording of both grant revenue and grant expense.

Netting of Grant Revenue with Grant Expense

During the audit, we noted that the client had netted grant expenses against the grant revenue. To accurately reflect and report grant revenue and expenses on the financial statements grant revenue and expenses should not be netted together. The financial statements should report and track grant revenue separate from grant expenses.

Salary Deferral and Employer Contribution to SIMPLE IRA

During the current year audit we noted that employee contributions to SIMPLE IRA account were not processed through payroll and the employer match contribution to the SIMPLE IRA needs to be at least 1%. Wages and payroll taxes were under reported for both 2014 and 2015 as the employee contribution was not included in the required payroll reporting.

A SIMPLE IRA plan must satisfy certain tax rules to obtain favorable tax benefits for employer and participants; not following these rules can result in less favorable tax benefits. Failure to properly report all compensation and withhold required payroll withholdings can subject both COIDA and the employees to penalties.

We recommend that COIDA review the rules and regulations regarding its SIMPLE IRA plan and the current process for processing all payroll transactions. Procedures should be implemented to ensure that all transactions related to payroll reporting and the SIMPLE IRA plan are properly accounted for and are in compliance with federal and NYS reporting requirements. The prior years' payroll reports need to be amended to correct under reporting of compensation and payroll taxes.

<u>Best Practices</u>

We prepared several adjusting journal entries to adjust balance sheet accounts and to reclass amounts to proper general ledger accounts. We recommend that a review of the general ledger accounts be done throughout the year to ensure proper postings with the help of an outside accounting firm and consultant. This would minimize changes to your yearend financial statements.

During the current year audit we noted that cash accounts with one financial institution was not collateralized. The uncollateralized balance was $56,985. We recommend that COIDA review collateral policy with the financial institution to ensure all cash is fully covered.

During the current year audit we noted that bank reconciliations were not being done for one of the cash accounts. Not reconciling the account on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. We recommend that all bank accounts be reconciled each month.

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

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 22, 2016