

157 Stockade Drive
Kingston, NY 12401

Phone 845-331-5030
Fax 845-331-0242
Web www.uhy-us.com

April __, 2023

To the Audit Committee of
Ulster County Economic Development Alliance, Inc.
244 Fair Street
Kingston, New York 12402

We have audited the financial statements of Ulster County Economic Development Alliance, Inc. as of and for the year ended December 31, 2022, and have issued our report thereon dated April __, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 9, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Ulster County Economic Development Alliance, Inc. solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding a material weakness and significant deficiency over financial reporting noted during our audit in our *Government Auditing Standards* report dated April __, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

Non-attest services we performed included: 1) preparation of the Alliance's basic financial statements and single audit financial statements, and 2) preparation of the Alliance's Federal Form 990 and NYS CHAR 500. Tim Weidemann, was the management representative responsible for overseeing our non-attest services.

Significant Risks Identified

We have identified the following significant risks:

- Accounting for Tech City property transfers and related party transactions
- Management override of controls, and
- Improper revenue recognition

We did not identify any revenue recognition matters or instances of management override during our audit. However, we did identify a material weakness related to significant audit adjustments proposed during the audit process and a significant deficiency related to lack of review of journal entries.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Ulster County Economic Development Alliance, Inc. is included in Note 2 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. See discussion of the Tech City property transfer below.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is the allowance for loan losses.

Management's estimate of the allowance for loan losses is based on an analysis of loan balances at year end taking into consideration the current outstanding balance, history of payments and strength of the borrower's financial operations. A specific reserve was calculated using this methodology. We evaluated the key factors and assumptions used to develop the allowance for loan losses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Ulster County Economic Development Alliance, Inc.'s financial statements relate to: loan loss, related parties, restricted net position, and commitments and contingencies.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. Management has corrected all identified misstatements. The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

- Increase opening net position and decrease current year revenue earned from the Ulster 2040 reimbursable contract by \$7,500.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Increase expense and net position by \$1,000 to record adjustment posted during prior year audit and get net position to roll forward.
- Increase tax expense and accrued tax liability by \$19,000 to record estimated taxes to be paid on the Alliance's 990T filing related to rental income in 2022.
- Increase grant expense and grants payable by \$11,382 for grants payable to businesses under the CARES grant as of December 31, 2022.
- Increase interest receivable – Tech City East property and due to Ulster County liability by \$112,156 for accrued interest in 2022. Increase revenue and expense by \$112,156 for the interest income earned on the Tech City East property and corresponding amount granted to Ulster County.
- Decrease grants receivable and due to Ulster County by \$50,000 for CARES act administrative grant fee.
- Decrease admin fee revenue and administrative fee expense by \$7,213 for interfund administrative fee between CDBG and operating fund.
- Increase accounts receivable, revenue, accounts payable and grant expense by \$15,000 for grant balance receivable from funder and payable to grantee as of December 31, 2022.
- Increase expenses and reimbursement revenue by \$42,775 for expenses to be reimbursed by the purchaser of the Tech City properties.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Ulster County Economic Development Alliance, Inc.'s financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated April __, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

Loan Funds and Restrictions

The Alliance has not updated its loan policies and procedures for several years to accommodate changes to the loan program(s). We recommend the Alliance update its loan policies and procedures accordingly.

Allowance for Loan Losses

The Alliance has not approved a formal policy for the allowance for loan losses. We recommend the Alliance implement a policy and procedure to recognize an allowance for loan losses and to ensure consistent guidance is followed when evaluating each loan.

Tech City Properties Transfers

The transfers of the Tech City properties (West and East) were accounted for at the book value and carrying value of the underlying asset recorded in Ulster County's books (\$-0- and \$5M, respectively) during the year ended December 31, 2021. A corresponding liability of \$5,000,000 was recorded related to the East property to represent the expected proceeds from a pending sale of the East property that would be immediately payable to Ulster County. No liability was required to be recorded related to the West properties as of December 31, 2021.

During the year ended December 31, 2022, the Alliance obtained an appraisal of the West property and a purchase sale agreement was executed with a purchase price of \$6,800,000. The Alliance did not adjust its West asset available for sale to \$6,800,000 during the year ended December 31, 2022 because any proceeds are to be remitted back to Ulster County and the asset should be recorded at book value.. In addition, during the year ended December 31, 2022, Ulster County transferred an additional parcel (".600 parcel/Powerhouse") with an appraised value of \$600,000. The Alliance did not adjust the asset to fair value and is recording such asset at the carrying value of the County, which was zero. Once these properties are sold any proceeds will be remitted back to the County.

The Alliance is not subject to any financial risk (other than future holding costs). All (100%) of the proceeds from any sale of the Tech City properties are payable back to the County.

In addition, the Alliance will need to continue to evaluate the underlying environmental obligations of all the properties as well as ongoing operating expenses (e.g. insurance, maintenance, etc.) and the use of such properties for economic business activities including the use of such properties in the form of leases or other revenue generating activity. It is our understanding that at this time there is no existing current obligation to the Alliance for underlying environmental issues and does not meet the definition of a liability under GASB 49.

Unrelated Business Taxes

The Alliance generated revenue in 2022 from certain storage rental agreements at the Tech City properties which is subject to unrelated business income taxes. No liability was recorded by management related to these taxes expected to be paid upon filing of the 990T. An adjusting entry was proposed by UHY during the audit process.

Other

In the normal course of our professional association with Ulster County Economic Development Alliance, Inc., we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Ulster County Economic Development Alliance, Inc.'s auditors.

This report is intended solely for the information and use of the audit committee, board of directors, and management of Ulster County Economic Development Alliance, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

DRAFT