
Certified Public Accountants

September 26, 2014

Members of the County Audit Committee
County of Ulster, New York:

We have audited the financial statements of the County of Ulster, New York (the “County”) as of and for the year ended December 31, 2013, and have issued our report thereon dated September 26, 2014 (which report refers to other auditors). 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 July 1, 2014, 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 conformity 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 the County 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 comments regarding other matters noted during our audit in a separate letter to you dated September 26, 2014.

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

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 the County is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended December 31, 2013. 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.

During the year ended December 31, 2013, the County implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of the implementation of GASB Statement No. 65, net position of governmental activities at December 31, 2012 has been restated for the Ulster Tobacco Asset Securitization Corporation ("UTASC") unamortized bond issuance costs of \$850,752, and the County's deferred charges on refunding have been reclassified as deferred outflows of resources.

During the year ended December 31, 2013, the County implemented GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of GASB Statement No. 61 is to clarify the manner in determining whether or not an organization should be included as a component unit, and GASB Statement No. 66, the objective of which is to improve accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statements No. 61 and No. 66 did not have a material impact on the County's financial position or results from operations.

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.

Those most sensitive accounting estimates affecting the financial statements are the allowance for doubtful accounts, compensated absences, other post-employment benefit obligations, judgments and claims and worker's compensation liabilities.

Management's estimates of allowance for doubtful accounts, compensated absences, and judgments and claims are based on past trends while management's estimates of other post-employment benefit obligations and worker's compensation liabilities are based on estimates of specialist third parties, and actuarial valuations. We evaluated the key factors and assumptions used to develop the balances of these liabilities and determined that they are reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

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 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. Management has corrected all identified misstatements.

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. None of the misstatements identified by us as a result of our 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, 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 the County'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 the attached letter dated September 26, 2014.

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

In the normal course of our professional association with the County, 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 the County's auditors.

Existence of a Material Misstatement and Misclassification that Affects the Financial Statements of a Prior Period Which There Was a Predecessor Auditor

We have identified the existence of a material misstatements and misclassifications that affect the prior period financial statements on which the predecessor auditor had previously reported without modification.

As discussed previously, UTASC, a blended component unit of the County, retroactively adopted the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" for the years ended December 31, 2013 and 2012. The beginning fund balance for 2013 has been restated to recognize this change in accounting principle. The effect of this restatement was a decrease of \$850,752 to governmental activities beginning net position.

The County has reviewed the reporting criteria for component unit presentation and made the following change. The Ulster County Development Corporation has been included as a blended component unit. With this new distinction, the 2013 beginning net position was added to the total beginning fund balance of the governmental funds, and to the beginning net position of the governmental activities. The net effect of this adjustment was an increase in beginning governmental funds fund balance of \$1,617,075, and an additional increase to the governmental activities net position of \$1,888 for capital assets.

The County restated the beginning fund balance of the Special Grant Fund due to a receivable being overstated in prior years. The net effect of this adjustment was a decrease to beginning governmental funds fund balance in the amount of \$423,000.

This report is intended solely for the information and use of the Audit Committee, the Ulster County Legislature, and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Deborah S. Malach LLP

ULSTER COUNTY DEPARTMENT OF FINANCE

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Lisa Cutten, CPA
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September 26, 2014
Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227

Dear Thomas P. Malecki:

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Ulster, New York (the "County") as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the County in conformity with accounting principles generally accepted for governments in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 26, 2014.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated July 1, 2014, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of any uncorrected misstatements during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.

- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regards to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the County is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.

- Unasserted claims or assessments that our lawyers have advised are probable of assertion and must be disclosed in accordance with GASB-62.
- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
- The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We agree with the findings of specialists in evaluating the liabilities for workers' compensation insurance liability, judgments and claims liability, and other postemployment benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Compliance with OMB Circular A-133 and Draft Part 43 of NYCRR

With respect to federal and state awards, we represent the following to you:

- We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
- We acknowledge our responsibility for presenting the schedule of expenditures of federal awards ("SEFA") in accordance with the requirements of OMB Circular A-133 Section 310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 Section 310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the

requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have complied with the direct and material compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned an all known noncompliance with the requirements of federal awards.
- We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

- There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), subsequent to the date as of which compliance was audited.
- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipient's auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- We have charged costs to federal awards in accordance with applicable cost principles.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- We are responsible for preparing and implementing a corrective action plan for each audit finding.
- The Schedule of Expenditures of New York Department of Transportation Assistance was prepared in accordance with the requirements of Draft Part 43 of the "New York State Codification of Rules and Regulations."

Other Specific Representations

- The County is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, interfund receivables, and accounts receivables, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
- No department or agency of the County has reported a material instance of noncompliance to us.
- The County's labor agreements provide for sick leave, vacations, and miscellaneous other paid absences. The County's policy is to pay employees for unused vacation, compensatory time, and sick time based on the union agreements when there is separation from service. For governmental activities, the amount is accrued in the government-wide statement of net position as long-term liabilities. Estimated sick leave and compensatory time accumulated by governmental fund type employees has been recorded. Payment of sick leave and compensatory time is dependent upon many factors; therefore, timing of future payments is not readily determinable. The value recorded in the government-wide financial statements at December 31, 2013 for governmental activities is \$16,019,682, of which management estimates \$1,601,968 to be considered due within one year. Management believes that sufficient resources will be made available for the payments of sick leave and compensatory time when such payments become due.
- The County reports nonspendable, restricted, assigned and unassigned fund balances. The County has nonspendable balances of \$6,900,344, restricted balances of \$6,978,332, assigned balances of \$25,299,259 and an unassigned balance of \$31,454,516 within its governmental funds for the year ended December 31, 2013.
- Management has reevaluated the financial statement presentation and inclusion of the Ulster County Development Corporation (the "UCDC") in the reporting entity for the year ended December 31, 2013. The results of the reevaluation are the inclusion of the UCDC as a blended component unit, and a prior period adjustment to beginning fund balance in the governmental funds for an increase of \$1,617,075. Additionally, governmental activities beginning net position has been increased by that same amount, and an additional \$1,888 for capital assets.
- Management has reviewed prior year activity related to Housing and Urban Development loan programs administered through the Special Grants Fund and the UCDC. The result of that review is a prior period adjustment to decrease beginning fund balance and governmental activities net position in the Special Grants Fund for \$423,000.
- Management has evaluated subsequent events through September 26, 2014, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events, except those items included in Note 3.M., that require disclosure under generally accepted accounting principles.

- In addition to the audit services, Drescher & Malecki LLP has assisted the County in compiling the federal financial assistance schedules for the year ended December 31, 2013. In conjunction with the compilation of the financial statements the County has performed the following functions:
 - Made all management decisions and perform all management functions.
 - Designated Burton Gulnick, Jr., Commissioner of Finance, whom we believe has suitable skill, knowledge and/or experience who has overseen this service.
 - Evaluated the adequacy and results of the services performed.
 - Accepted responsibility for the results of the services.
- County management understands that Drescher & Malecki LLP has not performed any management functions or made management decisions on behalf of the County. Any nonattest services were performed in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants.



Michael P. Hein, County Executive



Burton Gulnick, Jr., Commissioner of Finance