

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
(A Component Unit of the Village of Hempstead, New York)
Financial Statements and
Management's Discussion and Analysis
May 31, 2012
(With Independent Auditors' Report Thereon)

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
(A Component Unit of the Village of Hempstead, New York)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Incorporated Village of Hempstead
Community Development Agency:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Incorporated Village of Hempstead Community Development Agency (the Agency), a component unit of the Village of Hempstead, New York, as of and for the year ended May 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Incorporated Village of Hempstead Community Development Agency as of May 31, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2012, on our consideration of the Agency's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Toski & Co., CPAs, P.C.

Williamsville, New York
November 6, 2012

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
(A Component Unit of the Village of Hempstead, New York)

Management's Discussion and Analysis

May 31, 2012

The following is a discussion and analysis of the Incorporated Village of Hempstead Community Development Agency's (the Agency) financial performance for the fiscal year ended May 31, 2012. This section is a summary of the Agency's financial activities based on currently known facts, decisions or conditions. It is also based on both the Agency-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the Agency's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- As of May 31, 2012, the Agency had total assets of \$3,464,446, total liabilities of \$2,522,623 and net assets of \$941,823.
- Total operating revenue for the year ended May 31, 2012 was \$1,609,994 and total operating expenses were \$1,960,303, resulting in an operating loss of \$350,309.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the financial statements. The financial statements include two kinds of statements that present different views of the Agency:

- The first two statements are Agency-wide financial statements that provide both short-term and long-term information about the Agency's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Agency, reporting the Agency's operations in more detail than the Agency-wide financial statements.
- The governmental fund financial statements attempt to explain how programs were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

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 Management's Discussion and Analysis, Continued

Table A-1 summarizes the major features of the Agency's financial statements, including the portion of the Agency's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Table A-1: Major Features of the Agency-Wide and Fund Financial Statements		
	Agency-Wide Financial Statements	<u>Fund Financial Statements</u> Governmental Fund
Scope	Entire Agency	The activities of the Agency that are not proprietary or fiduciary
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenue, Expenditures and Changes in Fund Equity
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenue and expenses during year, regardless of when cash is received or paid	Revenue for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable

Agency-Wide Financial Statements

The Agency-wide financial statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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Management's Discussion and Analysis, Continued

The two Agency-wide financial statements report the Agency's *net assets* and how they have changed. Net assets, the difference between the Agency's assets and liabilities, are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether the financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, you need to consider additional non-financial factors such as availability of federal funding.

In the Agency-wide financial statements, the Agency's activities are shown as *governmental activities*; most of the Agency's basic services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about an entity's funds, focusing on its most significant or "major" funds - not the entity as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law.
- Funds are established to control and manage money for particular purposes or to show proper use of certain revenue.

The Agency utilizes the following fund type:

Governmental fund: All of the Agency's basic services are included in the governmental fund, which generally focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that may be spent in the near future to finance the Agency's programs.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Changes in Net Assets

The Agency's net assets decreased by \$347,349 for the year ended May 31, 2012.

The Agency's fiscal year 2012 program revenue totaled \$1,609,994, an increase of \$437,982 or 37.4% when compared to total program revenue for 2011.

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Management's Discussion and Analysis, Continued

The cost of all programs and services totaled \$1,960,303 for fiscal year 2012, an increase of \$555,803 or 39.1% when compared to total expenditures for 2011. The increase occurred primarily in the areas of commercial rehabilitation, administration and acquisition.

Governmental Activities

Revenue for the Agency's governmental activities was consistent with the Agency-wide operating results. Governmental expenditures exceed Agency-wide expenditures due principally to capital related items.

The primary program activities of the Agency relate to community development.

Substantially all of the Agency's revenue is generated through programs established by the U.S. Department of Housing and Urban Development, as administered by the Nassau County Office of Community Development (formerly the Nassau County Office of Housing and Intergovernmental Affairs (Nassau County)). These programs include the Community Development Block Grant Program and the HOME grant program.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the Agency-wide financial statements. The Agency's governmental fund is presented on the current financial resources measurement focus and the modified accrual basis of accounting. Based on this presentation, the governmental fund does not include long-term debt liabilities for the fund's projects and capital assets purchased by the fund. The governmental fund will include the proceeds received from the issuance of debt, the current payments for capital assets and the current payments for debt.

Total fund balance decreased from \$975,776 in 2011 to \$644,059 in 2012. Non-grant eligible costs accounted for most of the decrease occurring in 2012.

Total liabilities increased from \$769,511 in 2011 to \$1,731,700 in 2012. Increases in deferred revenue and amounts due to other governments account for most of this increase.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the Agency had invested \$449,838, net of depreciation, in capital assets, including land and equipment. Remaining debt on the capital lease relating to the milling machine amounted to \$131,035 of which \$34,933 is due in the next fiscal year. Remaining debt on the note payable related to property held for sale amounted to \$222,258, of which \$9,921 is due in the next fiscal year.

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Management's Discussion and Analysis, Continued

FACTORS BEARING ON THE FUTURE OF AGENCY

The Agency was a conduit for a \$10 million loan under the HUD Section 108 loan guarantee program. This loan was advanced to a nonprofit organization to acquire and rehabilitate the building located at 100 Main Street in the Village of Hempstead. A loan repayment guarantee agreement of \$588,000 per annum was executed by the previous administration. The borrower has defaulted on this loan and a foreclosure action is pending. The Agency is negotiating its obligations under this agreement which would be contingent upon the final sale of the underlying asset.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Incorporated Village of Hempstead
Community Development Agency
50 Clinton Street, Suite 504
Hempstead, New York 11550
(516) 485-5737

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
(A Component Unit of the Village of Hempstead, New York)
Governmental Fund Balance Sheet/Statement of Net Assets
May 31, 2012

<u>Assets</u>	<u>General fund</u>	<u>Adjustments</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$ 190,289	-	190,289
Receivables:			
Community Development Block Grants	348,855	-	348,855
Residential rehabilitation loans	49,186	-	49,186
Commercial rehabilitation loans	618,315	-	618,315
Accounts receivable	<u>1,109,641</u>	-	<u>1,109,641</u>
Total receivables	<u>2,125,997</u>	-	<u>2,125,997</u>
Other current assets:			
Property held for resale	50,000	638,849	688,849
Other current assets	<u>9,473</u>	-	<u>9,473</u>
Total other current assets	<u>59,473</u>	<u>638,849</u>	<u>698,322</u>
Total current assets	2,375,759	638,849	3,014,608
Capital assets, net of accumulated depreciation of \$97,070 in 2012 and \$68,742 in 2011	-	449,838	449,838
Total assets	<u>\$ 2,375,759</u>	<u>1,088,687</u>	<u>3,464,446</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	343,678	48,781	392,459
Due to other governments	508,748	-	508,748
Deferred revenue	879,274	388,849	1,268,123
Current portion of capital lease payable	-	34,933	34,933
Current portion of note payable	<u>-</u>	<u>9,921</u>	<u>9,921</u>
Total current liabilities	<u>1,731,700</u>	<u>482,484</u>	<u>2,214,184</u>
Long-term liabilities:			
Capital lease payable	-	96,102	96,102
Note Payable	<u>-</u>	<u>212,337</u>	<u>212,337</u>
Total long-term liabilities	<u>-</u>	<u>308,439</u>	<u>308,439</u>
Fund balance/net assets:			
Investment in capital assets, net of related debt	-	318,803	318,803
Unrestricted fund balance/net assets	<u>644,059</u>	<u>(21,039)</u>	<u>623,020</u>
Total fund balance/net assets	<u>644,059</u>	<u>297,764</u>	<u>941,823</u>
Commitments			
Total liabilities and fund balance/net assets	<u>\$ 2,375,759</u>	<u>1,088,687</u>	<u>3,464,446</u>

See accompanying notes to financial statements.

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
(A Component Unit of the Village of Hempstead, New York)
Statement of Governmental Fund Revenue, Expenditures and Changes
in Fund Balance/Statement of Activities
Year ended May 31, 2012

	<u>General fund</u>	<u>Adjustments</u>	<u>Total</u>
Program revenue:			
Operating grants:			
Community Development Block Grants	\$ 1,033,728	-	1,033,728
Federal Aid	181,464	-	181,464
State and local	353,048	-	353,048
Charges for services	<u>41,754</u>	<u>-</u>	<u>41,754</u>
Total program revenue	<u>1,609,994</u>	<u>-</u>	<u>1,609,994</u>
Expenditures/expenses:			
Community Development:			
Public facilities improvements	247,632	(50,455)	197,177
Code enforcement	155,867	-	155,867
Commercial rehabilitation	574,531	-	574,531
Public service	124,900	-	124,900
Administration	600,619	48,781	649,400
Economic development	59,583	-	59,583
Safe Routes to School	153,881	-	153,881
Acquisition	27,658	(23,000)	4,658
Depreciation	-	28,326	28,326
Interest	<u>-</u>	<u>11,980</u>	<u>11,980</u>
Total expenditures/expenses	<u>1,944,671</u>	<u>15,632</u>	<u>1,960,303</u>
Deficiency of program revenue over expenditures/expense	(334,677)	(15,632)	(350,309)
General revenue - interest earnings	<u>2,960</u>	<u>-</u>	<u>2,960</u>
Deficiency of total revenue over expenditures/expense	(331,717)	(15,632)	(347,349)
Fund balance/net assets:			
Beginning of year	<u>975,776</u>	<u>313,396</u>	<u>1,289,172</u>
End of year	<u>\$ 644,059</u>	<u>297,764</u>	<u>941,823</u>

See accompanying notes to financial statements.

INCORPORATED VILLAGE OF HEMPSTEAD
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 Reconciliation of Governmental Fund Balance Sheet
 to Statement of Net Assets
 May 31, 2012

Total fund balance - governmental fund	\$ 644,059
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the general fund. Amount is net of accumulated depreciation.</p>	449,838
<p>Assets held for resale are not current financial resources and therefore are not represented in the general fund.</p>	250,000
<p>Long-term liabilities including compensated absences, capital leases and notes payable are not due and payable in the current period and, therefore are not reported in the general fund.</p>	(402,074)
Total net assets - governmental activities	\$ <u>941,823</u>

See accompanying notes to financial statements.

INCORPORATED VILLAGE OF HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
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Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(b) Basis of Presentation, Continued

Fund financial statements - the Agency uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund statements provide information about the Agency's funds. The Agency's only and major governmental fund is displayed in a separate column.

The Agency records its transactions in the fund types described below:

Governmental funds - are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based on the determination of financial position and changes in financial position (the sources, uses and balances of current financial resources). The Agency's governmental fund type is the general fund. This is the Agency's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

(c) Basis of Accounting/Measuring Focus

The Agency-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within a reasonable period of time after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities, and Fund Equity

Cash - The Agency pools cash resources of all funds in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and is disclosed as part of the Agency's cash and equivalents.

Loans Receivable - All loans receivable are reported at their gross value and are secured by liens filed against various residential and commercial properties.

Investments - The Agency's investment policies are governed by federal and State statutes. The Agency also has a written policy which restricts investments to cash and equivalents, including money market funds, certificates of deposits and United States Treasury notes, bills, and bonds. Investments are stated at cost or amortized cost, whichever most approximates fair value.

The Agency's management has the authority to implement the Agency's investment policies. The Agency requires the Trust Department of each bank at which cash has been deposited to collateralize the federally uninsured balances by pledging short-term United States Treasury or State municipal securities. Measures are taken by the Agency to ensure that the market value of such collateral is equal to or greater than the value of the related investment.

Capital Assets - The purchase method is used to account for land acquired for development. Under the purchase method, the cost of land is recorded as an expenditure when the property is acquired. Land acquired for development is not depreciated. Property, plant, and equipment are stated at cost and include all capital assets in excess of \$500. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets.

Depreciation is recorded on the straight line method over the respective lives of the various assets which are from 5 to 7 years.

Other Assets - Other assets held are recorded and accounted for at cost.

Fund Balance - The unreserved fund balance for governmental funds represents the amount available for budgeting future operations.

Net Assets - In the Agency-wide statements, there are two classes of net assets:

Invested in capital assets, net of related debt - consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

Unrestricted - reports all other net assets that do not meet the above classification and are deemed to be available for general use by the Agency.

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Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Assets, Liabilities, and Fund Equity, Continued

Total fund balance of the Agency's governmental funds differs from "net assets" of governmental activities reported in the statement of net assets. This difference primarily results from the additional long-term focus of the statement of net assets versus the solely current financial resource focus of the governmental funds balance sheet.

(e) Expenditures

Compensated Absences - vested or accumulated vacation or sick leave of governmental funds that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the respective fund that will pay it. In accordance with the provisions of GASB Statement No. 16 - "Accounting for Compensated Absences" no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Employees of the Agency may carry over unused vacation, personal and sick days as stipulated by various union contracts. The Agency's union employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and personal leave and unused compensatory absences at various rates subject to certain maximum limitations.

(f) Use of Estimates

A number of estimates and assumptions relating to the reporting of revenue, expenditures, assets and liabilities and disclosure of contingent liabilities were used to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(2) Stewardship, Compliance, and Accountability

The Agency prepares budgets for its block grant and administration expenses. The Agency's management accumulates budgetary data and submits a tentative administrative budget to the Agency's Board of Directors during or before January of each year. A public hearing is held for the purpose of discussing the proposed block grant budget, prior to the end of March of each year. The Agency then submits this budget in the form of an application to the Nassau County Office of Housing and Intergovernmental Affairs (Nassau County) for its approval subject to changes. On or before June 18th, Nassau County approves the allotment for the program year which is then officially accepted by the Agency's Board of Directors. The Board then approves the administrative budget based on the allotment. The Agency's Board of Directors is authorized to enter into amendatory agreements with Nassau County and empower the Agency to transfer or increase grant amount within the block grant categories.