

**Town of Hempstead
Local Development Corporation**

**COMMUNICATION WITH THOSE CHARGED
WITH GOVERNANCE**

December 31, 2017



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A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

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March 22, 2018

To the Board of Directors
Town of Hempstead Local Development Corporation

We have audited the financial statements of the Town of Hempstead Local Development Corporation (the Corporation) for the year ended December 31, 2017, and have issued our report thereon dated March 22, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government 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 dated November 29, 2017. 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 the Corporation 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 2017. We noted no transactions entered into by the Corporation 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.

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.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We noted no such misstatements during the audit.

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 auditor's 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, 2018.

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 the Corporation'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 the Corporation'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

During our audit, we became aware of a matter relating to segregation of duties that we believe should be communicated to the management of the Corporation. We would also like to make the Board of Directors aware of upcoming accounting pronouncements that will impact the Corporation. These items are summarized below.

To the Board of Directors
Town of Hempstead Local Development Corporation
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Segregation of Duties

The size of the Corporation's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. The Executive Director and Chief Executive Officer is encouraged to periodically review all work done by staff members.

Non-Profit Standard, ASU 2016-14

On August 18, 2016, the Financial Accounting Standards Board (FASB) released the long-awaited Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of ASU 2016-14 seek to improve the usefulness of information provided to donors, grantors, creditors and other users of not-for-profit financial statements and reduce complexities for users of the financial statements. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 (the Corporation's fiscal year ending December 31, 2018), with early application permitted.

This new standard will require that, among other things, information be disclosed in the financial statement footnotes regarding liquidity and cash availability. Non-profits will be required to disclose information that communicates how liquid resources are available to meet cash needs for general expenditures within one year of the date of the Statement of Financial Position. We recommend management spend time thinking about the message it wants to convey to financial statement users using this disclosure and then ensure key aspects of this message are implemented during the upcoming year.

Revenue Recognition Standard, ASU 2014-09

On May 28, 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in an effort to update the Accounting Standards Codification to provide consistency in the methods that entities use to recognize revenue when compared to the variety of industry specific guidance that exists today. This standard applies to all contracts with customers unless the contract is within the scope of another standard. The term "Contract" under this standard applies to any agreement, whether oral, written or implied by the Corporation's customary business practices.

The core principle behind the new standard is that "an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to receive in exchange for those goods or services." To achieve this core principal, ASU 2014-09 prescribes a five-step process for revenue recognition. These steps are to be applied to each contract or sales transaction and each step of the process involves significant analysis.

To the Board of Directors
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March 22, 2018
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1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the separate performance obligations.
5. Recognize revenue when the entity satisfies each performance obligation.

For non-public entities, the standard is effective for annual reporting periods beginning after December 15, 2018 (the Corporation's fiscal year ending December 31, 2019).

FASB is currently working on a project to improve and clarify guidance on revenue recognition of grants and contracts by non-profit organizations. On August 3, 2017, FASB issued proposed ASU, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The due date for comment letters ended on November 1, 2017.

Lease Standard, ASU 2016-02

On February 25, 2016, FASB released ASU 2016-02, *Leases (ASC 842)*. Under ASU 2016-02, lessees will be required to bring substantially all leases onto their balance sheets by recording a right-of-use asset and lease liability. Expense will be recognized on a straight-line basis for an operating lease. Recognition of expense for a finance lease will be similar to the current treatment of capital leases. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 (the Corporation's fiscal year ending December 31, 2020) and will require a modified retrospective transition by applying the new guidance at the beginning of the earliest comparative period presented in the year of adoption.

We recommend a list of all lease agreements, no matter how small, be gathered and maintained in one place to assist management in assessing any impact this standard will have on the Corporation.

This information is intended solely for the use of the Board of Directors and management of Town of Hempstead Local Development Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 22, 2018

**Town of Hempstead
Local Development Corporation**

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Town of Hempstead Local Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Hempstead Local Development Corporation (the Corporation), which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
Town of Hempstead Local Development Corporation
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 on our consideration of the Corporation's internal control over financial reporting and on 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* in considering the Corporation's internal control over financial reporting and compliance.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 22, 2018

**Town of Hempstead
Local Development Corporation**

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 2,075,576	\$ 1,466,481
Property and equipment, net	<u>-</u>	<u>57</u>
Total assets	<u>\$ 2,075,576</u>	<u>\$ 1,466,538</u>
Liabilities:		
Accrued expenses	<u>\$ 3,328</u>	<u>\$ 2,607</u>
Total liabilities	<u>3,328</u>	<u>2,607</u>
Net assets:		
Unrestricted	<u>2,072,248</u>	<u>1,463,931</u>
Total net assets	<u>2,072,248</u>	<u>1,463,931</u>
Total liabilities and net assets	<u>\$ 2,075,576</u>	<u>\$ 1,466,538</u>

See notes to financial statements

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**Town of Hempstead
Local Development Corporation**

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Fees for services	\$ <u>639,190</u>	\$ <u>12,000</u>
Operating expenses:		
Rent	6,000	5,119
Business development	-	17,500
Contractual and professional fees	16,500	11,745
Advertising	5,000	1,750
Office and related expenses	2,102	1,955
Telephone expense	452	577
Meetings and travel	762	-
Depreciation	<u>57</u>	<u>76</u>
Total operating expenses	<u>30,873</u>	<u>38,722</u>
Change in unrestricted net assets from operations	<u>608,317</u>	<u>(26,722)</u>
Change in net assets	608,317	(26,722)
Net assets, January 1	<u>1,463,931</u>	<u>1,490,653</u>
Net assets, December 31	<u><u>\$ 2,072,248</u></u>	<u><u>\$ 1,463,931</u></u>

See notes to financial statements

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**Town of Hempstead
Local Development Corporation**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>608,317</u>	\$ <u>(26,722)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	57	76
Increase (decrease) in accrued expenses	<u>721</u>	<u>(6,218)</u>
Total adjustments to change in net assets	<u>778</u>	<u>(6,142)</u>
Net cash provided (used) by operating activities	<u>609,095</u>	<u>(32,864)</u>
Net increase (decrease) in cash and cash equivalents	609,095	(32,864)
Cash and cash equivalents, January 1	<u>1,466,481</u>	<u>1,499,345</u>
Cash and cash equivalents, December 31	<u>\$ 2,075,576</u>	<u>\$ 1,466,481</u>

See notes to financial statements

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Town of Hempstead Local Development Corporation

NOTES TO FINANCIAL STATEMENTS

1. **Nature of activities:**

The Town of Hempstead Local Development Corporation (the Corporation) was created in 1966 by the Town Board of the Town of Hempstead, under the provisions of the Laws of New York State. The purpose of the Corporation is to relieve and reduce unemployment, promote and provide for additional and maximum employment, improve and maintain job opportunities, instruct or train individuals to improve or develop their capabilities for such jobs, carry on scientific research for the purpose of aiding the Town of Hempstead by attracting new industry, through the encouragement of the development of or retention of an industry and lessen the burdens of the government, while acting in the public interest.

The Corporation is governed by a Board of Directors whose members are appointed by the Town of Hempstead Town Board.

2. **Summary of significant accounting policies:**

An understanding of the Corporation's practices will facilitate the review of the financial statements.

Basis of accounting: The financial statements of the Corporation have been prepared on the accrual basis of accounting and, accordingly, revenues are recorded when earned and expenses are recorded when incurred.

Basis of presentation: Financial statement presentation follows U.S. generally accepted accounting principles (U.S. GAAP). In accordance with U.S. GAAP, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are broad limits resulting from the nature of the Corporation, the environment in which it operates and the purposes specified in its corporate documents. All of the Corporation's net assets are classified as unrestricted at December 31, 2017 and 2016.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Permanently restricted net assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The Corporation does not have any temporarily or permanently restricted net assets at December 31, 2017 and 2016.

**Town of Hempstead
Local Development Corporation**

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Basis of presentation (continued):

In the Statements of Financial Position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

Cash and cash equivalents: For purposes of the Statements of Cash Flows, investments with maturities of three months or less when purchased are considered cash equivalents.

Income tax status: The Corporation was duly established under Sections 402 and 1411 of the Not-For-Profit Corporation Law and is a corporate quasi-governmental agency performing an essential governmental function. The income of the Corporation is excludable from gross income under Section 115(i) of the Internal Revenue Code and, accordingly, these financial statements do not reflect a provision for income taxes.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and equipment: Property and equipment are stated at cost. It is the Corporation's policy to capitalize any expenditures with an estimated useful life of greater than one year.

Depreciation: Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Advertising costs: Advertising costs are charged to operations when incurred. Advertising costs for the years ended December 31, 2017 and 2016 are \$5,000 and \$1,750, respectively.

Subsequent events: Subsequent events have been evaluated through March 22, 2018, which is the date the financial statements were available to be issued.

3. Functional classification of expenses:

Expenses by function for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Supporting services:		
Management and general	\$30,873	\$38,722

**Town of Hempstead
Local Development Corporation**

NOTES TO FINANCIAL STATEMENTS

4. Conduit debt obligations, bond transactions:

The Corporation issues tax-exempt bonds to provide financial assistance to non-profit entities for the acquisition and construction of industrial, recreational and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, the State, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2017 and 2016, outstanding debt induced by the Corporation and issued by other entities amount to approximately \$498,250,000 and \$370,630,000, respectively. Debt service is paid directly to the lender by the entity that incurred the supplemental debt. The Corporation has no liability or contingent liability for payment.

5. Cash and cash equivalents:

The Corporation maintains cash accounts with one bank. The balances of cash accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation.

At December 31, 2017, the Corporation's bank balances were \$2,076,330. Of that total, \$250,000 was covered by the Federal Deposit Insurance Corporation and \$1,826,330 was secured by collateral held by the pledging financial institution's agent, a third-party financial institution, but not in the Corporation's name.

At December 31, 2016, the Corporation's bank balances were \$1,466,481. Of that total, \$250,000 was covered by the Federal Deposit Insurance Corporation and \$1,216,481 was secured by collateral held by the pledging financial institution's agent, a third-party financial institution, but not in the Corporation's name.

**Town of Hempstead
Local Development Corporation**

NOTES TO FINANCIAL STATEMENTS

6. Property and equipment, net:

Property and equipment, net is summarized as follows:

	<u>2017</u>	<u>2016</u>
Machinery and equipment	\$ 1,896	\$ 2,454
Furniture and fixtures	<u>2,472</u>	<u>2,472</u>
	4,368	4,926
Less accumulated depreciation	<u>(4,368)</u>	<u>(4,869)</u>
Property and equipment, net	<u>\$ -</u>	<u>\$ 57</u>

Depreciation expense for the years ending December 31, 2017 and 2016 was \$57 and \$76, respectively.

7. Related party transactions:

The Corporation shares office space with the Town of Hempstead Industrial Development Agency (the Agency), a related party. The Corporation and the Agency have the same chief executive officer and deputy executive director.

The Agency and the Corporation have an agreement in which the Corporation reimburses the Agency for shared costs, including office space, supplies and telephone. These expenses have been reflected in the appropriate expense categories. Amounts reimbursed to the Agency for the years ended December 31, 2017 and 2016 were \$6,750 and \$5,952, respectively. At December 31, 2017 and 2016, the Corporation owed \$3,328 and \$2,607, respectively, to the Agency, which is reflected on the Statements of Financial Position as accrued expenses.

During 2017, outstanding bond proceeds with a par value of \$17,775,000 and net premium of \$1,935,760 originally issued by the Agency were refunded and refinanced by the Corporation

**Town of Hempstead
Local Development Corporation**

NOTES TO FINANCIAL STATEMENTS

8. New pronouncements:

In August 2016, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of ASU 2016-14 seek to improve the usefulness of information provided to donors, grantors, creditors and other users of a not-for-profit's financial statements and reduce complexities for preparers or users of the financial statements. The requirements of ASU 2016-14 are effective for the Corporation's fiscal year ending December 31, 2018, with early application permitted. The Corporation is currently evaluating the impact of this pronouncement.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes principles for reporting revenue arising from an organization's contracts with customers. The core principle of ASU 2014-09 requires an organization to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. The requirements of ASU 2014-09 are effective for the Corporation's fiscal year ending December 31, 2019. The Corporation is currently evaluating the impact of this pronouncement.

In February 2016, FASB issued ASU 2016-02, *Leases (ASC 842)*. Under ASU 2016-02, lessees will be required to bring substantially all leases onto their balance sheets by recording a right-of-use asset and lease liability. Expense will be recognized on a straight-line basis for an operating lease. Recognition of expense for a finance lease will be similar to the current treatment of capital leases. The requirements of ASU 2016-02 are effective for the Corporation's fiscal year ending December 31, 2020. The Corporation is currently evaluating the impact of this pronouncement.



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**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
Town of Hempstead Local Development Corporation

We have audited, in accordance with the 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, the financial statements of the Town of Hempstead Local Development Corporation (the Corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the 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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Town of Hempstead Local Development Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 22, 2018