

Town of Hempstead Local Development Corporation

Fund Balance

JULY 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Fund Balance. 2**
 - How Can the Board Manage Fund Balance? 2
 - The Board Did Not Adopt a Policy to Manage Fund Balance 2
 - What Do We Recommend? 4

- Appendix A – Response From Local Development Corporation Officials. 5**

- Appendix B – OSC Comments on the Local Development Corporation’s Response. 7**

- Appendix C – Audit Methodology and Standards 8**

- Appendix D – Resources and Services. 9**

Report Highlights

Town of Hempstead Local Development Corporation

Audit Objective

Determine whether the Town of Hempstead Local Development Corporation's (THLDC) Board of Directors (Board) effectively managed fund balance.

Key Findings

The Board did not effectively manage fund balance.

- The Board did not develop or adopt a fund balance policy that addresses what level of fund balance is needed or how any surplus funds will be used and the timeframe for doing so.
- The unrestricted fund balance grew to \$2.4 million as of December 31, 2020.
- Allowing \$2.4 million to accumulate and sit idle without a specific purpose to benefit the Town is not in the public's best interest.

Key Recommendations

- Develop and adopt a comprehensive written fund balance policy and a plan to use surplus funds.

THLDC officials disagreed with certain aspects of our findings and recommendations but indicated they have initiated corrective action. Appendix B includes our comments on issues raised in the THLDC's response letter.

Background

The THLDC, a not-for-profit corporation, was established in 1966 by and for the benefit of the Town of Hempstead (Town).

The THLDC is governed by a Board composed of six members appointed by the Town's governing board. The Board is responsible for general management, and operational and financial affairs, including establishing financial policies.

The Board appointed a Chief Financial Officer responsible for overseeing the maintenance of financial records and a Corporate Administrator responsible for receiving, disbursing and accounting for funds.

The THLDC's primary source of income is from application, administrative and compliance fees and its mission is to increase or maintain private sector employment through issuing tax-exempt or taxable bonds, or through its micro loan or revolving loan programs.

2020 Quick Facts

| | |
|---------------------------|---------------|
| Revenues | \$227,869 |
| Expenses | \$152,463 |
| Unrestricted Fund Balance | \$2.4 million |

Audit Period

January 1, 2018 – December 31, 2020

Fund Balance

The THLDC fund balance is classified into the following three categories: net investment in capital assets, restricted and unrestricted.

How Can the Board Manage Fund Balance?

Local development corporation (LDC)¹ fund balance is the difference between the revenues and expenses that result from activities and can accumulate over time. When an LDC ends its year with an operating surplus, fund balance will increase.

The board is responsible for making financial decisions, including managing its fund balance, in the best interest of the benefited local government. At a board's discretion, portions of unrestricted fund balance can be set aside, or assigned, for a specific purpose. The board should adopt a fund balance policy that addresses, among other things, a reasonable amount of unrestricted fund balance that should be maintained for accounting and budgetary purposes and a framework and process for how the LDC would increase or decrease the level of unrestricted fund balance over a specific time period to help ensure fund balance is properly managed.

The Board Did Not Adopt a Policy to Manage Fund Balance

The Board did not develop and adopt a fund balance policy to address managing surplus funds specifying how the funds will be used and the timeframe for doing so. In the absence of such a policy, annual operating surplus accumulated over time and unrestricted fund balance totaled \$2.1 million as of January 1, 2018. Unrestricted fund balance continued to increase to \$2.4 million as of December 31, 2020 (Figure 1).

Figure 1: Fund Balance at Year End

| | 2018 | 2019 | 2020 |
|---|--------------------|--------------------|--------------------|
| Total Beginning Fund Balance | \$2,072,248 | \$2,243,303 | \$2,337,642 |
| Add: Operating Income | 164,963 | 82,324 | 73,263 |
| Add: Interest Income | 6,092 | 12,015 | 2,143 |
| Total Ending Fund Balance | \$2,243,303 | \$2,337,642 | \$2,413,048 |
| Less: Net Investment in Capital Assets | 0 | 0 | 0 |
| Less: Restricted Funds | 0 | 0 | 0 |
| Total Unrestricted Funds at Year End | \$2,243,303 | \$2,337,642 | \$2,413,048 |

¹ LDCs may be created pursuant to New York State Not-For-Profit Corporation Law, Section 1411. They are not-for-profit corporations often created by, or for the benefit of, local governments for economic development or other public purposes.

The revenue that resulted in this increase in fund balance was primarily from fees charged to not-for-profit organizations who apply to THLDC for tax-exempt or taxable bond financing (Figure 2)

Figure 2: Fees Charged Applicants

| Fee Type | Amount or Percentage Calculation |
|--|--|
| Loan Application | \$3,000 |
| Compliance Payable on Project Approval | \$3,000 |
| Annual Compliance^a | \$1,500 |
| Termination | \$1,000 |
| Administrative | One-half of 1 percent of bonds issued for the first \$25 million in total project costs and two-tenths of 1 percent for any additional costs in excess of \$25 million |
| THLDC Counsel | One-tenth of 1 percent of the bond issue amount |
| Document Processing (Minimum to Maximum) | \$1,000 to \$2,000 |
| Extension of Inducement (Minimum to Maximum) | \$500 to \$1,000 |
| Financing | Set by the board on a case-by-case basis |
| Refinancing of Bonds (Minimum) | One-half of 1 percent of outstanding bonds ^b |
| Assumption of Outstanding Bonds (Minimum) | One-eighth of 1 percent of outstanding bonds ^b |
| Miscellaneous Expense Reimbursements^c | Set by the Board on a case-by-case basis |
| a) \$1,000 on projects started before 2017 | |
| b) Subject to adjustment at the discretion of the THLDC | |
| c) Expenses incurred by the THLDC for bond issuance (e.g., publication of public notices, court reports) | |

THLDC officials told us they had discussions with Town officials about using surplus funds for a small business loan program, to address the effects of the COVID-19 pandemic. In September 2020, the Board passed a resolution to set aside \$525,000 for this purpose. However, THLDC officials said the plan did not move beyond these initial discussions, and the Board currently does not have other plans to use the accumulated fund balance. In addition, there was no indication in the 2020 audited financial statements, dated March 4, 2021, that funds were committed or assigned for any specific purpose.

While the Board and THLDC officials recently took some action to address the use of accumulated surplus fund balance, this action is not comprehensive and did not establish a fund balance policy. By adopting a policy that establishes procedures and requirements for the long-term use of fund balance, the Board would provide specific guidance to help ensure officials use fund balance to support the THLDC's mission to increase or retain private sector employment. Allowing \$2.4 million to accumulate and sit idle without a specific purpose to benefit the Town is not in the public's best interest.

What Do We Recommend?

The Board should:

1. Develop and adopt a comprehensive fund balance policy that addresses the maintenance of surplus funds, how funds will be used and the timeframe for doing so.

By adopting a policy that establishes... requirements for the long-term use of fund balance, the Board would...help... officials use fund balance to support the THLDC's mission...

Appendix A: Response From Local Development Corporation Officials

Frederick E. Parola
Chief Executive Officer

Town of Hempstead



Local
Development
Corporation

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May 20, 2021

Mr. Ira McCracken
Chief Examiner
Division of Local Government and School Accountability
Office of the New York State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. McCracken,

This letter is in response to the draft audit received by the Town of Hempstead Local Development Corporation (LDC) on Friday, May 7, 2021 with regard to the LDC Fund Balance.

The draft Audit 2021M-61 recommended the development and adoption of a comprehensive written fund balance policy and a plan for use of surplus funds. As the draft audit pointed out, during quarantine and Covid-19, the Corporation considered developing a loan program to benefit small businesses suffering from the effects on their business from Covid-19. The board did adopt a resolution to sequester funds, but the mechanics of the program were difficult to set up with the restrictions the pandemic put on staff and the logistics necessary to launch an effective program. Our LDC continues to explore both this option and a partnership with the Township to assist small business.

The Corporation's sole mission and purpose is to serve the best interests of the residents and businesses in the Town of Hempstead. The Town of Hempstead is committed to economic development and has two avenues that can assist businesses; the Town of Hempstead Local Development Corporation and the Town of Hempstead Industrial Development Agency. Both departments have, and will continue, to pursue innovative projects to benefit the public's interests and continue its mission of economic development.

As discussed during the exit conference, there appeared to be some contention and confusion about the methodology agreed upon by conversation and email of December 22, 2020. The Corporation agreed to the "15 times the annual expenditures

| |
|-------------------------|
| See Note 1 Page 7 |
|-------------------------|

as the measurement for expenses vs. fund balance”, as presented by the auditors. Having used the methodology defined, the Agency would have an excess fund balance of \$126,118.75. After reviewing the draft audit and doing the exit conference, it was revealed that this criterion was not adopted although that was never communicated back to the Corporation nor was the actual methodology used to establish what defines “excess fund balance” addressed in the report. The exit interview did not clarify this situation nor the methodology adopted (see Appendix B).

See
Note 1
Page 7

The Corporation is in the process of preparing a written policy to address Fund Balances which will be presented to the Audit and Finance Committees for input before finalizing the adoption of a policy by the full board. This task is particularly difficult in the ever changing world of Covid-19 and absent recommendations or best practices making the adoption of such a policy a fluid situation. It would be the hope of this Corporation, since this is an issue raised; that the Comptroller’s Office issues a recommendation and methodology of what is expected from the New York State economic development agencies, authorities and corporations on what to do with excess fund balances.

See
Note 2
Page 7

We appreciate the opportunity of this review.

Sincerely,

Frederick E. Parola
Chief Executive Officer

Edie M. Longo
Chief Financial Officer

Appendix B: OSC Comments on the Local Development Corporation's Response

Note 1

We discussed with THLDC officials that unrestricted fund balance was approximately 15 times annual expenses. However, we never suggested that this would be used as a criterion for defining a reasonable level of fund balance.

Our audit methodology (Appendix C) was developed to determine whether the Board effectively managed fund balance, not to establish or define excess fund balance.

Note 2

As stated in our report, the Board should adopt a comprehensive fund balance policy that establishes, among other things, a reasonable amount of unrestricted fund balance and addresses the maintenance of surplus fund balance. Establishing such a policy would provide specific guidance to ensure officials use surplus fund balance to support THLDC's mission.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed THLDC officials and reviewed the THLDC's policies and financial records to obtain an understanding of the organization and financial position.
- We inquired with THLDC officials about the level of fund balance and if there were plans for funding or usage of surplus of funds.
- We analyzed operating results and changes in fund balances during the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendation in this report and forward the plan to our office within 90 days. For more information on preparing and filing your CAP, please refer to our brochure, Responding to an OSC Audit Report, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the secretary's office.

Appendix D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

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