

TOWN OF NORTH HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007
TOGETHER WITH AUDITORS' REPORT

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
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Nawrocki Smith LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Town of North Hempstead
Community Development Agency:

We have audited the accompanying financial statements of the Town of North Hempstead Community Development Agency (the "Agency"), a component unit of the Town of North Hempstead, New York, as of and for the year ended December 31, 2007, as listed in the 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 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 financial position of the Town of North Hempstead Community Development Agency as of December 31, 2007 and the changes in its 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 a report dated May 16, 2008, on our consideration of the Town of North Hempstead Community Development Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 the 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 important for assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May 16, 2008
Melville, New York

Nawrocki Smith LLP

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

The following is a discussion and analysis of the Town of North Hempstead Community Development Agency's (the "Agency") financial performance for the fiscal year ended December 31, 2007. 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 follow this section immediately.

FINANCIAL HIGHLIGHTS

- As of December 31, 2007, the Agency had total assets of \$6.5 million, total liabilities of \$2.6 million and net assets of \$3.9 million.
- Total revenues for the year ended December 31, 2007 were \$921 thousand and total expenses were \$858 thousand resulting in a excess of revenues over expenses of \$63 thousand. This excess was eliminated by a loss on the sale of property of \$293 thousand.
- Federal aid revenues were significantly lower, due to a decrease in activity in the economic development area from the prior year.

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 *Agency-wide financial statements* that provide both *short-term* and *long-term* information about the Agency's overall financial status are the Statement of Net Assets and the Statement of Activities.
- The *fund-based financial statements* that focus on *individual parts* of the Agency, reporting the Agency's operations in *more detail* than the Agency-wide statements are the Balance Sheet - Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds. These statements attempt to explain how programs were financed in the *short term* as well as what remains for future spending.
- Reconciliations between the two types of statements are provided to assist in understanding the differences between the two perspectives.

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

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.

	Agency-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire Agency (except fiduciary funds)	The activities of the Agency that are not proprietary or fiduciary	Instances in which the Agency administers resources on behalf of others
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 Revenues, Expenditures and Changes in Fund Balance 	<ul style="list-style-type: none"> • Balance Sheet
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Cash Basis
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	All assets and liabilities, both short-term and long-term; funds do not contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues 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	All additions and deductions during the year.

Agency-Wide Statements

The Agency-wide 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 revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Agency-wide 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.
- 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 the Agency's funds, focusing on its most significant or "major" funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law.
- The Agency establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (such as Federal grants).

The Agency has two kinds of funds:

- **Governmental funds:** Most of the Agency's basic services are included in governmental funds, which generally focus 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 funds 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.
- **Fiduciary funds:** The Agency may be the trustee or fiduciary for assets that belong to others. The Agency is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Agency-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Changes in Net Assets

The Agency's net assets decreased by \$230 thousand or 5.6% for the year ended December 31, 2007.

The Agency's fiscal year 2007 revenues totaled \$921 thousand, a decrease of \$2.1 million or 69% when compared to total revenues for 2006. The decrease was primarily due to a decrease of \$1.1 million in Federal aid and a loss on the sale of certain real property. The decrease in Federal aid is offset by the decrease in reimbursable expenditures in economic development activities. There was no HOME Program activity in 2007.

The cost of all programs and services totaled \$858 thousand for fiscal year 2007, an decrease of \$2.5 million or 74% when compared to total expenses for 2006. The decrease occurred in the areas of acquisition of real property and economic development of the New Cassel project area.

Governmental Activities

Revenues for the Agency's governmental activities were consistent with the Agency-wide operating results. Governmental expenditures exceed Agency-wide expenses due principally to capital-related items for real property acquisition/disposition programs.

The primary program activities of the Agency included:

- Acquisition of real property
- Public facilities improvement
- Rehabilitation
- Public service
- Code enforcement
- Economic development

Substantially all of the Agency's revenues are generated through programs established by the U.S. Department of Housing & Urban Development, as administered by the County of Nassau Office of Housing & Intergovernmental Affairs. The primary program is the Community Development Block 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 funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets and the current payments for debt.

Total assets of the general fund increased from \$2.561 million in 2006 to \$2.597 million in 2007. The overall increase was due to an increase in cash and cash equivalents offset by an decrease in federal aid receivable.

Total liabilities of the general fund decreased from \$1.493 million in 2006 to \$1.383 million in 2007. The decrease is due primarily to a decrease in accounts payable and accrued expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2007, the Agency had invested \$3.9 million in property acquired for redevelopment and \$83 thousand in equipment.

Long-Term Debt

As of December 31, 2007, the Agency's long-term debt consisted of a long-term borrowing from the Town of North Hempstead in the amount of \$1.2 million, as well as \$34 thousand of compensated absence obligations.

FACTORS BEARING ON THE FUTURE OF AGENCY

The future success of the Agency and its programs are generally dependent on the continuing availability of funding from the U.S. Department of Housing & Urban Development.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens and creditors with 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:

Town of North Hempstead Community Development Agency
51 Orchard Street
Roslyn Heights, New York 11577-1326
(516) 621-6770

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Funds	Adjustments	Statement of Net Assets
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,148,313	\$ (43,285)	\$ 1,105,028
Receivables:			
Federal aid receivable	386,405	-	386,405
Due from other governments	150,000	-	150,000
Residential rehab loans receivable	905,696	-	905,696
Commercial rehab loans receivable	49,527	-	49,527
Total current assets	<u>2,639,941</u>	<u>(43,285)</u>	<u>2,596,656</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation of \$82,116	-	3,935,860	3,935,860
Total assets	<u>\$ 2,639,941</u>	<u>\$ 3,892,575</u>	<u>\$ 6,532,516</u>
LIABILITIES			
Current liabilities:			
Payables:			
Due to the Town of North Hempstead	\$ 340,000	-	\$ 340,000
Accounts payable and accrued expenses	130,896	(16,085)	114,811
Deferred revenues	955,223	-	955,223
Total current liabilities	<u>1,426,119</u>	<u>(16,085)</u>	<u>1,410,034</u>
Noncurrent liabilities:			
Long-term liabilities, due after one year: Due to the Town of North Hempstead Compensated absences	-	1,200,000 34,001	1,200,000 34,001
Total noncurrent liabilities	<u>-</u>	<u>1,234,001</u>	<u>1,234,001</u>
Total liabilities	<u>1,426,119</u>	<u>1,217,916</u>	<u>2,644,035</u>
NET ASSETS			
Investment in capital assets, net of related debt Unrestricted	-	2,395,860 278,799	2,395,860 1,492,621
Total net assets	<u>1,213,822</u>	<u>2,674,659</u>	<u>3,888,481</u>
Total liabilities and net assets	<u>\$ 2,639,941</u>	<u>\$ 3,892,575</u>	<u>\$ 6,532,516</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUNDS
DECEMBER 31, 2007

	<u>ASSETS</u>		Total Governmental Funds
	General Fund	Agency Fund	
Cash and cash equivalents	\$ 1,105,028	\$ 43,285	\$ 1,148,313
Receivables:			
Federal aid receivable	386,405	-	386,405
Due from other governments	150,000	-	150,000
Residential rehab loans receivable	905,696	-	905,696
Commercial rehab loans receivable	49,527	-	49,527
Total assets	<u>\$ 2,596,656</u>	<u>\$ 43,285</u>	<u>\$ 2,639,941</u>
	<u>LIABILITIES AND FUND EQUITY</u>		
Payables:			
Due to the Town of North Hempstead	\$ 340,000	\$ -	\$ 340,000
Accounts payable and accrued expenses	87,611	43,285	130,896
Deferred revenues	955,223	-	955,223
Total liabilities	<u>1,382,834</u>	<u>43,285</u>	<u>1,426,119</u>
	<u>FUND EQUITY</u>		
Fund Balance:			
Unreserved	1,213,822	-	1,213,822
Total fund equity	<u>1,213,822</u>	<u>-</u>	<u>1,213,822</u>
Total liabilities and fund equity	<u>\$ 2,596,656</u>	<u>\$ 43,285</u>	<u>\$ 2,639,941</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds \$ 1,213,822

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.
 Amount is net of accumulated depreciation. 3,935,860

Interest payable on long-term debt does not require current financial resources.
 Therefore, the accrual is not reported as a liability in the governmental funds balance sheet. (27,200)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Compensated absences	\$ 34,001	
Due to the Town of North Hempstead	1,200,000	(1,234,001)

Total net assets - governmental activities		\$ <u>3,888,481</u>
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The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund	Adjustments	Statement of Activities
Expenses:			
Personal services and benefits	\$ 370,348	\$ (385)	\$ 369,963
Equipment and capital outlay	147,771	(147,771)	-
Contractual and other expenditures	467,618	-	467,618
Debt service	-	18,000	18,000
Depreciation	-	2,188	2,188
Total expenses	<u>985,737</u>	<u>(127,968)</u>	<u>857,769</u>
Revenues:			
Federal aid	614,860	-	614,860
Nassau County grant	150,000	-	150,000
Loan repayments	69,749	-	69,749
Use of money and property	86,281	-	86,281
Sale of real property	210,501	(210,501)	-
Other	125	-	125
Total revenues	<u>1,131,516</u>	<u>(210,501)</u>	<u>921,015</u>
Excess (deficiency) of revenues over (under) expenses	145,779	(82,533)	63,246
Other financing uses:			
Loss on sale of property	-	(293,146)	(293,146)
Excess (deficiency) of revenues and other financing sources over (under) expenses	145,779	(375,679)	(229,900)
Fund balance/net assets, beginning of year	<u>1,068,043</u>	<u>3,050,338</u>	<u>4,118,381</u>
Fund balance/net assets, end of year	<u>\$ 1,213,822</u>	<u>\$ 2,674,659</u>	<u>\$ 3,888,481</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General Fund
Revenues:	
Federal aid	\$ 614,860
Nassau County grant	150,000
Loan repayments	69,749
Use of money and property:	
Interest earnings	24,501
Rental of real property	61,780
Sale of real property	210,501
Other	125
Total revenues	1,131,516
Expenditures:	
Acquisition of real property	193,850
Public facilities improvement	51,385
Code enforcement	25,869
Rehabilitation	51,621
Public service	37,632
Administration	196,369
Economic development	123,234
Other community development	191,699
Employee benefits - unallocated	114,078
Total expenditures	985,737
Excess of revenues over expenditures	145,779
Fund balance, beginning of year	1,068,043
Fund balance, end of year	\$ 1,213,822

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance - governmental funds	\$ 145,779
Accrued interest on governmental loans used in governmental activities are not current financial resources and therefore are not current financial resources in the governmental funds balance sheet.	(18,000)
Governmental funds report capital outlay as expenditures. However, in the Agency-wide statement of activities and changes in net assets, the cost of some of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the period.	147,771
Governmental funds report long-term debt as proceeds of obligations under other financing sources, whereas the amounts are liabilities in the Agency-wide financial statements.	(503,647)
Depreciation expense on capital assets is reported in the Agency-wide statement of activities but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(2,188)
Changes in compensated absence expense are reported as a reduction of salary in the statement of activities, but does not involve the use of current resources, and therefore is not reported as an expense in the governmental funds.	385
Total change in net assets of governmental activities	\$ <u>(229,900)</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF NORTH HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS

A.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of North Hempstead Community Development Agency (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

1. Financial reporting entity

The Town of North Hempstead Community Development Agency was established in 1967 as the Urban Renewal Agency of the Town of North Hempstead (the "Town") under the general laws of the State of New York and various local laws. In 1978, its name was changed to its present designation. The Agency is a public benefit corporation created by state legislation to promote the safety, health and welfare of the Town's inhabitants and to promote the sound growth and development of the Town. The Board of Directors is the legislative body responsible for overall operations. The Executive Director serves as the chief executive officer and the financial officer.

The Agency provides a full range of community development services including construction of affordable housing, residential and commercial land acquisition, code enforcement services, public facility improvements and assistance to public service organizations.

The accompanying financial statements include all of the funds of the Agency. Activities considered to be part of the Agency have been determined by the application of criteria set forth in GASB Statement No. 14, The Financial Reporting Entity.

The Agency is a component unit of the Town of North Hempstead, the primary reporting entity, under the criteria set forth in GASB Statement No. 14. The basic, but not the only criterion for inclusion in the Town's financial statements is that the Town is accountable for the legally separate Community Development Agency because it appoints the Board of Directors, the governing body of the Agency, and there is a potential for the Agency to provide specific financial benefits to, or impose financial burdens on, the Town.

2. Basis of presentation

Government-wide statements

The Statement of Net Assets and the Statement of Activities present financial information about the Agency's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include amounts paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

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

- a. 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 upon the determination of financial position and changes in financial position (the sources, uses and balances of current financial resources). The following is the Agency's governmental fund type:

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.

- b. Fiduciary funds - used to account for assets held by the Agency in a trustee or custodial capacity. The following is the Agency's fiduciary fund type:

Agency Fund - Fiduciary activities are those in which the Agency acts as trustee or agent for resources that belong to others. These activities are not included in the Agency-wide financial statements, because their resources do not belong to the Agency, and are not available to be used.

3. Basis of accounting/measurement focus

The Agency-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are 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.

4. Assets, liabilities and fund equity

Cash -

The Agency pools cash resources of all funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. 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 time deposits and disclosed as part of the Agency's time deposits.

Loan receivables -

All loan receivables 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 New York State statutes. The Agency also has a written policy which restricts investments to cash and cash equivalents, including money market funds, certificates of deposits and United States Treasury notes, bills and bonds. Investments are stated at cost or amortized costs, whichever most nearly approximates market 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 New York 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. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Agency-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$ 500	Straight-line	5 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 net assets: Reports all other net assets that do not meet the above classifications and are deemed to be available for general use by the Agency.

Total fund balances of the Agency's governmental funds differ 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.

5. 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 Statement No. 16 of the Governmental Accounting Standards Board, 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.

6. Use of estimates

A number of estimates and assumptions relating to the reporting of revenues, expenditures, assets and liabilities and disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Community Development Agency prepares budgets for its Block Grant and administrative 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 Community Development Agency 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 amounts within the Block Grant categories.

The Block Grant funds are budgeted on a project basis as of September 1 of each year. The expenditures for projects may extend over several fiscal years. A combined comparison of those budgets to actual revenues and expenditures is not considered meaningful and, therefore, has not been included in the accompanying financial statements.

C. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. Cash and cash equivalents

At December 31, 2007, cash and cash equivalents consist of the following:

Checking accounts - unrestricted	\$ 719,204
Money Market - unrestricted	385,324
Checking accounts - restricted	43,285
Petty cash	<u>500</u>
Cash and cash equivalents	<u>\$ 1,148,313</u>

As of December 31, 2007, the bank balances of \$1,162,485 are entirely insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held in the Agency's name by its agent in the name of the Agency, except for \$1,958 which was unsecured.

2. Investments

The Agency had no investments as of December 31, 2007.

3. Capital assets

A summary of changes in capital assets for the year ended December 31, 2007 is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Property acquired for redevelopment Equipment	\$ 4,291,266	\$ 146,970	\$ 503,647	\$ 3,934,589
	<u>82,586</u>	<u>801</u>	<u>-</u>	<u>83,387</u>
Less: accumulated depreciation	4,373,852	147,771	503,647	4,017,976
	<u>79,928</u>	<u>2,188</u>	<u>-</u>	<u>82,116</u>
Capital assets, net	<u>\$ 4,293,924</u>	<u>\$ 145,583</u>	<u>\$ 503,647</u>	<u>\$ 3,935,860</u>

4. Retirement system

The Agency participates in the New York State and Local Employees Retirement System ("ERS") referred to herein as the "System". This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issued a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding policy -

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. The required contributions for the current year and two preceding years were:

<u>Year</u>	Total		Balance Due to the System
	Annual <u>Contribution</u>	Interest and <u>Amortization</u>	
2007	\$ 20,452	\$ 1,033	\$ -
2006	19,900	(8,167)	-
2005	27,004	8,572	35,576

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ended March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. There was no unpaid liability at the end of the fiscal year 2007.

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the New York State and Local Employees' Retirement System. The December 15 payment due date changed to February 1. The covered salary period (April 1 - March 31) will not change for the calculation.

5. Long-term liabilities

A summary of changes in long-term liabilities for the year ended December 31, 2007 is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Due to the Town of North Hempstead - long term	\$ 1,200,000	-	-	\$ 1,200,000
Compensated absences	34,386	22,759	23,144	34,001
Total long-term liabilities	<u>\$ 1,234,386</u>	<u>\$ 22,759</u>	<u>\$ 23,144</u>	<u>\$ 1,234,001</u>

The Agency borrowed \$1.2 million to purchase property at 142 Magnolia Avenue, Westbury for the development of a community center. If the Agency does not repay the loan with accrued interest at a rate of 1.5% per annum, it must transfer its fee simple interest in the premise to the Town. Accrued interest of \$27,200 is recorded as an accrued expense in the Statement of Net Assets at December 31, 2007.

6. Loans payable

The Agency has entered into various loan agreements with the Town of North Hempstead. A summary of activity for the year 2007 is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
2005 On Demand - 0%	\$ 340,000	-	-	\$ 340,000
	<u>\$ 340,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 340,000</u>

7. Deferred revenues

Deferred revenues include the residential and commercial loans which are collectible in the future. The Agency makes loans and grants under two programs:

1. Deferred payment loans (DPL) - These loans are made to low income families and are secured by a mortgage or deed of trust. DPL's are payable upon the sale of the residential property or when the owner is deceased.
2. Commercial loans - These loans are made to owners of business properties to improve their buildings and increase their working capital.

8. Post-employment benefits

In addition to providing pension benefits, the Agency provides health insurance coverage and survivor benefits for qualified retired employees and their survivors as provided for in the various contracts to which the Agency is a party. Substantially all of the Agency's employees may become eligible for these benefits if they reach normal retirement age while working for the Agency. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The Agency recognizes the full cost of providing benefits by recording the insurance premiums as an expenditure in the year paid. During the 2007 year, \$23,155 was paid on behalf of five retirees and recorded as an expenditure.

9. Contingencies

The Agency has received significant Federal funding which is subject to audit by agencies of the State and Federal governments. Such audits may result in disallowance and a request for a return of funds to the Federal and State governments. Based on past audits, management believes disallowances, if any, would be immaterial.

The Agency is involved in litigation in the normal course of its operations. Management believes the ultimate outcome of current litigation will not have a material impact on the Agency's financial statements.

TOWN OF NORTH HEMPSTEAD
COMMUNITY DEVELOPMENT AGENCY
OMB CIRCULAR A-133
SUPPLEMENTARY FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
OMB CIRCULAR A-133
SUPPLEMENTARY FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007

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TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
MAJOR PROGRAM:			
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through County of Nassau:			
Community Development Block Grant	14.218	N/A	\$ <u>857,769</u>
TOTAL FEDERAL EXPENDITURES			\$ <u>857,769</u>

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the Town of North Hempstead Community Development Agency (the "Agency"), an entity as defined in Note 1 to the Agency's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through government agencies, are included on the Schedule of Expenditures of Federal Awards.

(2) Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

(3) Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the federal financial reports used as the source for the data presented.

(4) Matching Costs

Matching costs (i.e. the Agency's share of certain program costs) are not included in the reported expenditures.

(5) Major Program Determination

The Agency has determined that all Federal programs with expenditures of \$300,000 or more are Type A Programs, and deemed Major Programs for the purposes of the Schedule of Expenditures of Federal Awards.



Nawrocki Smith LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 of

The Town of North Hempstead Community Development Agency:

We have audited the financial statements of the Town of North Hempstead Community Development Agency as of and for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of North Hempstead Community Development Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 Town of North Hempstead Community Development Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Nawrocki Smith LLP

We noted certain matters involving the internal control over financial reporting that we have reported to the Town of North Hempstead Community Development Agency in a separate letter dated May 16, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of North Hempstead Community Development Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The report is intended solely for the information and use of the Board of Directors, management, others within the Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Melville, New York
May 16, 2008



Nawrocki Smith LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Board of Directors of
The Town of North Hempstead Community Development Agency:

Compliance

We have audited the compliance of the Town of North Hempstead Community Development Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Town of North Hempstead Community Development Agency's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of North Hempstead Community Development Agency's management. Our responsibility is to express an opinion on the Town of North Hempstead Community Development Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of North Hempstead Community Development Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of North Hempstead Community Development Agency's compliance with those requirements.

In our opinion, the Town of North Hempstead Community Development Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Nawrocki Smith LLP

Internal Control over Compliance

The management of the Town of North Hempstead Community Development Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of North Hempstead Community Development Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of North Hempstead Community Development Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Town of North Hempstead Community Development Agency as of and for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, others within the Agency and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melville, New York
May 16, 2008



TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements were reported.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award program were reported.
5. The auditors' report on compliance for the major federal award program expresses an unqualified opinion.
6. No audit findings relative to the major federal award program that are required to be reported in accordance with section 510(a) of OMB Circular A-133, were disclosed during the audit.
7. The program tested as a major program included:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	U.S. Department of Housing and Urban Development - Community Development Block Grant Program

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Auditee was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None reported.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.

TOWN OF NORTH HEMPSTEAD COMMUNITY DEVELOPMENT AGENCY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE: There were no audit findings in the prior year auditor's Schedule of Findings and Questioned Costs relative to federal awards.