

**Town of Hempstead
Industrial Development Agency**

FINANCIAL REPORT

December 31, 2018 and 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Town of Hempstead Industrial Development Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Town of Hempstead Industrial Development Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal years ended December 31, 2018 and December 31, 2017. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights - 2018:

- The assets and deferred outflows of the Agency exceeded its liabilities and deferred inflows at December 31, 2018 by \$2,196,395.
- The Agency's total assets decreased by \$255,854 in the year 2018. Total deferred outflows of resources increased by \$44,514. The Agency's total liabilities decreased by \$44,007 in the year 2018. Total deferred inflows of resources increased by \$92,607.
- During the year ended December 31, 2018, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, beginning net position decreased by \$139,480.
- As of the close of the current year, the Agency reported net position of \$2,196,395, a decrease of \$120,460 from the restated net position as of January 1, 2018, and a decrease of \$259,940 from the unadjusted 2017 amount (see Note 14 for restatement).

Financial Highlights - 2017:

- The assets and deferred outflows of the Agency exceeded its liabilities and deferred inflows at December 31, 2017 by \$2,456,335 (as previously presented).
- The Agency's total assets decreased by \$115,544 in the year 2017. Total deferred outflows of resources decreased by \$100,469. The Agency's total liabilities decreased by \$209,679 in the year 2017. Total deferred inflows of resources decreased by \$2,991.
- As of the close of 2017, the Agency reported net position of \$2,456,335 (as previously presented), a decrease of \$3,343 from the year 2016.
- During the year ended December 31, 2017, the Agency implemented GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*.

Basic Financial Statements:

- The financial statements presented herein include all of the activities of the Agency.

Town of Hempstead Industrial Development Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements (continued):

- The financial statements present the financial picture of the Agency. The Agency applies full accrual accounting methods as used by similar business activities in the private sector. These statements include all assets and deferred outflows of the Agency as well as liabilities and deferred inflows, offering both short-term and long-term financial information.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.
- The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position report information about the Agency as a whole and about its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the Agency using the accrual basis of accounting. All of the current year's revenues and expenses are then taken into account regardless of when cash is received or paid.

The following statements report the Agency's net position and changes in net position. The net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, which is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position are one indicator of whether its financial health is improving or deteriorating.

Condensed Comparative Financial Statements - 2018:

Condensed Statements of Net Position at December 31,

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$2,885,504	\$3,133,318	\$(247,814)	(7.91)
Property and equipment	33,166	41,206	(8,040)	(19.51)
Total assets	<u>2,918,670</u>	<u>3,174,524</u>	<u>(255,854)</u>	(8.06)
Deferred outflows of resources	<u>199,693</u>	<u>155,179</u>	<u>44,514</u>	28.69
Current liabilities	559	37,855	(37,296)	(98.52)
Long-term liabilities	805,835	812,546	(6,711)	(0.83)
Total liabilities	<u>806,394</u>	<u>850,401</u>	<u>(44,007)</u>	(5.17)

**Town of Hempstead
Industrial Development Agency**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Comparative Financial Statements - 2018 (continued):

Condensed Statements of Net Position at December 31, (continued)

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Deferred inflows of resources	<u>115,574</u>	<u>22,967</u>	<u>92,607</u>	403.22
Net position:				
Net investment in capital assets	33,166	41,206	(8,040)	(19.51)
Unrestricted	<u>2,163,229</u>	<u>2,415,129</u>	<u>(251,900)</u>	(10.43)
Total net position	<u>\$2,196,395</u>	<u>\$2,456,335</u>	<u>\$(259,940)</u>	(10.58)

**Condensed Statements of Revenues, Expenses and
Change in Net Position for the Years Ended December 31,**

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Total operating revenue	\$ 777,049	\$1,223,254	\$(446,205)	(36.48)
Total operating expenses	<u>912,588</u>	<u>1,233,906</u>	<u>(321,318)</u>	(26.04)
Operating loss	(135,539)	(10,652)	(124,887)	(1,172.43)
Non-operating income	<u>15,079</u>	<u>7,309</u>	<u>7,770</u>	106.31
Change in net position	<u>\$(120,460)</u>	<u>\$ (3,343)</u>	<u>\$(117,117)</u>	(3,503.35)

Analysis of Net Position and Results of Operations - 2018:

- Total assets decreased by \$255,854. This is a result of a decrease in cash and cash equivalents of \$126,829 from the prior year and a decrease in account receivable of \$120,985 from the prior year, offset by an increase deferred outflows of resources.
- The Agency's 2018 net position decreased by \$120,460 from the 2017 restated net position (see Note 14).
- Deferred outflows of resources and deferred inflows of resources changed as a result of the recording of the Agency's share of the net pension liability related to the Agency's participation in the New York State and Local Employees' Retirement System.
- The Agency did not acquire any new property and equipment during 2018.

Town of Hempstead Industrial Development Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of Net Position and Results of Operations - 2018 (continued):

- The Agency received \$17,050 of reimbursement for shared expenses, including rent and supplies, from the Town of Hempstead Local Development Corporation.
- In 2018, pension expense decreased by \$5,270 and accounts payable and accrued expenses decreased by \$37,296.
- The Agency reported net position of \$2,196,395 which is \$120,460 lower than in 2017.
- During 2018 contractual and professional fees expense was significantly lower than in 2017 as a result of prior year legal fees the Agency incurred to defend itself against the proceedings brought by residents of the Town of Hempstead challenging the granting of benefits by the Agency to a downtown Hempstead revitalization project.
- Intergovernmental compliance was down significantly as the Agency took back control of its payments in lieu of taxes (PILOT) program effective October 1, 2018. Through September 2018 the Town of Hempstead Comptroller's Office collected PILOT from the borrowing companies.
- The effects of implementation of GASB Statement No. 75 are not reflected in the 2017 expenses or 2017 Statement of Net Position as this information was not available.

Budgetary Analysis - 2018:

- Fees for services were less than the final budget by \$111,746. There were five project closings during the year in addition to other fees collected for existing agreements compared to four project closings and seven consents and assignments in prior year. Total expenses were less than the final budget by \$104,677.

Condensed Comparative Financial Statements - 2017:

Condensed Statements of Net Position at December 31,

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current assets	\$3,133,318	\$3,240,822	\$(107,504)	(3.32)
Property and equipment	41,206	49,246	(8,040)	(16.33)
Total assets	<u>3,174,524</u>	<u>3,290,068</u>	<u>(115,544)</u>	(3.51)
Deferred outflows of resources	<u>155,179</u>	<u>255,648</u>	<u>(100,469)</u>	(39.30)

Town of Hempstead Industrial Development Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Comparative Financial Statements - 2017 (continued):

Condensed Statements of Net Position at December 31, (continued)

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current liabilities	\$ 37,855	\$ 14,479	\$ 23,376	161.45
Long-term liabilities	<u>812,546</u>	<u>1,045,601</u>	<u>(233,055)</u>	(22.29)
Total liabilities	<u>850,401</u>	<u>1,060,080</u>	<u>(209,679)</u>	(19.78)
Deferred inflows of resources	<u>22,967</u>	<u>25,958</u>	<u>(2,991)</u>	(11.52)
Net position:				
Net investment in capital assets	41,206	49,246	(8,040)	(16.33)
Unrestricted	<u>2,415,129</u>	<u>2,410,432</u>	<u>4,697</u>	0.19
Total net position	<u>\$2,456,335</u>	<u>\$2,459,678</u>	<u>\$ (3,343)</u>	(0.14)

Condensed Statements of Revenues, Expenses and Change in Net Position for the Years Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Total operating revenue	\$1,223,254	\$ 491,922	\$ 731,332	148.67
Total operating expenses	<u>1,233,906</u>	<u>1,208,424</u>	<u>25,482</u>	2.11
Operating income	(10,652)	(716,502)	(705,850)	98.51
Non-operating income	<u>7,309</u>	<u>5,664</u>	<u>1,645</u>	29.04
Change in net position	<u>\$ (3,343)</u>	<u>\$ (710,838)</u>	<u>\$ 707,495</u>	99.53

Analysis of Net Position and Results of Operations - 2017:

- Total assets decreased by \$115,544. This is a result of a decrease in cash and cash equivalents of \$239,655 from the prior year as a result of operating activities, offset by an increase in fees receivable as a result of an increase in current year project closings and the timing of those closing.
- The Agency's 2017 net position decreased by \$3,343 from 2016.

Town of Hempstead Industrial Development Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of Net Position and Results of Operations - 2017 (continued):

- Deferred outflows of resources and deferred inflows of resources changed as a result of the recording of the Agency's share of the net pension liability related to the Agency's participation in the New York State and Local Employees' Retirement System.
- The Agency did not acquire any new property and equipment during 2017.
- The Agency received \$6,750 of reimbursement for shared expenses, including rent and supplies, from the Town of Hempstead Local Development Corporation.
- In 2017, pension expense decreased by \$5,931 and accounts payable and accrued expenses increased by \$23,376.
- The Agency reported net position of \$2,456,335 which is \$3,343 lower than in 2016.
- During 2017, contractual and professional fees expense was significantly higher than in 2016 as a result of legal fees the Agency incurred to defend itself against the proceedings brought by residents of the Town of Hempstead challenging the granting of benefits by the Agency to a downtown Hempstead revitalization project. Advertising expense was significantly lower in 2017 compared to 2016 as the Agency slowed its advertising and promotional activities.

Budgetary Analysis - 2017:

- Fees for services exceeded the final budget by \$250,754. There were four project closings and seven consents and assignments during the year in addition to other fees collected for existing agreements compared to six project closings in prior year.

Economic Factors and Next Year's Budget:

The Agency has budgeted revenues of \$740,300 and expenses of \$740,300 in the 2019 budget, a decrease of \$151,995 in estimated revenue and \$276,965 in estimated expenses from the final 2018 budget.

Contacting the Agency's Financial Management:

This financial report is designed to provide readers with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Hempstead Industrial Development Agency at 350 Front Street, Hempstead, New York 11550 or at (516) 812-3134.

**Town of Hempstead
Industrial Development Agency**

**FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT**

December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Town of Hempstead Industrial Development Agency
Hempstead, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Hempstead Industrial Development Agency (the Agency), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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 from 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 Agency'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 Agency'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 Industrial Development Agency

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 Agency as of December 31, 2018 and 2017 and the respective changes in financial position and cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Agency's financial statements for the year ended December 31, 2018 reflect the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Refer to Note 14 in the accompanying financial statements for the impact of this implementation. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of the Agency's Proportionate Share of the Net Pension Liability, Schedule of the Agency's Contributions, and Schedule of the Changes in the Agency's Total OPEB Liability and Related Ratios on pages i through vi and 32 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Town of Hempstead Industrial Development Agency

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2019 on our consideration of the Agency'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 solely 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 effectiveness of the Agency's 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 Agency's internal control over financial reporting and compliance.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 23, 2019

**Town of Hempstead
Industrial Development Agency**

STATEMENTS OF NET POSITION

December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 2,870,981	\$ 2,997,810
Fees receivable	6,000	132,180
Other receivable	8,523	3,328
Total current assets	<u>2,885,504</u>	<u>3,133,318</u>
Property and equipment:		
Furniture and equipment	146,148	146,148
Less accumulated depreciation	<u>112,982</u>	<u>104,942</u>
Property and equipment, net	<u>33,166</u>	<u>41,206</u>
Total assets	<u>2,918,670</u>	<u>3,174,524</u>

DEFERRED OUTFLOWS OF RESOURCES

Changes in proportion and differences between Agency contributions and proportionate share of contributions	114,619	96,755
Net difference between projected and actual investment earnings on pension plan investments	49,982	20,602
Differences between expected and actual experience	12,274	2,585
Changes of assumptions	<u>22,818</u>	<u>35,237</u>
Total deferred outflows of resources	<u>199,693</u>	<u>155,179</u>
Total assets and deferred outflows of resources	<u>3,118,363</u>	<u>3,329,703</u>

See notes to financial statements

**Town of Hempstead
Industrial Development Agency**

STATEMENTS OF NET POSITION

December 31, 2018 and 2017

LIABILITIES

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable and accrued expenses	559	37,855
Total current liabilities	<u>559</u>	<u>37,855</u>
Long-term liabilities:		
Compensated absences	48,547	184,536
Post-employment health benefits	722,876	524,867
Net pension liability - proportionate share	<u>34,412</u>	<u>103,143</u>
Total long-term liabilities	<u>805,835</u>	<u>812,546</u>
Total liabilities	<u>806,394</u>	<u>850,401</u>

DEFERRED INFLOWS OF RESOURCES

Differences between expected and actual experience	10,143	15,663
Net difference between projected and actual investment earnings on pension plan investments	98,659	-
Changes in proportion and differences between Agency contributions and proportionate share of contributions	<u>6,772</u>	<u>7,304</u>
Total deferred inflows of resources	<u>115,574</u>	<u>22,967</u>
 Total liabilities and deferred inflows of resources	 <u>921,968</u>	 <u>873,368</u>

NET POSITION

Net investment in capital assets	33,166	41,206
Unrestricted	<u>2,163,229</u>	<u>2,415,129</u>
Total net position	<u>\$ 2,196,395</u>	<u>\$ 2,456,335</u>

See notes to financial statements

**Town of Hempstead
Industrial Development Agency**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Fees for services	\$ 777,049	\$ 1,223,254
Total operating revenues	<u>777,049</u>	<u>1,223,254</u>
Operating expenses:		
Salaries	483,336	574,607
Payroll taxes	42,314	43,486
Pension expense	84,166	89,436
Compensated absences	18,822	14,433
Health insurance	88,853	73,813
Post-employment health benefits	58,529	60,875
Contractual and professional fees	84,974	183,590
Advertising	5,000	5,750
Rent	15,000	24,000
Office and related expenses	18,740	25,347
Meetings and travel	1,830	2,938
Dues and subscriptions	2,984	2,591
Depreciation	8,040	8,040
Intergovernmental compliance	<u>-</u>	<u>125,000</u>
Total operating expenses	<u>912,588</u>	<u>1,233,906</u>
Operating loss	<u>(135,539)</u>	<u>(10,652)</u>
Non-operating income:		
Interest income	<u>15,079</u>	<u>7,309</u>
Change in net position	(120,460)	(3,343)
Net position, January 1 (as previously presented)	<u>2,456,335</u>	<u>2,459,678</u>
Net position, January 1 (as restated, see Note 14)	<u>2,316,855</u>	<u>-</u>
Net position, December 31	<u>\$ 2,196,395</u>	<u>\$ 2,456,335</u>

See notes to financial statements

**Town of Hempstead
Industrial Development Agency**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received:		
From providing services	\$ 903,229	\$ 1,091,824
Cash payments:		
Contractual services	(294,645)	(456,691)
Personal services and employee benefits	<u>(750,492)</u>	<u>(882,097)</u>
Net cash used by operating activities	<u>(141,908)</u>	<u>(246,964)</u>
Cash flows from non-capital financing activities:		
Cash received from payments in lieu of taxes and penalties	11,913,753	-
Cash paid for payments in lieu of taxes and penalties	<u>(11,913,753)</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest income	<u>15,079</u>	<u>7,309</u>
Net cash provided by investing activities	<u>15,079</u>	<u>7,309</u>
Net decrease in cash and cash equivalents	(126,829)	(239,655)
Cash and cash equivalents, January 1	<u>2,997,810</u>	<u>3,237,465</u>
Cash and cash equivalents, December 31	<u>\$ 2,870,981</u>	<u>\$ 2,997,810</u>

See notes to financial statements

**Town of Hempstead
Industrial Development Agency**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (135,539)	\$ (10,652)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	8,040	8,040
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in assets:		
Fees receivable	126,180	(131,430)
Other receivable	(5,195)	(721)
(Increase) decrease in deferred outflows of resources	(44,514)	100,469
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(37,296)	23,376
Compensated absences	(135,989)	(190,191)
Post-employment health benefits	58,529	60,875
Net pension liability - proportionate share	(68,731)	(103,739)
Increase (decrease) in deferred inflows of resources	<u>92,607</u>	<u>(2,991)</u>
 Total adjustments	 <u>(6,369)</u>	 <u>(236,312)</u>
 Net cash used by operating activities	 <u>\$ (141,908)</u>	 <u>\$ (246,964)</u>

See notes to financial statements

Town of Hempstead Industrial Development Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

The financial statements of the Town of Hempstead Industrial Development Agency (the Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government 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.

Financial reporting entity: The Agency was created in 1971 by the Town Board of the Town of Hempstead, under the provisions of the Laws of New York State. The Agency is authorized and empowered by the provisions of Article 18-A of the General Municipal Law of the State of New York, as amended, and Chapter 529 of the Laws of 1971 of the State of New York to undertake projects and to lease or sell properties. The purpose of the Agency is to provide benefits that reduce costs and financial barriers to the creation and to the expansion of business and to enhance the number of jobs in the Town of Hempstead.

The Agency is governed by a seven-member Board of Directors whose members are appointed by the Town of Hempstead Town Board and is considered a New York State public benefit corporation. At December 31, 2018, six of the seven positions were filled and one Board of Director position was vacant.

All governmental activities and functions performed by the Agency are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity includes functions and activities over which appointed Agency directors exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designations of management and ability to significantly influence operations and accountability for fiscal matters.

Basis of accounting: The Agency utilizes the accrual basis of accounting and the flow of all economic resources (measurement focus). The basis of accounting and measurement focus emphasizes the measurement of operating income (loss) similar to the approach used by commercial enterprises and revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the Agency applies all GASB pronouncements and GAAP, except those that conflict with a GASB pronouncement.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued):

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred outflows/inflows of resources: GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, defined and classified deferred outflows of resources and deferred inflows of resources. A deferred outflow of resource is a consumption of net assets that applies to future period(s) and as such, will not be recognized as an outflow of resources (expense) until that time. A deferred inflow of resources is an acquisition of net assets that applies to future periods and, as such, will not be recognized as an inflow of resources (revenue) until that time.

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.

Fees receivable: Fees receivable represent amounts earned by the Agency but not yet collected at year end. Doubtful accounts are written off as they are deemed by management to be uncollectible. All receivables, as stated in the financial statements, are deemed by the Agency's management to be fully collectible and accordingly, no allowance for doubtful accounts has been recorded at December 31, 2018 and 2017.

Property and equipment: Property and equipment is stated at cost and is being depreciated using the straight-line method over the useful lives of the assets, which are 5 and 15 years.

Due to other governments: Effective October 1, 2018 the Agency began billing and collecting payments in lieu of taxes (PILOT) from the project properties. Payments collected are not considered revenues to the Agency and are disbursed to the appropriate taxing jurisdictions. Due to other governments consists of PILOT received that have been collected but not yet disbursed to the taxing jurisdictions. There was no balance due to other governments at December 31, 2018 or 2017.

Compensated absences: Agency 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 sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

Town of Hempstead Industrial Development Agency

NOTES TO FINANCIAL STATEMENTS

1. **Summary of significant accounting policies (continued):**

Budgetary data: The Agency adopts an annual budget to facilitate budgetary control and operational evaluations.

Net position classifications: Net position is classified and displayed in three components:

- a. **Net investment in capital assets:** Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. **Restricted net position:** Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation. At December 31, 2018 and 2017, the Agency has no balance in this classification.
- c. **Unrestricted net position:** All other balances in net position that do not meet the definition of "restricted" or "net investment in capital assets."

Revenue recognition: The Agency's primary sources of operating revenue are from application fees, administrative fees and compliance fees. Administrative fees are computed as a percentage of the total project. Fees are recorded as income when earned at the time of project closing.

Advertising costs: Advertising costs are charged to operations when incurred. Advertising costs for the years ended December 31, 2018 and 2017 were \$5,000 and \$5,750, respectively.

Change in accounting principle: The Agency has adopted all current standards of the GASB that are applicable. During the year ended December 31, 2018, the Agency implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The implementation of the Statement requires the Agency to report other post-employment benefits liabilities, expenses, deferred outflows of resources, and deferred inflows of resources, as applicable, on the full accrual basis of accounting.

During 2017, the Agency implemented GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

2. Conduit debt obligations, Industrial Revenue Bond transactions:

The Agency issues Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial, recreational and commercial facilities deemed to be in the public's 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 Agency, the State, nor any political sub-division 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, 2018 and 2017, outstanding debt induced by the Agency and issued by other entities amounted to \$90,950,592 and \$110,901,258, respectively. Debt service is paid directly to the lender by the entity that incurred the supplemental debt. The Agency has no liability or contingent liability for payment.

3. Payments in lieu of taxes and funds due to municipalities:

Through September 2018, the Town of Hempstead Comptroller's Office collected PILOT from the borrowing companies. Receipts were deposited into the Town of Hempstead Comptroller's office bank account and subsequently disbursed to the appropriate taxing jurisdictions. The cost of such services is reflected as intergovernmental compliance on the accompanying 2017 Statement of Revenues, Expenses and Changes in Net Position.

Effective October 1, 2018, the Agency began directly receiving PILOT from the borrowing companies. These receipts are deposited into a separate Agency bank account and subsequently disbursed to the appropriate taxing jurisdictions. PILOT payments are not considered revenue by the Agency.

4. Cash and cash equivalents:

The statutes of the State of New York govern the Agency's investment policies. Agency monies must be deposited in bank and trust companies authorized for the deposit of monies by the Town of Hempstead. The Agency's Board of Director's responsibility for administration of the investment program is delegated to the Chief Executive Officer pursuant to resolution.

Town of Hempstead Industrial Development Agency

NOTES TO FINANCIAL STATEMENTS

4. Cash and cash equivalents (continued):

The Chief Executive Officer is authorized to invest monies not required for immediate expenditure. Permissible investments include special time deposit accounts, certificates of deposit, obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America and obligations of New York State. All deposits, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act must be secured by a pledge of eligible securities with an aggregate market value or provided by General Municipal Law. Eligible securities used for collateralizing deposits are to be held by the bank or trust company pursuant to security and custodial agreements.

GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- Uncollateralized;
- Collateralized with securities held by the pledging financial institution in the Agency's name; or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Agency's name.

At December 31, 2018, the Agency's bank balances totaled \$8,659,877. This amount is exclusive of petty cash of \$64. Of the bank balances, \$500,000 was covered by federal deposit insurance and \$8,159,877 was secured by collateral held by the pledging financial institution's agent, a third-party financial institution, but not in the Agency's name.

At December 31, 2017, the Agency's bank balances totaled \$3,137,654. This amount was exclusive of petty cash of \$64. Of the bank balances, \$500,000 was covered by federal deposit insurance and \$2,637,654 was secured by collateral held by the pledging financial institution's agent, a third-party financial institution, but not in the Agency's name.

5. Lease obligations:

The Agency leases its office space from the Town of Hempstead in the building located at 350 Front Street, Suite 240, Hempstead, New York. Annual rent paid is \$30,000. During the years ended December 31, 2018 and 2017, \$15,000 and \$6,000, respectively of rent payments were reimbursed by the Town of Hempstead Local Development Corporation, a related party (see Note 11). Agency rent expense for the years ended December 31, 2018 and 2017 was \$15,000 and \$24,000, respectively. The Agency pays rent on a month-to-month basis.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

6. Property and equipment:

Activity for furniture and equipment for the year ended December 31, 2018 is summarized as follows:

	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>
Equipment	\$ 21,031	\$ -	\$ -	\$ 21,031
Furniture and fixtures	26,703	-	-	26,703
Leasehold improvements	<u>98,414</u>	<u>-</u>	<u>-</u>	<u>98,414</u>
	146,148	-	-	146,148
Less accumulated depreciation	<u>(104,942)</u>	<u>(8,040)</u>	<u>-</u>	<u>(112,982)</u>
Net	<u>\$ 41,206</u>	<u>\$(8,040)</u>	<u>\$ -</u>	<u>\$ 33,166</u>

Activity for furniture and equipment for the year ended December 31, 2017 is summarized as follows:

	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2017</u>
Equipment	\$ 21,031	\$ -	\$ -	\$ 21,031
Furniture and fixtures	26,703	-	-	26,703
Leasehold improvements	<u>98,414</u>	<u>-</u>	<u>-</u>	<u>98,414</u>
	146,148	-	-	146,148
Less accumulated depreciation	<u>(96,902)</u>	<u>(8,040)</u>	<u>-</u>	<u>(104,942)</u>
Net	<u>\$ 49,246</u>	<u>\$(8,040)</u>	<u>\$ -</u>	<u>\$ 41,206</u>

Depreciation expense was \$8,040 for the years ending December 31, 2018 and 2017.

7. Pension plan:

Plan description: The Agency participates in the New York State and Local Employees' Retirement System (ERS) which is part of the New York State and Local Retirement System (the System). This is a cost-sharing, multiple-employer defined benefit retirement system. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Plan description (continued):

System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Agency also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Benefits provided: The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55 and the full benefit age for Tier 2 is 62.

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2% of final average salary for each year of service.

Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the NYSRSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Benefits provided (continued):

Tiers 1 and 2 (continued)

Benefit calculation (continued):

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20% of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20% of the average of the previous two years.

Tiers 3, 4 and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2% of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with 10 or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10% of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members.

Town of Hempstead
Industrial Development Agency
NOTES TO FINANCIAL STATEMENTS

7. **Pension plan (continued):**

Benefits provided (continued):

Tier 6 (continued)

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2% of final average salary is applied for each year of service over 20 years. Tier 6 members with 10 or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10% of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after 10 years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 ERS members, the accidental disability benefit is a pension of 75% of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tiers 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Benefits provided (continued):

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for 10 years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

Contributions: The System is non-contributory except for employees who joined the ERS after July 27, 1976, who contribute 3% of their salary for the first 10 years of membership and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. Contributions made during the current year and two preceding years were equal to 100% of the contributions required and were as follows:

2018	\$104,804
2017	95,697
2016	112,269

The Agency's 2019 invoice to the System for \$91,699 is due February 1, 2019 and was paid subsequent to year-end. In accordance with the provisions of GASB Statement No. 68, those contributions are not recognized as pension expense in the accompanying financial statements and will be reflected as a reduction of the Agency's proportionate share of the net pension liability in 2019.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Contributions (continued):

Chapter 57 of the Laws of 2013 of the State of New York, Part BB, amending several sections of the Retirement and Social Security Law, was enacted and allows local employers to amortize a portion of their retirement bill for up to 12 years in accordance with the following stipulations:

- The maximum amount an employer can amortize is the difference between the normal annual contribution (total bill, excluding payments for deficiency, group life, previous amortizations, incentive costs and prior year adjustments) and the graded contribution.
- For subsequent State Fiscal Years (SFYs), the graded rate will increase or decrease by up to one-half of 1% depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- The interest rate will be set annually and will be comparable to a 12-year U.S. Treasury Bond plus 1%.
- For subsequent SFYs in which the System's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions: At December 31, 2018 and 2017, the Agency reported a liability of \$34,412 and \$103,143, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2018 and March 31, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2018 and 2017, the Agency's proportion was .0010663% and .0010977%, respectively.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended December 31, 2018, the Agency recognized pension expense of \$84,166. At December 31, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,274	\$ 10,143
Changes of assumptions	22,818	-
Net difference between projected and actual earnings on pension plan investments	49,982	98,659
Changes in proportion and differences between Agency contributions and proportionate share of contributions	<u>114,619</u>	<u>6,772</u>
Total	<u>\$ 199,693</u>	<u>\$115,574</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended March 31:</u>	<u>Amount</u>
2019	\$ 49,930
2020	37,505
2021	(3,928)
2022	613

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended December 31, 2017, the Agency recognized pension expense of \$89,436. At December 31, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,585	\$ 15,663
Changes of assumptions	35,237	-
Net difference between projected and actual earnings on pension plan investments	20,602	-
Changes in proportion and differences between Agency contributions and proportionate share of contributions	<u>96,755</u>	<u>7,304</u>
Total	<u>\$155,179</u>	<u>\$ 22,967</u>

Actuarial assumptions: The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions:

	<u>2018</u>	<u>2017</u>
Inflation	2.5%	2.5%
Salary increases	3.8%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.0%	7.0%
Cost of living adjustments	1.3%	1.3%

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Actuarial assumptions (continued):

Annuitant mortality rates for both 2018 and 2017 are based on April 1, 2010 - March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2017 and April 1, 2016 valuations are based on the results of an actuarial experience study for the period April 1, 2010 through March 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 and 2017 are summarized below:

<u>Asset Class</u>	2018 Long-Term Expected Real Rate of Return	2017 Long-Term Expected Real Rate of Return
Domestic equity	4.55%	4.55%
International equity	6.35%	6.35%
Private equity	7.50%	7.75%
Real estate	5.55%	5.80%
Absolute return strategies (1)	3.75%	4.00%
Opportunistic portfolio	5.68%	5.89%
Real assets	5.29%	5.54%
Bonds and mortgages	1.31%	1.31%
Cash	(0.25)%	(0.25)%
Inflation-indexed bonds	1.25%	1.50%

(1) Excludes equity-oriented and long-only funds. For investment management purposes, these funds are included in domestic equity and international equity.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Actuarial assumptions (continued):

Discount rate: The discount rate used to calculate the total pension liability in 2018 and 2017 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to the discount rate assumption: The following presents the Agency's proportionate share of the 2018 and 2017 net pension liability calculated using the discount rate, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>2018</u>		
	1% Decrease <u>(6.0%)</u>	Assumption <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
Agency's proportionate share of the net pension liability (asset)	\$260,376	\$34,413	\$(156,743)
	<u>2017</u>		
	1% Decrease <u>(6.0%)</u>	Assumption <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
Agency's proportionate share of the net pension liability (asset)	\$329,418	\$103,143	\$(88,172)

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

7. Pension plan (continued):

Pension plan fiduciary net position: The components of the net pension liability of the employers as of March 31, 2018 and 2017, were as follows:

	(Dollars in Thousands)	
	<u>Employees' Retirement System</u>	
	<u>2018</u>	<u>2017</u>
Employers' total pension liability	\$ 183,400,590	\$ 177,400,586
Plan net position	<u>(180,173,145)</u>	<u>(168,004,363)</u>
Employers' net pension liability	<u>\$ 3,227,445</u>	<u>\$ 9,396,223</u>
Ratio of plan net position to the employers' total pension liability	98.2%	94.7%

8. Liability for compensated absences:

The Agency, in conformity with the Town of Hempstead collective bargaining agreement, maintains a policy which permits employees to accumulate a limited amount of earned but unused vacation leave and sick time, which will be used in future years or paid upon separation from the Agency's service. Upon termination, an employee hired before January 1, 2013 will be paid for a maximum of 800 hours of vacation time. An employee hired after January 1, 2013 will be paid for a maximum of 400 hours of vacation time, upon termination.

Sick time will be paid in accordance with a schedule based upon years of completed service, up to 1,600 hours if hired before January 1, 2013. If hired after this date, the maximum paid sick time will be up to 800 hours. The cost of accumulated vacation and sick leave, as well as an amount for salary related payments (i.e. Social Security and Medicare taxes), is recorded as a liability and expense when accrued.

The liability for compensated absences as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance, January 1	\$ 184,536	\$ 374,727
Additions (deletions)	<u>(135,989)</u>	<u>(190,191)</u>
Balance, December 31	<u>\$ 48,547</u>	<u>\$ 184,536</u>

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

8. Liability for compensated absences (continued):

Additions and deletions to compensated absences are shown net, since it is impractical to determine these amounts separately.

9. Expenses and fees for bonds and straight leases:

All expenses incurred by the Agency for notices, court recorders, meeting rooms, underwriting, trustees, legal, issuance of bonds and notes and straight leases are for the account of, and reimbursed by, the applicant.

The Agency's minimum fees are as follows:

1. **Application fee:** The Agency charges a non-refundable fee of \$3,000 at the time of receiving a formal application for assistance.
2. **Administrative fee:** The Agency charges one-time administrative fees as follows:

	<u>Percentage of Value</u>
Tax exempt bonds, taxable bonds and straight lease fee:	
Up to \$25,000,000	0.6%
\$25,000,000 and over	0.1%

A transaction less than \$1,500,000 in total (all project costs) may be considered for a special straight-lease which would have an agency fee of \$7,000 or less.

For taxable bonds and straight-lease transactions, the minimum fee is based on the amount of bonds, the amount of the total project costs or the amount of the increased value of the assets under a straight-lease plus the amount of all anticipated capital improvements and/or equipment to be purchased for which the applicant receives benefits from the Agency.

3. **Annual compliance fees:** The Agency charges an initial compliance fee of \$3,000 and an annual compliance fee of \$1,500 for the term of bonds or straight-lease. This non-refundable annual fee is paid in advance on the first day of each year. The fee covers the cost of annual reporting and monitoring of the transaction. The fee is subject to periodic review and can be adjusted at the discretion of the Agency.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

9. Expenses and fees for bonds and straight leases (continued):

4. Agency Counsel's fee: The fee for Agency Counsel is approximately 0.1% of the amount of the bonds, the amount of the total project costs or the amount of the increased value of the assets under a straight lease plus the amount of all anticipated capital improvements and/or equipment to be purchased for which the applicant will receive benefits from the Agency. The applicant pays the Agency Counsel's fee. The fee structure may be adjusted for a special straight-lease only. For terminations, consents, second mortgages, and other financings, Agency counsel shall bill at the prevailing hourly rate.

5. Bond Counsel fee: The applicant pays the Bond Counsel fee.

6. Miscellaneous fees:

	<u>Minimum Amount</u>
Extension of inducement	\$500
Document processing	\$1,000 - \$2,000
*Amendments, waivers, subordinate and collateral mortgage assignments, leases and sub-leases, etc.	\$ 750 - \$1,500
Termination fee	\$1,000
Consent, 2nd mortgages and other financings	Set by Board on a case to case basis

Percentage of value

*Refinance bonds	0.600% plus applicable administrative fee
*Assumption of outstanding bonds	0.125% plus applicable administrative fee

* These fees are subject to adjustment at the discretion of the Agency, based on the complexity of the transaction involved.

The Agency recognizes its fees for services as operating revenues. Non-operating income results from activities not related to these transactions.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

10. Post-employment health insurance benefit (OPEB) plan:

General information about the OPEB plan:

Plan description: During 2008, the Agency established a post-employment health insurance benefit plan for retired employees of the Agency. The plan is a single-employer defined benefit health insurance plan administered by the Agency. Financial activities of the plan are included in the financial statements of the Agency. The plan does not issue a separate financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits provided: The plan provides health insurance coverage to all eligible retirees and their eligible dependents.

Eligibility: For a retiree to be eligible, he/she should have a minimum of 10 years of service with any public employer in the State of New York and have a minimum of five full years of service in the Agency.

Employees Covered by benefit terms:

Active employees	4
Inactive employees not yet receiving benefit payments	<u>1</u>
Total	<u>5</u>

Contributions: The plan is non-contributory for employees and retirees. The funding requirements of the plan will be met by contributions from the Agency. At December 31, 2018 and 2017, the plan was unfunded. The Agency is informally setting aside funds with the intention that they be applied toward this future liability.

Total OPEB liability:

The Agency's total OPEB liability of \$722,876 was measured as of December 31, 2018. The Agency qualifies to use the Alternative Measurement Method (AMM) without a full actuarial valuation. The AMM calculation process is similar to an actuarial valuation, but with simplifications of several assumptions permitted under GASB guidelines.

Assumptions and other inputs: The total OPEB liability in the December 31, 2018 valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

10. Post-employment health insurance benefit (OPEB) plan (continued):

Total OPEB liability (continued):

Assumptions and other inputs (continued):

Discount rate	4.00%
Projected salary increases	3.00%
Mortality rates	Based on RP2000 Table for males and females, projected 18 years

Healthcare cost trend rates were developed consistent with the Getzen model promulgated by the Society of Actuaries for use in long-term trend projection. Healthcare cost trend rates include:

Medical	4.60% for year 1, fluctuating to an ultimate rate of 4.70% in year 10
Pharmacy	7.60% for year 1, fluctuating to an ultimate rate of 4.70% in year 10
Dental	3.50% in year 1, decreasing to 3.00% for years 2 - 10
Vision	3.00%

The discount rate used to measure the total OPEB liability was 4.00%. The discount rate is based on the 20-year tax exempt municipal bond yield.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

10. Post-employment health insurance benefit (OPEB) plan (continued):

Changes in the Total OPEB Liability:

Balance at December 31, 2017	\$664,347
Changes for the year:	
Service cost	36,091
Interest	<u>22,438</u>
	<u>58,529</u>
Balance at December 31, 2018	<u>\$722,876</u>

In accordance with GASB 75 paragraph 43(a), deferred inflows and deferred outflows of resources related to differences between actual and expected experience with regard to economic or demographic factors or changes in assumptions and other inputs are not used under the AMM and are instead recognized in OPEB expense immediately.

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the Agency, as well as what the Agency's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.00%) or one percentage point higher (5.00%) than the current discount rate:

1% Decrease	Current Discount	1% Increase
<u>(3.00%)</u>	<u>Rate (4.00%)</u>	<u>(5.00%)</u>
\$ 853,968	\$ 722,876	\$ 609,077

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate: The following presents the total OPEB liability of the Agency, as well as what the Agency's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the baseline trend:

	Healthcare	
<u>Trend Rate -1%</u>	<u>Cost Rate</u>	<u>Trend Rate +1%</u>
\$ 581,302	\$ 722,876	\$ 905,008

The baseline trend rate for the current year is as follows:

Medical	4.60%
Pharmacy	7.60%
Dental	3.50%
Vision	3.00%

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

10. Post-employment health insurance benefit (OPEB) plan (continued):

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended December 31, 2018, the Agency recognized OPEB expense of \$58,529. There were no deferred inflows of resources or deferred outflows of resources reported.

11. Related party transactions:

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

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 paid to the Agency for the years ended December 31, 2018 and 2017 were \$17,050 and \$6,750, respectively. At December 31, 2018 and 2017, the Agency had a receivable of \$8,523 and \$3,328, respectively, for amounts owed from the Corporation which is reflected on the Statements of Net Position as other receivable.

12. Abatements Recapture:

The Agency is empowered by its enabling legislation to grant various benefits in connection with qualifying projects it agrees to help finance, including granting exemptions from the imposition of sales and use taxes on purchases of materials and equipment for use in connection with a project. However, it is the policy of the Agency to grant benefits with respect to a qualifying project only in return for a commitment from the business receiving the Agency benefits to operate and maintain the project consistent with the term of the lease agreement or the life of the bonds. Failure to do so may result in financial penalties being imposed on the business in the form of a required recapture of benefits payment. The Agency would remit any applicable sales and use taxes recaptured to New York State and retains the local portion of the recapture of benefits payments, including any real property tax and mortgage recording tax benefits recaptured pro-rata basis for distribution to the local taxing jurisdictions. During 2018 the Agency imposed a recapture of \$63,413 which was distributed to the state and local taxing jurisdictions as required. There was no recapture imposed in 2017 by the Agency.

**Town of Hempstead
Industrial Development Agency**

NOTES TO FINANCIAL STATEMENTS

13. Litigation:

The Agency is currently being represented in an Article 78 proceeding which challenges the Agency's legal authority to issue benefits regarding a development project in the downtown area of the Village of Hempstead. In January 2017 the Court dismissed the proceeding in its entirety. An appeal has been perfected and the parties are currently awaiting a date for oral arguments. The Agency intends to continue to defend vigorously against all claims in this matter.

The Agency is subject to various actions or claims arising from the normal conduct of its affairs. The ultimate outcomes cannot be determined at this time. Management does not believe that any such litigation, individually or in the aggregate, is likely to have a material adverse effect on the Agency's financial condition.

14. Prior period adjustment:

The following restatement was performed to net position at the beginning of 2018 due to a change in accounting principle resulting from the adoption of GASB Statement 75:

Net position at January 1, 2018, as previously stated	\$2,456,335
Add net pension liability	524,867
Less total OPEB liability	<u>(664,347)</u>
Net position at January 1, 2018, as restated	<u>\$2,316,855</u>

The Agency presents comparative financial statements for the years ended December 31, 2018 and 2017. As it is not practical for the Agency to determine the amounts of all adjustments related to OPEB for the year ended December 31, 2017, the cumulative effect of applying this statement is reported as a restatement of beginning net position for the year ended December 31, 2018, the earliest period restated. The December 31, 2017 financial statements have not been restated.

15. New pronouncement:

The GASB has issued Statement No. 87, *Leases*, the objective of which is to improve financial reporting by improving accounting for leases by governments. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about a government's leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. The Agency is currently evaluating the impact of this pronouncement.

**Town of Hempstead
Industrial Development Agency**

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2018

	<u>Budgetary Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fees for services	\$ 891,600	\$ 888,795	\$ 777,049	\$ (111,746)
Interest income	3,500	3,500	15,079	11,579
Total revenues	<u>895,100</u>	<u>892,295</u>	<u>792,128</u>	<u>(100,167)</u>
Expenses:				
Salaries	470,600	637,147	483,336	153,811
Payroll taxes	35,000	39,560	42,314	(2,754)
Pension expense	95,000	104,804	84,166	20,638
Compensated absences	-	-	18,822	(18,822)
Health insurance	71,500	89,853	88,853	1,000
Post-employment health benefits	-	-	58,529	(58,529)
Contractual and professional fees	30,500	94,636	84,974	9,662
Advertising	5,000	5,000	5,000	-
Rent	15,000	15,000	15,000	-
Office and related expenses	28,100	18,275	18,740	(465)
Meetings and travel	7,500	1,806	1,830	(24)
Dues and subscriptions	3,700	2,984	2,984	-
Depreciation	8,200	8,200	8,040	160
Intergovernmental compliance	125,000	-	-	-
Total expenses	<u>895,100</u>	<u>1,017,265</u>	<u>912,588</u>	<u>104,677</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ -</u>	<u>\$ (124,970)</u>	(A) <u>\$ (120,460)</u>	<u>\$ 4,510</u>

(A): During the year the Agency's final budget reflected utilization of \$124,970 of prior year unrestricted net position.

**Town of Hempstead
Industrial Development Agency**

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fees for services	\$ 977,200	\$ 972,500	\$ 1,223,254	\$ 250,754
Interest income	<u>3,500</u>	<u>3,500</u>	<u>7,309</u>	<u>3,809</u>
Total revenues	<u>980,700</u>	<u>976,000</u>	<u>1,230,563</u>	<u>254,563</u>
Expenses:				
Salaries	531,880	534,863	574,607	(39,744)
Payroll taxes	39,620	39,844	43,486	(3,642)
Pension expense	100,000	100,000	89,436	10,564
Compensated absences	-	-	14,433	(14,433)
Health insurance	70,000	74,000	73,813	187
Post-employment health benefits	-	-	60,875	(60,875)
Contractual and professional fees	55,000	174,955	183,590	(8,635)
Advertising	45,000	7,000	5,750	1,250
Rent	22,000	24,000	24,000	-
Office and related expenses	26,300	27,400	25,347	2,053
Meetings and travel	9,200	3,200	2,938	262
Dues and subscriptions	3,700	2,700	2,591	109
Depreciation	8,200	8,200	8,040	160
Intergovernmental compliance	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Total expenses	<u>1,035,900</u>	<u>1,121,162</u>	<u>1,233,906</u>	<u>(112,744)</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (55,200)</u>	<u>\$ (145,162)</u>	(A) <u>\$ (3,343)</u>	<u>\$ 141,819</u>

(A): During the year the Agency passed a budget adjustment to utilize \$89,962 of prior year unrestricted net position.

**Town of Hempstead
Industrial Development Agency**

**SCHEDULE OF THE AGENCY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

**New York State and Local Retirement System Pension Plan
Last Four Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.0010663%	0.0010977%	0.0012890%	0.0013559%
Agency's proportionate share of the net pension liability	\$ 34,412	\$ 103,143	\$ 206,882	\$ 45,805
Agency's covered payroll	565,850	542,261	506,582	479,414
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	6.1%	19.0%	40.8%	9.6%
Plan fiduciary net position as a percentage of the total pension liability	98.2%	94.7%	90.7%	97.9%

* The amounts presented for each fiscal year were determined as of the System's measurement date, March 31st.

**Town of Hempstead
Industrial Development Agency**

SCHEDULE OF THE AGENCY'S CONTRIBUTIONS

**New York State and Local Retirement System Pension Plan
Last Four Fiscal Years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 104,804	\$ 95,697	\$ 112,269	\$ 119,201
Contributions in relation to the contractually required contribution	<u>(104,804)</u>	<u>(95,697)</u>	<u>(112,269)</u>	<u>(119,201)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Agency's covered payroll	\$ 565,850	\$ 542,261	\$ 506,582	\$ 479,414
Contributions as a percentage of covered payroll	18.52%	17.65%	22.16%	24.86%

* The amounts presented for each fiscal year were determined as of the fiscal year end.

**Town of Hempstead
Industrial Development Agency**

**SCHEDULE OF THE CHANGES IN THE AGENCY'S TOTAL OPEB LIABILITY
AND RELATED RATIOS**

Last Fiscal Year

	<u>2018</u>
Total OPEB Liability:	
Service cost	\$ 36,091
Interest	<u>22,438</u>
Net change in total OPEB liability	58,529
Total OPEB liability, beginning	<u>664,347</u>
Total OPEB liability, ending	<u>\$ 722,876</u>
Agency's covered payroll	437,835
Total OPEB liability as a percentage of covered employee payroll	165.10%

**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 Industrial Development Agency
Hempstead, New York

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 Industrial Development Agency (the Agency) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 Industrial Development Agency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sheehan & Company CPA, P.C.

Brightwaters, New York
March 23, 2019