



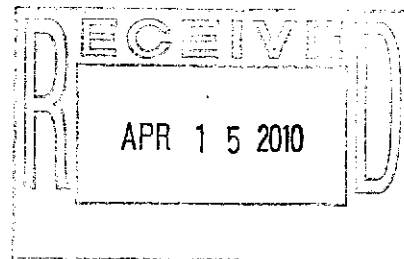
THOMAS P. DINAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

STEVEN J. HANCOX
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

April 15, 2010

Mayor Wayne J. Hall, Sr.
Members of the Board of Trustees
Village of Hempstead
99 Nichols Court
Hempstead, New York 11550



Report Number: B7-10-11

Dear Mayor Hall and Members of the Board:

Chapter 642 of the Laws of 2006 authorized the Village of Hempstead (Village) to issue debt totaling \$4.2 million to liquidate the accumulated deficits in the Village's general and water funds at May 31, 2005. Local Finance Law Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their tentative or preliminary budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on the adoption of the budget or the last date on which the budget may be finally adopted, whichever is sooner. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the proposed budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the Village.

The Village Board (Board), no later than five days prior to the adoption of the budget, must review all recommendations made by the State Comptroller and may make adjustments to its proposed budget consistent with those recommendations contained in this report. All recommendations that the Board rejects must be explained in writing to our Office.

Our Office has completed an audit of the Village's budget for the 2010-11 fiscal year. The objective of the audit was to provide an independent evaluation of the tentative budget. Our audit addressed the following question related to the Village budget for the 2010-11 fiscal year:

- Are the significant revenue and expenditure projections in the Village's tentative budget reasonable?

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS), with the exception of reporting views of responsible officials. Officials' views were not solicited for this report due to the necessity of providing the Village with this time-sensitive information. However, the results of this audit have been discussed with Village officials and their comments have been considered in preparing this report. GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions regarding the estimates in the tentative budget.

To accomplish our objectives in this audit, we requested your tentative budget along with other pertinent information. We analyzed the composition of revenues and expenditures in order to determine if the revenue and expenditure estimates are reasonable. We do not offer comments on public policy decisions, such as the type and level of services to be provided.

The tentative budget package submitted for audit for the fiscal year ended 2010-11 consisted of the following:

- 2010-11 Tentative Budget
- Supplementary Information

The tentative budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for other uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$71,882,391	\$14,872,196	\$4,535,655	\$52,474,540
Debt Service	\$6,440,520	\$6,440,520	-	-
Water	\$6,987,744	\$6,987,744	-	-
Library	\$2,979,370	\$2,979,370	-	-
Self Insurance	\$4,393,452	\$4,393,452	-	-

Based on the results of our audit, except as noted below, we found the significant revenue and expenditure estimates in the proposed budget to be reasonable. However, the Village should continue to monitor the revenues and expenditures in both the general fund and the water fund.

General Fund - Appropriated Fund Balance

The Village ended the 2008-09 fiscal year with an unreserved general fund balance of \$8.8 million. The 2009-10 budget included an appropriation of fund balance of \$2.3 million, leaving \$6.5 million available at May 31, 2009 for use in future years. Village officials project a shortfall in the current year's results of operations of about \$990,000, which will reduce available fund balance to about \$5.4 million by May 31, 2010. The Village's 2010-11 tentative budget includes an appropriation of fund balance of approximately \$4.5 million (83 percent of fund balance), further reducing the fund balance available to fund future budgets to less than \$1 million. A fund balance of this amount may not provide sufficient resources to meet cash flow needs to finance current operations. As a result, the Village may experience cash flow problems in the coming year. State law allows villages to maintain a reasonable fund balance as insurance against unanticipated expenditures or revenue shortfalls. The New York State Government Finance

Officers' Association suggests that local government officials should try to maintain an unreserved fund balance of between 5 and 15 percent of total expenditures, depending on the Village's cash flow needs and the size of its budget.

Fund balance, as a one-time revenue source, is best used to finance one-time costs, to reduce debt, or to pay for capital costs, and not to pay for ongoing expenditures. We recommend that the Board and Village officials closely monitor the general fund's results of operations, evaluate the sustainability of appropriating fund balance to fund recurring operations, and determine a reasonable level of fund balance required to maintain a stable financial position. If necessary, Village officials should identify other revenue sources or cost savings that can replace fund balance as a source of funding in case it is no longer available to help pay for Village operations.

Water Fund Deficit Balance

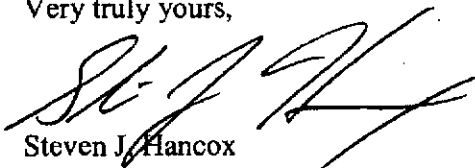
During our prior budget review, Village officials anticipated an operating surplus in the water fund of approximately \$600,000, which would have reduced the fund deficit from \$973,709 to \$373,709 at May 31, 2009. They attributed the projected operating surplus to increased revenue from the installation of new water meters. However, the Village ended the 2008-09 fiscal year with an operating deficit in the water fund of \$252,173, resulting in a year-end cumulative fund deficit of \$1,225,882. The operating deficit was caused by unexpected adjustments to water meter revenues resulting from inconsistencies in water meter readings between the old and the new water meters. Village officials project that water fund operations will break even for the fiscal year ending May 31, 2010, leaving the fund deficit of \$1,225,882 almost unchanged at that date.

Although the proposed 2010-11 water fund budget does not directly address the water fund deficit, the Board authorized an increase in the water rate on April 12, 2010, of 22 percent. The 2010-11 tentative budget, which factors in the increased rate, includes an estimated revenue from metered water sales of \$6,742,000, or \$405,495 more than the amount estimated in the 2009-10 adopted budget. Village officials are hopeful that the rate increase will generate sufficient revenue to sustain water fund operations. However, the Board should closely monitor water fund operations throughout the year and adjust the budget accordingly if the above revenue estimate is not met. Additionally, Village officials should develop and implement a long-term financial plan that would gradually reduce and eventually eliminate the water fund's deficit.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt a budget for the Village. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of our Long Island office, at (631) 952-6534.

Very truly yours,



Steven J. Hancox
Deputy Comptroller

cc: Raymond Calame, Village Treasurer/Comptroller
Mary Ellen Hillmann, Village Clerk
Hon. Carl Kruger, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Chair, Assembly Ways and Means Committee
Hon. Earlene Hooper, State Assembly
Hon. Kemp Hannon, State Senate
Robert L Megna, Director, Division of the Budget
Ira McCracken, Chief Examiner