

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2014

(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Riverhead Industrial Development Agency's (Agency's) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2014. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- The assets of Agency exceeded its liabilities at December 31, 2014 by \$79,820.
- The Agency's total assets decreased by \$120,744 in year 2014 and the total liabilities decreased by \$7,431 in the year ended December 31, 2014.
- The Agency's 2014 operating revenues decreased \$250,170 from the 2013 operating revenues.
- The Agency has commitments for two projects closing in 2015 which will yield an estimated \$141,850 in project fees.

Basic Financial Statements Ended December 31, 2014:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets of the Agency as well as liabilities.
- 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 are located immediately following the financial statements.
- The statement of net position and the statement 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 and liabilities of the Agency using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in net position. The net position is the difference between assets and liabilities, 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 an indicator of whether its financial health is improving or deteriorating.

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Condensed Comparative Financial Statements:

Condensed Balance Sheets at December 31,

| | <u>2014</u> | <u>2013</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|---|--------------------|--------------------|---------------------------------|----------------------------------|
| Total Current Assets | \$ 146,384 | \$ 267,261 | \$ (120,877) | -45% |
| Total Noncurrent Assets | 1,100 | 967 | 133 | 14% |
| Total Assets | \$ 147,484 | \$ 268,228 | \$ (120,744) | -45% |
| Total Current Liabilities | \$ 57,125 | \$ 68,545 | \$ (11,420) | -17% |
| Total Noncurrent Liabilities | 10,539 | 6,550 | 3,989 | 61% |
| Total Liabilities | 67,664 | 75,095 | (7,431) | -10% |
| Total Net Assets | 79,820 | 193,133 | (113,313) | -59% |
| Total Liabilities and Net Assets | \$ 147,484 | \$ 268,228 | \$ (120,744) | -45% |

**Condensed Statement of Financial Position for the
Year Ended December 31,**

| | <u>2014</u> | <u>2013</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
|-------------------------------|--------------------|--------------------|---------------------------------|----------------------------------|
| Total Operating Revenues | \$ 105,277 | \$ 355,447 | \$ (250,170) | -70% |
| Total Operating Expenses | 218,734 | 191,720 | 27,014 | 14% |
| Operating (loss) income | (113,457) | 163,727 | (277,184) | -169% |
| Total Non-Operating Revenue | 144 | 104 | (40) | -38% |
| Change in Net Position | \$(113,313) | \$ 163,831 | \$ (277,224) | -208% |

Analysis of Financial Position and Results of Operations:

Agency operations during 2014 resulted in \$67,408 in revenues being generated by fees associated with completed projects. The Agency operations also include revenues of \$37,869 related to Empire Zone Fees, project refinance fees, compliance fees and other items. Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand.

Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2014.

The charges for services line in the 2014 budget was established at \$125,924. During 2014 several anticipated projects did not close. This resulted in an approximate \$47,000 revenue shortage.

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Payroll for 2014 was budgeted for using the payroll at that time. There was an extra pay period in 2014, a cost of living and health care buy back increase resulting in an increase in both payroll and employee benefits causing both to be over budget.

Professional fees came in under budget.

The aggregate variance in all other budget lines was immaterial and individual explanation of each line is deemed unnecessary for this report.

Economic Condition and Outlook

The Agency has analyzed the results for the year ended December 31, 2014 which was a decrease in net position, which significantly diminishes the Agency's net position at the end of the year. As noted in the financial highlights above, the Agency has commitments for two projects closing in the year ending December 31, 2015 of approximately \$141,850, which exceeds the December 31, 2014 charges for services of \$78,958. Based upon a prudent budget for the year ending December 31, 2015, and a period of time thereafter, the Agency believes it will continue as a going concern.

COMPLETED PROJECTS

Hampton Jitney, Inc.

In July 2011, the Agency received an application for financial assistance from Hampton Jitney, Inc. a privately held corporation incorporated in the State of New York (Hampton Jitney), with respect to the construction and equipping of a new building and related site improvements at 253 Edwards Avenue, Calverton, New York, to be acquired by Hampton Jitney pursuant to an option to purchase held by the Hampton Jitney, for use as a bus maintenance repair, fueling and wash facility with necessary offices, a lobby including a snack bar, car rental facility and customer waiting and seating area, and a bus fueling area and customer parking area, and incidental work in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$8,745,800 (the Project). The Project is expected to be operated by the Hampton Jitney, with possible incidental subleases from time to time for portions thereof, such as the snack bar and the car rental facility.

Resolution approving the provision of financial assistance occurred on October 3, 2011.

The financial assistance approved by Agency for the Hampton Jitney: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (iii) a partial abatement of real property taxes attributable to any increase in assessed value of the real property comprising the Project over the present assessed value of such real property. The financial assistance described in (i), (ii) and (iii), above, is consistent with the uniform tax-exemption policy adopted by the Agency pursuant to Subdivision 4 of Section 874 of the General Municipal Law. Final closing documents were approved December 2012 and the Project closed in January 2013.

Construction began in 2013 and continued through 2014. In December 2014, the Agency approved a request of an increase in the project cost to \$11,119,665, Grand Opening is scheduled for 2015.

Thirty West Main, LLC

In November of 2013, the Agency received an application for financial assistance from Thirty West Main, LLC a limited liability company qualified to do business in the State of New York (Thirty West Main), with respect to the acquisition of parcel and renovation, reuse and equipping of existing 12,000 square foot building, located within a designated urban renewal area at 30 West Main Street, Riverhead, New York (S.C.T.M. No. 0600-128-6-22) for use as not more than one

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third retail space with the balance for office professional including shared use business start-up offices with support services estimated at a cost of \$1,630,000 (the Project).

The Project did not close in 2013. A public hearing was scheduled for 2014.

A public hearing and approval occurred in 2014. The financial assistance approved by the Agency for the Project was (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to two-thirds (2/3) of the assessed value of the improvements, subject to completion of the improvements detailed below, for a period of ten years, effective for the 2014/2015 tax billing year. PILOT payments shall be calculated and paid on the land assessment and one-third (1/3) of the improvement assessment or such greater amount as set forth if the required improvements have not been completed by December 2, 2014 or subsequent anniversary. Of the two-thirds (2/3) a-third shall be granted upon completion of the second floor improvements listed in Schedule B of the agreement and one-third (1/3) shall be granted for the completion of the improvements listed in Schedule B, and (iii) the provision of an abatement of the Mortgage Recording Tax not to exceed \$1,630,000 and initially on the Purchase Money Mortgage in the Principal Sum of \$500,000. A grand opening occurred in November of 2014 and tenants began taking occupancy.

December of 2014, the Agency approved a request for an increase in the project cost to \$2,040,000.

Riveredge, LLC

In January of 2014, the Agency received a request for continued assistance on Phase ii of a pre-existing project originally induced in 2007, Riveredge, LLC to construct an additional 123,946 square foot facility at 962 Burman Boulevard, Calverton, New York (S.C.T.M. No. 0600-135.10-01.00-005.000) to be leased to Riverhead Building Supply Corp. as a warehouse and millwork manufacturing facility of doors, windows and custom millwork products and distribution center to support an existing millwork distribution facility at an estimated total cost of \$5,056,219.00 (the Project).

A public hearing was held in March and financial assistance was approved. The Agency provided the Project with the following financial assistance with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes on the assessed valuation of project as determined by the difference between the total assessment for 2014-2015 and the total assessment for the year of exemption as shown on Schedule A in the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes.

Construction commenced through 2014.

WITHDRAWN PROJECTS

Simshabs X, Inc.

In June 2013, the Agency received a draft application for financial assistance from Simshabs, X as property owner, being a company qualified to do business in the State of New York (Simshabs), with respect to the construction of a 70,000 +/- square foot building located at 11 West Main Street, Riverhead, New York (S.C.T.M. #0600-128.00-03.00-068.0021) for use as 48 units of one and two-bedroom residential apartments and indoor parking facility for project known as Blue River Estates at an aggregate cost, including costs associated with the financing thereof, estimated to be \$9,650,000.

The Public Hearing on Simshabs X was postponed and the application was eventually withdrawn due to site plan difficulties in 2014.

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Wading River Catering, LLC

In June 2011, the Agency received an application for financial assistance from Wading River Catering, LLC a limited liability company qualified to do business in the State of New York (Wading River Catering), on behalf of the Wading River Catering and other related entities with respect to the construction of 6,600 square foot expansion to be used as a dining/meeting/storage facility with an aggregate cost estimated to be \$2,795,000 (the Project).

A public hearing was not held in 2013. The Project is in litigation and currently on hold. Wading River Catering declared bankruptcy in 2014 and the application is closed.

REFINANCES

Several refinances and financial refundings were assisted during 2014. Those entities included Eastern Property Investor Consultants, llc, RGR/East End Veterinary Emergency Center, and Eastern Wholesale Fence.

RETIRED PROJECTS

IDA bond projects retired in 2014 – Reilly Woodworks (formerly Michael Reilly Design). Three projects graduated from the IDA program in 2014 and will fully returned to the tax rolls in 2015 – Neefus Stype/JeJoep, John Wesley Village III, LI Vitreo Retinal Consultants (IDI). One deed transfer was completed for Altaire Pharmaceuticals (Sawaya).

PENDING APPLICATIONS

Peconic United Methodist Housing Development Fund Co (John Wesley Village LP)

In August of 2014, the Agency received a request for financial assistance from PECONIC UNITED METHODIST HOUSING DEVELOPMENT FUND COMPANY, INC. a New York not-for-profit company and JOHN WESLEY VILLAGE LP (JOHN WESLEY), with respect to the renovation of an existing 115 unit senior housing rental facility located at Middle Road, Riverhead, New York (SCTM #0600-82-02-4.6). The renovation shall include kitchen and bathroom replacement, wireless/central station call need assistance system, handicapped site access improvements, sidewalk upgrade work and safety and health improvements at an estimated cost of \$3,698,649 (the Project). The facility will be purchased by John Wesley Village LP at a total project cost of \$24,378,235. John Wesley LP would be a for profit entity.

A public hearing was held in September and financial assistance was approved. It was determined that the Agency shall provide JOHN WESLEY with the following financial assistance with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes as set forth in Schedule A of the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes. The financial assistance authorized would not be effective until closing. The approval was contingent upon JOHN WESLEY obtaining financing for the project through the New York State Housing Finance Agency into the approximate amount of \$12,000,000, with the exact amount to be determined by bond authority underwriters, and the issuance of low-income tax credits in the approximate amount of \$9,000,000 with the actual amount to be determined by New York State Homes and Community Renewal Agency, reflecting investor participation which funding will be evidenced by a Federal Housing Administration (FHA) insured mortgage placed upon the facility.

A closing did not occur in 2014.

Peconic Crossing, LLC

In October of 2014, the Agency received a request for financial assistance from Peconic Crossing, LLC, as property owner, and Conifer Realty, LLC, as operating entity, in conjunction with Community Development Corporation of Long

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Island, Inc. all qualified to do business in the State of New York (collectively referred to herein as Peconic Crossing), with respect to the acquisition of parcel, demolition of existing structure, and construction of a 70,000 +/- square foot building located within a designated urban renewal area at 11 West Main Street, Riverhead, New York (S.C.T.M. #0600-128.00-03.00-068.002) for use as 48 units of workforce rental housing with downstairs interior parking garage and vehicle access across adjacent parcel to Peconic Avenue for project known as Peconic Crossing at an aggregate cost, including costs associated with the financing thereof, estimated to be \$16,710,091 (the Project). The project is requesting that the Agency contemplate financial assistance such as (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes, and (iii) the provision of an exemption from Mortgage Recording Taxes. The financial assistance described in (i), (ii) and (iii), above, would be consistent with the uniform tax-exemption policy adopted by the Agency pursuant to Subdivision 4 of Section 874 of the General Municipal Law.

A public hearing was held in December 2014 and held open due to amendments made to the Project since the submission of the application. A new public hearing will be posted and published in 2015 upon receipt of the amended application.

Skydive Realty, LLC

In November of 2013, the Agency received an application for financial assistance from Skydive Realty, LLC, of the limited liability company qualified to do business in the State of New York (Skydive), with respect to the establishment of a 44,000 square foot indoor skydiving instruction and training facility on one acre of a 16.34 acre parcel located at 400 David Court, Calverton, New York (S.C.T.M. 0600-135.010-0001-010.000) for use by Indoor Skydiving New York Inc. at an estimated cost of \$4,553,000 (the Project).

A public hearing was held and financial assistance was approved for Project in March of 2014. The Agency provided Skydive with the following financial assistance with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes by granting a partial abatement of real property taxes attributable to any increase in assessed value of the real property comprising the Project over the present assessed value of such real property as determined by the Board of Assessors for the 2013/2014 tax year for a period of ten years as designated in Schedule A of the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes.

Due to an unusual catastrophic incident at Skydive this Project did not close in 2014 and continues to be on hold.

E.B.S. Building Systems

In April 2010, the Agency received an application for financial assistance from E.B.S. Building Systems, LLC (EBS) to support the establishment of its company in the Town of Riverhead. EBS proposes to acquire approximately 10 acres located at EPCAL and construct thereon approximately 67,300 square feet of buildings to be used by EBS in the manufacture of wood building components, including roof and floor trusses and wall panels and the purchase and installation of equipment.

The financial assistance requested by EBS included: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (iii) a partial abatement of real property taxes through a PILOT.

The closing did not occur in 2013. Applications to keep permits open for EBS were acquired in 2013. There was no update in 2014.

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Marketing

The Agency works closely with local economic development organizations, such as the Town of Riverhead Community Development Agency, the Riverhead Chamber of Commerce and Suffolk County to market the Town of Riverhead as a business location. Cooperative meetings are arranged to provide incentive proposals to potential companies. Co-sponsored seminars/events are both cost effective and effectual means from a public relations standpoint as well as marketing and general business assistance. The Agency also works closely with regional and national economic development organizations such as, the Stony Brook Small Business Development Center, Suffolk County Small Business Advisory Council, municipal economic development departments on Long Island, and the Long Island Association (LIA). The Agency participates in the LIA's IDA Long Island Coalition to boost the cooperative efforts and marketing of the region. Memberships to the New York State Economic Development Council and the International Economic Development Council not only provide exposure, but are prime resources for leads and networking.

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks, editorials submitted to economic development magazines, such as NY Real Estate Journal. Cold calls, editorials, and general public relations are all part of the grassroots approach to the Agency's marketing efforts. The Agency participates on panels hosted by Long Island Business periodicals; in seminars and in trade shows which all enhance marketing efforts.

General Business Assistance

The Agency fields calls from real estate brokers, attorneys, and companies interested in establishing a presence in the Town of Riverhead who are seeking direction as to location, permitting processes and information regarding benefits and incentives.

In addition, the current Director has the experience and knowledge to handle inquiries for assistance programs offered outside those of the Agency; providing a one stop service for businesses. These resources include low cost financing options, State and Federal incentive programs, grants, business planning, employment and housing assistance. The Agency staff assists businesses through the government and financial maze and helps interested parties find suitable sites and provides contact information to resources. The Director currently sits as President of the Riverhead Chamber of Commerce forging cooperative relationships locally and hosting coordinated seminars such as a Tax Incentive Seminar in February of 2014.

The Agency continues to host its annual East End Employment Expo and hosted several seminars on subjects such as "Creative Financing" and "Tax Incentives."

The Agency administers the Suffolk County/Town of Riverhead SC/TOR Empire Zone Program. The Empire Zone Program is a New York State Tax Credit program that has goals consistent with that of the Industrial Development Agency in regard to business attraction, expansion and retention. Although the program has sunset to new certifications, continued service to the zone certified entities and reporting is mandated by the State of New York for the life of the certified entity's benefit period. The SC/TOR Zone currently services 42 businesses. The Agency receives an annual fee for the administration of the zone.

This financial report is designed to provide a general overview of the Agency's finances. If you have any questions about this report or need additional information, contact the following:

Riverhead Industrial Development Agency
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