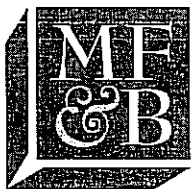


RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Financial Statements
December 31, 2007 and 2006

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)

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Markowitz, Fenelon & Bank, LLP

Certified Public Accountants

Service you deserve. Advice you trust.

78 White Street, Southampton, NY 11968

P: 631-283-4955 • F: 631-283-9587 • MFBCPA.com

Philip R. Tutino, CPA

Robert E. White, CPA, PFS

John E. Larkin, CPA

Mark M. Piscitelli, CPA

Thomas P. Terry, CPA

Joseph R. Mammola, Jr., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Riverhead Industrial Development Agency
Riverhead, New York 11901

We have audited the accompanying financial statements of the Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2007 and 2006, and the respective changes in financial position and, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2008 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 13 through 14, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying summary schedule of prior findings, schedule of findings and corrective action plan on pages 17 through 19 are presented for purposes of additional analysis as required by *Governmental Auditing Standards* and are not a required part of the basic financial statements. The summary schedule of prior findings, schedule of findings and corrective action Plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Markowitz Fenelon & Bank LLP

Markowitz, Fenelon & Bank, LLP
Southampton, New York

March 13, 2008

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2007
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Riverhead Industrial Development Agency's financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2007. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- The assets of the Agency exceeded its liabilities at December 31, 2007 by \$396,738.
- The Agency's total assets increased by \$120,361 in year 2007. The Agency's total liabilities increased by \$2,529 in year 2007.
- The Agency's 2007 operating revenue increased \$96,451 over the 2006 operating revenues.

Basic Financial Statements:

- The financial statements presented herein include all of the activities of the Riverhead Industrial Development 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 balance sheet and statement of revenues, expenses and changes in net assets 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 assets and changes in net assets. A net asset 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 assets are one indicator of whether its financial health is improving or deteriorating.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2007
(Unaudited)

Condensed Comparative Financial Statements:

Condensed Balance Sheets at December 31,				
	2007	2006	Dollar Change	Percentage Change
Cash	\$ 401,402	\$ 279,647	\$ 121,755	44%
Current assets	9,024	10,923	(1,899)	-17%
Property and equipment (Net)	1,764	1,259	505	40%
Total assets	\$ 412,190	\$ 291,829	\$ 120,361	41%
Current liabilities	\$ 15,452	\$ 12,923	\$ 2,529	20%
Total liabilities	15,452	12,923	2,529	20%
Unrestricted	396,738	278,906	117,832	42%
Total net assets	396,738	278,906	117,832	42%
Total liabilities and net assets	412,190	\$ 291,829	\$ 120,361	41%

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended December 31,				
	2007	2006	Dollar Change	Percentage Change
Total operating revenue	\$ 250,126	\$ 153,675	\$ 96,451	63%
Total operating expenses	132,753	64,390	68,363	106%
Operating income	117,373	89,285	28,088	31%
Non-operating revenues	459	337	122	36%
Changes in net assets	\$ 117,832	\$ 89,622	\$ 28,210	31%

Analysis of Financial Position and Results of Operations:

- Agency operations during 2007 resulted in increased revenue generated by administrative fees associated with approved projects. The Agency continues its approach to economic development by assisting local not-for-profit organizations such as the expansion of our community hospital together with assistance to traditional manufacturing operations. It is anticipated that the approval of the industrial park subdivision at the former Naval Weapons Industrial Reserve Plant and the pending sale and sub-division of an additional 300 acres to will result in an increase in applications for traditional manufacturing projects in 2008 and 2009. However, given the national economic uncertainty experienced during the first quarter of 2008, it is anticipated that the operating revenue of the Agency in 2008 may not meet or exceed the operating revenue of the current year. It should also be noted that over 1/3 of the Agency's income in fiscal year 2007 was generated from fees from the expansion of Central Suffolk Hospital, a not-for-profit organization. Management does not foresee sizable not-for-profit funding opportunities for 2008.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2007

(Unaudited)

Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2007.

The Charges for services line in the 2007 budget was established at \$195,044 based on projects that were actually filed at the time the budget was prepared. During 2007 projects that were not anticipated were actually closed resulting in approximately \$55,000 in excess actual revenues over budgeted revenues.

In the beginning of 2007 the Board of Directors renewed its search for an Executive Director. Payroll was budgeted at \$77,000 in anticipation of hiring a full time employee for twelve months. In fact an Executive Director was hired but did not begin employment until July 2007, resulting in under spending the payroll budget by approximately \$29,000. In addition to hiring an Executive Director the Agency also hired a Chief Financial Officer in September 2007.

Although the budget for 2007 was prepared anticipating the hiring of a full time Executive Director a provision was also made through Professional fees for the continuation of the interim service agreement with an independent contractor for both directorship and financial work. When both of the above-mentioned employees were hired the consulting agreement for these services was terminated resulting in under spending the professional fees budget by approximately \$13,000.

The aggregate variance in all other budget lines was approximately \$1,400, individual explanation of each line is deemed unnecessary for this report.

General Overview of IDA Function

The Riverhead Industrial Development Agency (RIDA) is a public benefit corporation of the State of New York created in 1980, pursuant to Article 18A of the General Municipal Law. The purpose of RIDA is to promote economic development or redevelopment in the Town of Riverhead by assisting in the acquiring, constructing, reconstructing, leasing, improving and equipping of certain manufacturing, warehousing, research, civic, commercial, industrial or public housing projects.

In order to promote economic development and redevelopment RIDA is authorized to provide financial assistance by issuing both tax-exempt and taxable industrial development bonds, by providing an exemption from mortgage recording taxes and sales and compensating use taxes and by providing real property tax abatement for a project. RIDA is authorized to provide financial assistance for applicants that either wish to locate or expand their eligible project in the Town of Riverhead. Typical projects eligible for financial assistance include the purchase and rehabilitation of existing buildings, the construction of new buildings or the construction of additions to existing buildings; including, in each case, the purchase and installation of machinery and equipment.

In providing financial assistance, RIDA acts as a conduit through which the transaction takes place. Although RIDA may issue bonds, it does not loan money to an applicant. Rather, a financial institution provides moneys directly to an applicant either by purchasing RIDA bonds, with RIDA making the proceeds available to the applicant, or by loaning moneys directly to the applicant. It is the responsibility of the applicant to arrange for a financial institution to finance the applicant's project. The applicant and the financial institution are responsible for negotiating all terms and conditions of any proposed bond issue or loan independent of RIDA.

A project bond issue or loan is secured by the financial strength and credit of the applicant. All bonds issued by RIDA are special obligations of RIDA and neither RIDA, the Town of Riverhead nor the State of New York guarantee the payment of such obligations.

On January 13, 2006, New York State Governor Pataki signed into law the Public Authority Accountability Act of 2005, which imposed new rules and requirements for governmental agencies and their Boards. All members of the Board of Directors of RIDA have completed the training requirements included within the Act and have filed necessary financial disclosure statements. The Board of Directors has adopted policies and codes required by the Act and have amended the Agency by-laws to establish an Audit Committee and Governance Committee and appointed members thereto. A website has been established to make available for public review documents, notices and reports of the Agency. The Agency is taking all necessary action to comply with the provisions of the Act.

Provided on the following pages is a summary of the recent projects that have received financial assistance from the RIDA and those projects for which the Agency has pending applications. Specific information on projects can be obtained by contacting RIDA.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2007

(Unaudited)

COMPLETED PROJECTS

Cal 81 Realty LLC (Island International Industries, Inc.)

The site of this project is located at the Enterprise Park at Calverton (EPCAL) on a parcel of land of approximately 27 acres and the building located thereon commonly known as Building 81.

The application for financial assistance filed with RIDA sought assistance to acquire the parcel of land and the building located thereon, the partial renovation of such building, the construction of site improvements, and the purchase and installation of equipment to permit the manufacture of exterior and interior panel systems.

The assistance provided by RIDA was the issuance of \$3,360,000 in tax-exempt bonds, exemption from mortgage recording taxes, exemption from sales and compensating use taxes, and abatement from real property taxes in accordance with the Agency's Uniform Tax Exemption Policy.

The bond closing for this project was completed December 2001. The administration of the benefits for this project is ongoing by the RIDA. This transaction initially involves the appointment of Cal Realty agent of the Agency with respect to the leasing and acquisition of the building and parcel and the appointment of Island as agent of the Agency with respect to renovating, constructing, equipping and maintaining the project. Once the major subdivision applied for by Jan Burman has been approved and filed with the County Clerk, then title to the 27-acre parcel will pass from Cal Realty to Riverhead IDA on behalf of Island Industries.

In 2006, RIDA received an application for financial assistance of Cal 81 Realty LLC/Island International Industries, Inc. to expand its facility at the EPCAL site with the construction of an additional 55,000 square feet of manufacturing space. In December 2006, RIDA issued tax-exempt bonds in the amount of \$1.5 million to partially pay the construction costs of this expansion project. In addition to the issuance of the tax-exempt bonds, RIDA also authorized a sales tax exemption and restated previously executed payment in lieu of tax agreement to assist this expansion project. The administration of the benefits for this project is ongoing by RIDA.

Central Suffolk Hospital

In November 2003, RIDA received an application for financial assistance from Central Suffolk Hospital (CSH). The application includes a request for a two-series issue of tax-exempt bonds. The first series in an amount expected not to exceed \$17,500,000 is for the refinancing of the existing debt of CSH with the NYS Dormitory Authority. The second series, in an amount not to exceed \$20,000,000, will fund various construction and renovation projects planned by CSH. The construction/renovation projects include an expansion of the emergency department, internal renovation to convert medical/surgical beds to psychiatric beds, the renovation of the existing skilled nursing unit and renovations to existing operating rooms, the lobby, infrastructure and nursing units.

In 2006, Central Suffolk Hospital dba Peconic Bay Medical Center submitted an amended application for financial assistance requesting the issuance of civic facility revenue bonds to refund outstanding principal debt of the New York State Medical Care Facilities Finance Agency, issuance of bonds to finance the project known as the "Emergency Room Facility", and issuance of bonds to finance the construction of a medical building to be used as a lobby, operating suites and space for future build-out and expansion and the refitting of the hospital's existing operating suites and related infrastructure improvements.

Necessary public hearings regarding this application were held and the closing for this project was completed June 2006. Construction of the described facilities is currently underway.

Recently, CSH filed an additional application for financial assistance requesting the issuance of tax-exempt bonds for the build-out and equipping of the medical building described above. A public hearing on this matter was held on April 30, 2007, relating to the issuance of an additional \$12,000,000 in tax-exempt obligations. These bonds were issued through the RIDA during 2007. The closing of this project was completed in June 2007. Construction of the described facilities is currently underway.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2007

(Unaudited)

Browning Hotel Properties, LLC

This project involved the construction on approximately 7 acres located on Route 58 in Riverhead of a building of approximately 62,589 square feet for use as a 110 room Hilton Garden Inn Hotel and the purchase and installation of furnishings and equipment at an approximate total cost of \$18,110,000. The applicant also has plans to build an additional hotel/retail center on the site but has indicated that they will not seek RIDA assistance for the second phase of construction.

The financial assistance requested of RIDA was exemption from mortgage recording taxes, exemption from sales and compensating use taxes and abatement of real property taxes. In this instance, RIDA deviated from its Uniform Tax Exemption Policy and provided only five years of real property tax abatement.

Public hearing on the application was held by RIDA on January 15, 2007 after 30-day public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

The closing for this project was completed May 2007. The administration of the benefits for this project is ongoing by RIDA.

Riverhead Building Supply Corp. and Riveredge, LLC

RIDA received an application for financial assistance of Riverhead Building Supply Corp. (RBSC) and Riveredge, LLC dated September 1, 2006 and revised on September 18, 2006 to support the expansion of the company's facilities in the Town of Riverhead. RBSC proposed to acquire approximately 32.33 acres located at EPCAL and construct thereon a 110,000 square foot manufacturing and warehouse facility.

The financial assistance requested by RBSC and Riveredge, LLC is the issuance of industrial development revenue bonds estimated not to exceed \$18,000,000 of which up to \$10,000,000 shall be tax-exempt, provision of an exemption from mortgage recording taxes, exemption from sales and compensating use taxes, and abatement from real property taxes in accordance with the Agency's Uniform Tax Exemption Policy.

Public hearing on the application was held by RIDA on December 4, 2006 after 30-day public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

In the interim between the public hearing and the closing, the applicant reduced the amount of the project to \$12,500,000. Applicant reduced tax-exempt obligations requested to \$7,500,000 in order to be in compliance with IRS regulations with respect to the amount of square footage dedicated to warehouse space. The closing for the project was held in September 2007. The administration of the benefits for this project is ongoing by RIDA.

PENDING APPLICATIONS

E.B.S. Building Systems

In September 2003, RIDA received an application for financial assistance from E.B.S. Building Systems LLC to support the establishment of its company in the Town of Riverhead. The company proposes to acquire approximately 10 acres located at EPCAL and construct thereon approximately 62,300 square feet of buildings to be used by E.B.S. 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 E.B.S. is the issuance of tax-exempt obligations in an amount not to exceed \$5,000,000, exemption from mortgage recording taxes, exemption from sales and compensating use taxes, and abatement from real property taxes in accordance with the Agency's Uniform Tax Exemption Policy.

Public hearing on the application was held by RIDA on November 10, 2003 after 30-day public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given. A subsequent public hearing was held by RIDA on April 4, 2005 due to the increased cost of the project.

It is now expected that the bond closing will occur in 2008. The applicant has submitted site-plans to the Town and currently is in the second round of review.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2007

(Unaudited)

Altaire Pharmaceuticals

Altaire Pharmaceuticals applied to RIDA for financial assistance through a request for the issuance of \$6,000,000 in tax-exempt bonds, exemption from mortgage recording taxes, an exemption from sales and compensating use taxes, and an abatement of real property taxes in accordance with the Agency's Uniform Tax Exemption Policy. The company purchased an 110,000 square foot building on West Lane, and currently uses the facilities to manufacture non-prescription and prescription medications.

RIDA currently has an application from Altaire, which was filed in 2003, seeking financial assistance in the construction of a 50,000 square foot building at its current location at 311 West Lane, in Aquebogue, to enhance its warehouse and shipping operations. The applicant has indicated that it is still planning on the expansion pending resolution of zoning issues with the Town.

Marketing

RIDA works closely with the Community Development Agency Administrator and Empire Zone Coordinator to market the Town of Riverhead as a business location. When calls are received by either entity from businesses that are interested in Riverhead, cooperative meetings are generally held by the Empire Zone Coordinator and RIDA Director to discuss with the company the benefits and incentives that can be obtained if they relocate to EPCAL.

Also, RIDA, on behalf of the Town of Riverhead, is a member of The Long Island Partnership, which was develop as an organization to market Long Island as a region for business development. The Long Island Partnership is currently without a Director and RIDA does not anticipate renewing membership in the organization if it remains leaderless.

General Business Assistance

RIDA is referred many of the general calls for business assistance received by the Town of Riverhead. The RIDA Director 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 RIDA Director may inform callers of the many business assistance programs offered outside of those offered by the Town of Riverhead. These include programs such as the SBA 7a, SBA 504, Low Doc Loans, Ag & Markets Loan Guarantees, etc. The Director can put the caller in direct contact with the person administering the program.

Contacting RIDA's Financial Management

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

Riverhead Industrial Development Agency
446 Edwards Avenue
Riverhead, NY 11933

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the Town of Riverhead)

Statements of Net Assets

Enterprise Fund

As of December 31, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash (Note 1)		
Checking	\$ 101,152	\$ 279,397
Certificate of Deposit	300,000	
PILOT	<u>250</u>	<u>250</u>
Total Cash	<u>401,402</u>	<u>279,647</u>
Prepaid expenses	9,024	10,660
Security deposit		<u>263</u>
Total Current Assets	<u>9,024</u>	<u>10,923</u>
Noncurrent Assets		
Fixed assets	5,526	4,624
Less: accumulated depreciation	<u>(3,762)</u>	<u>(3,365)</u>
Total Noncurrent Assets	<u>1,764</u>	<u>1,259</u>
Total Assets	<u>\$ 412,190</u>	<u>\$ 291,829</u>

LIABILITIES

Current Liabilities		
Payroll taxes payable	\$ 891	\$
Compensated absences (Note 1)	2,294	
Accrued expenses	<u>12,267</u>	<u>12,923</u>
Total Current Liabilities	<u>15,452</u>	<u>12,923</u>

NET ASSETS

Net Assets		
Unrestricted	<u>396,738</u>	<u>278,906</u>
Total Net Assets	<u>396,738</u>	<u>278,906</u>
Total Liabilities and Net Assets	<u>\$ 412,190</u>	<u>\$ 291,829</u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Statements of Revenues, Expenses and Changes in Net Assets
Enterprise Fund
For the Years Ended December 31, 2007 and 2006

	2007	2006
Operating Revenues		
Charges for services	\$ 250,126	\$ 153,675
Total Operating Revenues	250,126	153,675
Operating Expenses		
Construction costs - NYSTAR project		1
Depreciation	397	376
Dues and subscriptions	5,829	5,099
Employee benefits	13,682	1,102
Insurance	552	574
Legal notices	43	344
Meals and entertainment	1,073	
Office	2,585	2,603
Payroll	47,933	
Professional fees	32,000	47,848
Business development	10,545	1,290
Rent	5,357	3,450
Seminars and conferences	2,390	
Payroll taxes	4,276	
Telephone	2,300	1,653
Travel	3,791	50
Total Operating Expenses	132,753	64,390
Operating Income	117,373	89,285
Non-Operating Revenue		
Interest income	459	337
Total Non-Operating Revenue	459	337
Change in Net Assets	117,832	89,622
Net Assets - Beginning of Year	278,906	189,284
Net Assets - End of Year	\$ 396,738	\$ 278,906

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the Town of Riverhead)

Statements of Cash Flows

Enterprise Fund

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Cash received from providing services	\$ 250,126	\$ 153,675
Cash payments for contractual expenses	(69,456)	(71,706)
Cash payments for personal services and benefits	(58,472)	
	<u>122,198</u>	<u>81,969</u>
Cash Flows from Investing Activities:		
Acquisition of fixed assets	(902)	
Interest income	459	337
	<u>(443)</u>	<u>337</u>
Net cash (used in) provided by investing activities		
Net increase in cash	121,755	82,306
Cash - beginning of year	<u>279,647</u>	<u>197,341</u>
Cash - end of year	<u>\$ 401,402</u>	<u>\$ 279,647</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 117,373	\$ 89,285
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	397	376
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid expenses	1,636	(10,660)
Security deposits	263	
Increase (Decrease) in:		
Accrued expenses	(656)	2,968
Compensated absences	2,294	
Payroll taxes payable	891	
	<u>\$ 122,198</u>	<u>\$ 81,969</u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the Town of Riverhead)

Notes to Basic Financial Statements

December 31, 2007 and 2006

Note 1. Summary of Significant Accounting Policies

Purpose of Organization

The Riverhead Industrial Development Agency is a public benefit corporation of the State of New York established pursuant to the New York State General Municipal Law. It is a quasi-governmental, tax exempt Agency whose purpose is to promote, develop, encourage and assist in the acquiring, developing and equipping of various business facilities, thereby advancing the job opportunities, general prosperity and economic welfare of the people of the town.

The Agency acts primarily as a conduit for Industrial Revenue Bonds (IRB), which is used to finance business location or expansion projects. The Agency does not issue the bonds, lend money, or assume debt.

The Agency can also provide projects with tax benefits (property, sales and mortgage recording tax) that are not available to most development projects.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months.

Concentration of Credit Risk

The Agency maintains two accounts in one financial institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Amounts in excess of insured limits were fully collateralized by a third party at December 31, 2007.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation is removed from the accounts and any resulting gain or loss is recognized. The cost of maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized and depreciated. Depreciation expense for the year ended December 31, 2007 and 2006 were \$397 and \$376, respectively.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Income Taxes

The Agency is exempt from federal and state income taxes and therefore has made no provision for federal or state income taxes in the accompanying financial statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Notes to Basic Financial Statements
December 31, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Full-time employees are granted vacation, personal leave, and sick leave in varying amounts. This benefit is vested when earned and can be carried from year to year as long as it doesn't exceed certain limits. Benefits are accrued as they are earned and are reflected in the financial statements.

Component Unit

The Agency is a component unit of the Town of Riverhead.

Note 2. Employee Benefit Plan

The Riverhead Industrial Development Agency participates in the New York State and Local Employees' Retirement System. As set forth in the New York State Retirement and Social Security Law, the Comptroller serves as sole trustee and administrative head of the system. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the system and for the custody and control of its funds.

Note 3. Operating Lease

The Agency leases its facilities under an operating lease agreement. The term of the initial lease is from November 1, 2007 through October 31, 2009 with a renewal option for an additional three years. The lease requires monthly payments, which increases according to the lease terms. The Agency is required to pay its proportionate share of property taxes. At December 31, 2007, the annual future minimum payments remaining are as follows:

2008	\$ 12,100
2009	12,706
2010	15,662
2011	14,012
2012	12,160
	<u>\$ 66,640</u>

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – Enterprise Fund

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Budgetary Comparison Schedule
Enterprise Fund
Year Ended December 31, 2007
(Unaudited)

	Budgeted Amounts	Actual	Variance with Final Budget
Operating Revenues			
Charges for services	\$ 195,044	\$ 250,126	\$ 55,082 (1)
Total Operating Revenue	195,044	250,126	55,082
Operating Expenses			
Personal Services			
Payroll	77,000	47,933	29,067 (2)
Contractual Expenses			
Dues and subscriptions	5,500	5,829	(329)
Insurance	550	552	(2)
Legal notices	300	43	257
Office	4,500	2,585	1,915
Meals and entertainment	500	1,073	(573)
Professional fees	44,750	32,000	12,750 (3)
Business development	10,000	10,545	(545)
Rent	3,500	5,357	(1,857)
Seminars and conferences	1,500	2,390	(890)
Telephone		2,300	(2,300)
Travel	1,500	3,791	(2,291)
Employee benefits	16,850	13,682	3,168
Payroll Taxes	6,221	4,276	1,945
Depreciation		397	(397)
Total Operating Expenses	172,671	132,753	39,918
Non-Operating Revenue			
Interest Income		459	459
Total Non-Operating Revenue	-	459	459
Excess of Revenues over Expenditures	22,373	117,832	95,459
Net Assets - Beginning of Year	278,906	278,906	-
Net Assets - End of Year	\$ 301,279	\$ 396,738	\$ 95,459

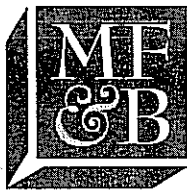
See accompanying note to budgetary comparison schedule.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Note to Budgetary Comparison Schedule
Enterprise Fund
Year December 31, 2007

Note A - Budget-to-Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures in accordance with generally accepted accounting principles follows:

(1) The Agency budgeted revenues based on projects that were actually filed at the time of budget preparation. Projects that were not anticipated at the time of budget preparation were completed during the year.	\$ 55,082
(2) The Agency anticipated hiring employees early in 2007. Employees were not contracted until June 30, 2007.	29,067
(3) In 2007, the Agency budgeted for an interim service agreement it had with an independent contractor. Upon hiring two employees in 2007, the independent contractor's services were terminated.	12,750
Miscellaneous	<u>(1,440)</u>
	<u>\$ 95,459</u>



Markowitz, Fenelon & Bank, LLP

Certified Public Accountants

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78 White Street, Southampton, NY 11968

P: 631-283-4955 ▪ F: 631-283-9587 ▪ MFBCPA.com

Philip R. Tutino, CPA

Robert E. Whitte, CPA, PFS

John E. Larkin, CPA

Mark M. Piscitelli, CPA

Thomas P. Terry, CPA

Joseph R. Mammìna, Jr., CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
Riverhead Industrial Development Agency
Riverhead, New York

We have audited the accompanying financial statements of the Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting. Findings 2007-1 and 2007-2 in the accompanying Schedule of Findings are considered to be significant deficiencies.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Board of Directors, Audit Committee and management of the Riverhead Industrial Development Agency, in a separate letter dated March 13, 2008.

This report is intended solely for the information and use of the Board of Directors, Audit Committee and management of the Riverhead Industrial Development Agency and is not intended to be and should not be used by anyone other than these specified parties.

Markowitz Fenelon & Bank LLP

Markowitz, Fenelon & Bank, LLP
Southampton, New York

March 13, 2008

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Summary Schedule of Prior Findings
December 31, 2007

There are no prior audit findings.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Findings

December 31, 2007

Significant Deficiencies

2007-1: Annual Financial Statements Preparation

Criteria: In order to determine that the financial statements fairly, explicitly, and completely present the financial position of the Agency, proper internal controls over financial reporting should be in place.

Condition: The Agency does not prepare nor does it exercise control over the preparation of its annual financial statements.

Cause: Due to the limited size of the Agency's administrative personnel, the Agency does not have enough staff to prepare the Agency's annual financial statements properly.

Effect: Because of the lack of controls over the financial reporting process, the Agency was unable to prepare or exercise proper control over the preparation of its financial statements.

Recommendation: The Agency should implement internal controls over its financial statement preparation procedures.

2007-2: Segregation of Duties

Criteria: Internal controls should be implemented which provide for segregation of duties in the cash receipts, cash disbursements, and accounting functions.

Condition: The Chief Financial Officer is responsible for most aspects of the accounting function, including receiving and recording cash receipts, cash disbursements and payroll functions. This person also has access to create and post journal entries.

Cause: Because of the limited size of the Agency's administrative personnel, the Agency feels that it is both inefficient and cost prohibitive to have additional employees in order to properly segregate the accounting functions.

Effect: Due to the lack of segregation of duties, errors or irregularities could go undetected.

Recommendation: The Agency should implement procedures requiring segregation of these incompatible duties.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Corrective Action Plan
June 30, 2007

The Agency will provide its Corrective Action Plan for the year ended December 31, 2007 as part of a separate report.