

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Financial Statements  
December 31, 2008 and 2007

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

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## INDEPENDENT AUDITORS' REPORT

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, 2008 and 2007, 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, 2008 and 2007, 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 27, 2009 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  
Southampton, New York

March 27, 2009

**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, 2008 and 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 27, 2009. 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. Finding 2007-2 in the accompanying Schedule of Findings is considered to be a significant deficiency.

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 do not believe that the significant deficiency described above is a material weakness.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2008  
(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, 2008. 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, 2008 by \$235,521.
- The Agency's total assets decreased by \$162,794 in year 2008. The Agency's total liabilities decreased by \$1,577 in year 2008.
- The agency's 2008 operating revenue decreased \$249,376 over the 2007 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, 2008

(Unaudited)

**Condensed Comparative Financial Statements:**

	<b>Condensed Balance Sheets at December 31,</b>			
	<b>2008</b>	<b>2007</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Cash	\$ 246,843	\$ 401,402	\$ (154,559)	-39%
Current assets	1,293	9,024	(7,731)	-86%
Property and equipment (Net)	1,260	1,764	(504)	-29%
Total assets	<u>\$ 249,396</u>	<u>\$ 412,190</u>	<u>\$ (162,794)</u>	<u>-39%</u>
Current liabilities	<u>\$ 13,875</u>	<u>\$ 15,452</u>	<u>\$ (1,577)</u>	<u>-10%</u>
Total liabilities	<u>13,875</u>	<u>15,452</u>	<u>(1,577)</u>	<u>-10%</u>
Unrestricted	<u>235,521</u>	<u>396,738</u>	<u>(161,217)</u>	<u>-41%</u>
Total net assets	<u>235,521</u>	<u>396,738</u>	<u>(161,217)</u>	<u>-41%</u>
Total liabilities and net assets	<u>\$ 249,396</u>	<u>\$ 412,190</u>	<u>\$ (162,794)</u>	<u>-39%</u>

	<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended December 31,</b>			
	<b>2008</b>	<b>2007</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Total operating revenue	\$ 750	\$ 250,126	\$ (249,376)	-100%
Total operating expenses	169,863	132,753	37,110	-28%
Operating income	(169,113)	117,373	(286,486)	-244%
Non-operating revenues	7,896	459	7,437	1620%
Changes in net assets	<u>\$ (161,217)</u>	<u>\$ 117,832</u>	<u>\$ (279,049)</u>	<u>-237%</u>

**Analysis of Financial Position and Results of Operations:**

- Agency operations during 2008 resulted in no revenues being 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. 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 will result in an increase in applications for traditional manufacturing projects in 2009 and 2010. However, given the national economic recession experienced during the first quarter of 2009, it is anticipated that the operating revenue of the Agency in 2009 may be minimal, although more than the current year. Management does not foresee sizable funding opportunities for 2009 and has budgeted salaries and other operating expenses accordingly.

**Budgetary Analysis:**

This section will discuss the significant budget to actual variances in 2008.

The Charges for services line in the 2008 budget was established at \$275,000 based on a project that was actually filed at the time the budget was prepared. In addition a total of 40 million dollars in additional projects were budgeted. During 2008 the national economy deteriorated and projects that were anticipated were not closed, resulting in an approximate \$275,000 operating revenue shortfall.

In the third quarter of 2008 the Board of Directors terminated the employment contract it had entered into with the full-time Executive Director in 2007. Payroll was budgeted at \$105,020 in anticipation of having a full time employee for twelve months and a part-time Chief Financial Officer. The Personal Service budget, as well as, all the associated fringe benefits and payroll taxes were under spent by approximately \$35,000 as a result of this termination.

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

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Professional fees necessary to terminate the employment contract with the Executive Director and to complete tasks normally under the management of that position were incurred resulting in the budget being over spent by approximately \$10,000.

An extensive marketing and business development campaign was being developed by the Executive Director for 2008. In light of the economic downturn being experienced across the country, the Board of Directors thought it prudent to cancel these plans, taking a much less aggressive approach to attracting business to the Town of Riverhead. As a result, the budget was under-spent by approximately \$45,000. Part of that marketing and business development plan included memberships in organizations such as NYSEDC, LI Partnership, LIBDC, Corenet and EAMC.

The aggregate variance in all other budget lines was approximately \$5,500 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, and 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.

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(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. Subsequent to the approval of the industrial park subdivision, the Cal Realty 27-acre parcel was transferred to the Agency.

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 is 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.

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**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 2009. The applicant has submitted site-plans to the Town and currently is in the second round of review.

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(Unaudited)

**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 the RIDA Director to discuss with the company the benefits and incentives that can be obtained if they relocate to EPCAL.

**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 Suite 2  
Calverton, NY 11933

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Statements of Net Assets  
Enterprise Fund  
As of December 31, 2008 and 2007

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash (Note 1)		
Checking	\$ 246,593	\$ 101,152
Certificate of Deposit		300,000
PILOT	<u>250</u>	<u>250</u>
Total Cash	<u>246,843</u>	<u>401,402</u>
Prepaid expenses	<u>1,293</u>	<u>9,024</u>
Total Current Assets	<u>1,293</u>	<u>9,024</u>
<b>Noncurrent Assets</b>		
Fixed assets	5,526	5,526
Less: accumulated depreciation	<u>(4,266)</u>	<u>(3,762)</u>
Total Noncurrent Assets	<u>1,260</u>	<u>1,764</u>
Total Assets	<u><u>\$ 249,396</u></u>	<u><u>\$ 412,190</u></u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payroll taxes payable	\$ 177	\$ 891
Compensated absences (Note 1)		2,294
Accounts payable and accrued expenses	<u>13,698</u>	<u>12,267</u>
Total Current Liabilities	<u>13,875</u>	<u>15,452</u>
 <b>NET ASSETS</b>		
<b>Net Assets</b>		
Unrestricted	<u>235,521</u>	<u>396,738</u>
Total Net Assets	<u>235,521</u>	<u>396,738</u>
Total Liabilities and Net Assets	<u><u>\$ 249,396</u></u>	<u><u>\$ 412,190</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
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Statements of Revenues, Expenses and Changes in Net Assets  
Enterprise Fund  
As of December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Charges for services	\$ 750	\$ 250,126
Total Operating Revenues	750	250,126
<b>Operating Expenses</b>		
Depreciation	504	397
Dues and subscriptions	839	5,829
Employee benefits	16,689	13,682
Insurance	552	552
Legal notices		43
Meals and entertainment	195	1,073
Office	2,741	2,585
Payroll	84,915	47,933
Professional fees	33,977	32,000
Business development	836	10,545
Rent	15,558	5,357
Seminars and conferences	3,379	2,390
Payroll taxes	6,934	4,276
Telephone	1,607	2,300
Travel	1,137	3,791
Total Operating Expenses	169,863	132,753
Operating (Loss) Income	(169,113)	117,373
<b>Non-Operating Revenue</b>		
Interest income	7,896	459
Total Non-Operating Revenue	7,896	459
Change in Net Assets	(161,217)	117,832
Net Assets - Beginning of Year	396,738	278,906
Net Assets - End of Year	\$ 235,521	\$ 396,738

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Statements of Cash Flows  
Enterprise Fund  
For the Years Ended December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities:</b>		
Cash received from providing services	\$ 750	\$ 250,126
Cash payments for contractual expenses	(59,185)	(69,456)
Cash payments for personal services and benefits	(104,020)	(58,472)
Net cash (used in) provided by operating activities	(162,455)	122,198
<b>Cash Flows from Investing Activities:</b>		
Acquisition of fixed assets		(902)
Interest income	7,896	459
Net cash provided by (used in) investing activities	7,896	(443)
Net (decrease) increase in cash	(154,559)	121,755
Cash - beginning of year	401,402	279,647
Cash - end of year	\$ 246,843	\$ 401,402
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash (Used in) Provided by Operating Activities</b>		
Operating (loss) income	\$ (169,113)	\$ 117,373
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation	504	397
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid expenses	7,731	1,636
Security deposits		263
Increase (Decrease) in:		
Accounts payable and accrued expenses	1,431	(656)
Compensated absences	(2,294)	2,294
Payroll taxes payable	(714)	891
Net cash (used in) provided by operating activities	\$ (162,455)	\$ 122,198

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
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Notes to Basic Financial Statements  
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**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, 2008.

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, 2008 and 2007 were \$504 and \$397, 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, 2008 and 2007

**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. The liability for compensated absences was \$2,294 at December 31, 2007. In September 2008, the Agency's employment contract with its Executive Director was terminated and all compensated absences were paid. The Agency has not filled the Executive Director position as of December 31, 2008.

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, 2008, the annual future minimum payments remaining are as follows:

2009	<u>\$10,500</u>
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## **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, 2008  
(Unaudited)

	Budgeted Amounts	Actual	Variance with Final Budget
<b>Operating Revenues</b>			
Charges for services	\$ 275,000	\$ 750	\$ (274,250) (1)
<b>Total Operating Revenue</b>	<u>275,000</u>	<u>750</u>	<u>(274,250)</u>
<b>Operating Expenses</b>			
Personal Services			
Payroll	105,020	84,915	20,105 (2)
Contractual Expenses			
Dues and subscriptions	10,745	839	9,906 (5)
Insurance	1,000	552	448
Legal notices	500		500
Office	11,620	2,741	8,879
Meals and entertainment		195	(195)
Professional fees	24,000	33,977	(9,977) (3)
Other Services	20,000		20,000 (4)
Business development	27,000	836	26,164 (4)
Rent	14,500	15,558	(1,058)
Seminars and conferences	5,159	3,379	1,780
Telephone		1,607	(1,607)
Travel	2,541	1,137	1,404
Employee benefits	19,379	16,689	2,690 (2)
Payroll Taxes	16,668	6,934	9,734 (2)
Depreciation		504	(504)
<b>Total Operating Expenses</b>	<u>258,132</u>	<u>169,863</u>	<u>88,269</u>
<b>Non-Operating Revenue</b>			
Interest Income	12,000	7,896	(4,104)
<b>Total Non-Operating Revenue</b>	<u>12,000</u>	<u>7,896</u>	<u>(4,104)</u>
<b>Excess of Revenues over Expenditures</b>	28,868	(161,217)	(190,085)
<b>Net Assets - Beginning of Year</b>	<u>396,738</u>	<u>396,738</u>	<u>-</u>
<b>Net Assets - End of Year</b>	<u>\$ 425,606</u>	<u>\$ 235,521</u>	<u>\$ (190,085)</u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

(A Component Unit of the Town of Riverhead)

Note to Budgetary Comparison Schedule

Enterprise Fund

Year Ended December 31, 2008

**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 one project that was actually filed at the time of budget preparation, but was not executed. Additional projects were budgeted based on prior years actual projects. Due to the poor economy, these projects were not realized.	\$ (274,250)
(2) The employment contract with the Executive Director was terminated in September 2008. The Agency is currently in the process of recruiting a part-time replacement. Therefore, the payroll budget was under spent.	32,529
(3) Additional legal fees were incurred as a result of a dispute with the Executive Director over terminating his employment contract. A law firm specializing in labor laws was hired at a cost of approximately \$6,000. In addition, the Agency's regular legal counsel incurred additional time in settling the dispute and addressing daily tasks normally under the management of the Executive Director.	(9,977)
(4) Cost associated with a marketing and business development campaign were deferred to a later date by the Board of Directors. The Board believed it would not be prudent to incur these costs due to the poor economy.	46,164
(5) Dues to become a member of organizations that included NYSEDC, LI Partnership, LIBDC, Corenet and EAMC were never expended due to the downsizing of the marketing and development campaign.	9,906
Miscellaneous	<u>5,543</u>
	<u>\$ (190,085)</u>

**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, 2008 and 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 27, 2009. 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. Finding 2007-2 in the accompanying Schedule of Findings is considered to be a significant deficiency.

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 do not believe that the significant deficiency 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 27, 2009.

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  
Southampton, New York

March 27, 2009

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Summary Schedule of Prior Findings  
December 31, 2008

**Significant Deficiencies**

**2007-1: Annual Financial Statements Preparation**

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

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

**Current status:** The Agency has obtained the necessary expertise to ensure control over its financial statement preparation.

**2007-2: Segregation of Duties**

**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.

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

**Current status:** No change.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Schedule of Findings  
December 31, 2008

**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  
December 31, 2008

The Agency will provide its Corrective Action Plan for the year ended December 31, 2008 as part of a separate report.