



RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS
DECEMBER 31, 2016

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Agency as of December 31, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in the notes to the financial statements, in 2016 the Agency adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of *GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required supplementary information other than management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Port Jefferson Station, New York
March 6, 2017

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

This discussion and analysis of the Riverhead Industrial Development Agency (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2016. 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 (including the net of deferred inflows and outflows of resources) at December 31, 2016 by \$273,545.
- The Agency's total assets increased by \$110,580. The Agency's total liabilities increased by \$78,570 for the year ended December 31, 2016 primarily due to the increase in net pension liability.
- The Agency's 2016 net operating income increased \$8,174 from the 2015 net operating income.
- During the year ended December 31, 2016, the Agency implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. As a result, beginning net position increased by \$6,681. Additionally, the Agency recorded its proportionate share of net pension liabilities, as well as deferred outflows of resources related to pensions.

Basic Financial Statements Ended December 31, 2016:

- 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 and deferred outflows of the Agency as well as liabilities and deferred inflows.
- 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, deferred outflows, liabilities and deferred inflows 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, deferred outflows of resources, liabilities and deferred inflows of resources, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position are an indicator of whether its financial health is improving or deteriorating.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

Condensed Balance Sheets at December 31,

	<u>2016</u>	<u>2015</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Current Assets	\$ 313,562	\$ 202,830	\$ 110,732	55%
Total Noncurrent Assets	421	573	(152)	-27%
Total Assets	313,983	203,403	110,580	54%
Deferred Outflows of Resources	83,800	-	83,800	n/m
Total Assets and Deferred Outflows of Resources	<u>\$ 397,783</u>	<u>\$ 203,403</u>	<u>\$ 194,380</u>	<u>96%</u>
Total Current Liabilities	\$ 21,143	\$ 22,703	\$ (1,560)	-7%
Total Noncurrent Liabilities	91,593	11,463	80,130	n/m
Total Liabilities	112,736	34,166	78,570	230%
Total Deferred Inflows of Resources	11,502	-	11,502	n/m
Total Net Position	273,545	169,237	104,308	62%
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 397,783</u>	<u>\$ 203,403</u>	<u>\$ 194,380</u>	<u>96%</u>

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

	<u>2016</u>	<u>2015</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Operating Revenues	\$ 327,124	\$ 294,898	\$ 32,226	11%
Total Operating Expenses	229,566	205,514	24,052	12%
Operating income	97,558	89,384	8,174	9%
Total Non-Operating Revenue	69	33	36	n/m
Change in Net Position	<u>\$ 97,627</u>	<u>\$ 89,417</u>	<u>\$ 8,210</u>	<u>n/m</u>

n/m - not meaningful (percentage change calculation)

Analysis of Financial Position and Results of Operations:

The Agency operations during 2016 resulted in \$313,635 in revenues being generated by fees associated with completed projects. The Agency operations also include revenues of \$13,489 related to Empire Zone Fees, project refinance fees, compliance fees and other items. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand.

The Agency did not retroactively apply GASB Statement No. 68; therefore, the condensed Statement of Changes in Net Position for the year ended December 31, 2015 was not restated. The cumulative effect of applying the change of accounting principle is show as an adjustment to the 2016 beginning net position.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2016.

The charges for services line in the 2016 budget was established at \$177,465. During 2016, additional unanticipated projects were cultivated and closed as well as projects that did not close in 2015 were closed in 2016. This resulted in an approximate \$136,000 revenue overage.

Professional fees are approximately \$3,800 higher than budget in 2016 as a result of the increase in project closings.

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 year ended December 31, 2016 financial statements, which resulted in an increase in net position thereby providing a stable outlook for the Agency.

COMPLETED PROJECTS

The following is a summary of the Agency's projects which closed during the 2016 calendar year.

Atlantis Holding Co, LLC -Phase III

In November of 2015, the Agency received an application for financial assistance from Atlantis Holding Company LLC, a limited liability company qualified to do business in the State of New York with an office in Riverhead, New York ("Atlantis") and J. Petrocelli Development Associates, a company qualified to do business in the State of New York with an office in Ronkonkoma, NY ("Petrocelli") (jointly known as the "Applicant"), with respect to the rehabilitation and reuse of the Preston House, an existing vacant 2,600 square foot dilapidated structure located within the Riverhead Urban Renewal Area, EMSURA, to permit the construction of a restaurant and five-story boutique hotel as Phase III of the previously approved Atlantis Holding Co., LLC Aquarium Project at a cost of \$9,000,000 and the refinancing of the \$15,250,000 debt on the existing Aquarium Facility Phase I & II, as most recently approved by Agency, located on the 6.8 acre parcel.

The public hearing was held January 2016. The financial assistance approved with respect to the Project: (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 for the improvement over the current assessed value of parcel and a continuation over the current real property tax exemption for parcel for an additional ten years past the current Payment In Lieu of Tax Agreement.

The project closed in July 2016 and construction commenced immediately on Phase III.

J Kings Realty/City Cider House, LLC

In March of 2015, the Agency received an application for financial assistance from J Kings Realty (owner) & City Cider House, LLC dba Riverhead City Cider (facility user), each company qualified to do business in the State of New York, with respect to the construction and equipping of a cider manufacturing, bottling and tourism facility initially estimated to occupy 38,000 sf of total 108,178 sf of

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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building located in Calverton, New York, with anticipated expansion (the "Facility"). The project will include renovation of existing space and equipping of space to provide for a cider manufacturing plant, cider center, regional tourism center, and regional bottling facility including expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$5,990,000.

A public hearing was held in April of 2015. It was determined that the Agency shall provide Applicant 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 in an amount not to exceed a total value of eligible goods and services in the amount of \$1,550,000, (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the improvements for a period of ten years, effective for the 2017/2018 tax billing year. PILOT payments shall be paid on the land assessment and 77% of the improvements assessment increasing to 100% over 10 years by 2.3% per year and (iii) the provision of an abatement of the Mortgage Recording Tax on a mortgage not to exceed \$2,865,000.

The project closed in October 2016.

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 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 in Riverhead, New York 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.

A public hearing was held in December 2014 and held open due to amendments made to the Project since the submission of the original application. No Agency activity took place on this project in 2015 as the project continued through site plan changes.

Another public hearing was held in June 2016 with respect to the acquisition of parcel, demolition of existing structure, and construction of a 52,205 +/- square foot building located in Riverhead, New York for use as 45 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 \$17,650,928.

Financial assistance was authorized in November 2016. It was determined that the Agency shall provide Applicant with the following with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property in an amount not to exceed a total value of eligible goods and services in the amount of \$388,314, (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the improvements for a period of ten years, effective for the 2017/2018 tax billing year. PILOT payments shall be paid on the land assessment of \$70,000 and 100% abatement of improvements assessment over 10 years as set forth in the attached Schedule A, and (iii) the provision of an abatement of the Mortgage Recording Tax on a mortgage not to exceed \$7,180,000.

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The applicant applied for an amended budget for an increase in project costs prior to final authorization totaling \$18,541,044 and was approved. The project closed at the end of December 2016.

Solutions Riverhead, LLC

In July 2016, the Agency received an application for financial assistance from Solutions Riverhead, LLC, a limited liability company qualified to do business in the State of New York (the "Applicant"), with respect to the acquisition of parcel and restoration and renovation of an existing 2,560 square foot historic structure, located within an urban renewal area containing distressed properties in Riverhead, New York for use as shared office space for use by professionals in the mental health and well-being fields estimated at a cost of \$808,500.

A public hearing was held in August 2016 and it was determined that the Agency shall provide Applicant 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 in an amount not to exceed a total value of eligible goods and services in the amount of \$260,450, and (ii) a partial abatement of real property taxes by granting a real property tax abatement equal to the assessed value of the land for a period of five (5) years.

The project closed in September 2016 and construction commenced immediately.

CLOSED PROCEEDINGS/WITHDRAWN PROJECTS

The following projects were either rescinded or the Agency took action to close proceedings during the 2016 calendar year.

E.B.S. Building Systems

An application for financial assistance was made by E.B.S. Building Systems L.L.C. to the Riverhead Industrial Development Agency regarding property located in the Calverton Enterprise Park, Riverhead, New York for project to acquire parcel of land of approximately 10 acres to cause the construction of approximately 62,300 square feet of buildings to be used in the manufacture of wood building components.

The Agency approved financial assistance for the Project. Despite an application being submitted in 2013 to keep permits open, there has been no activity to cause a closing by the applicant. Therefore, the Agency rescinded the authorizing resolution and close the proceedings in September 2016.

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

An application was made by Peconic United Methodist Housing Development Fund Company, Inc. and John Wesley Village for financial assistance regarding property located in Riverhead, New York for project to renovate existing 115-unit senior housing rental facility.

The Agency approved financial assistance for the project September 2014. Since there was no activity to close the project, the Agency rescinded the authorizing resolution and closed Agency proceedings in this matter in September 2016.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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REFINANCES/BOND MODIFICATIONS

Browning Properties, LLC Hilton Garden Inn and Marriott Residence

The Hilton and the Marriott are a phased development with common features of design for ingress and egress, plantings and site layout on a single tax map parcel which requires that the financing of each facility, though evidenced by separate mortgage, be placed with the same lending institution.

Manufactures and Traders Trust Company (M&T Bank) has issued a letter of commitment for permanent financing for the Hilton in the amount of \$15,500,000 and a letter of commitment for construction and permanent financing for the Marriott in the amount of \$19,000,000. The Agency authorized the necessary Mortgages and other documents to permit the refinancing of the Hilton by Browning Hotel Properties, LLC with M&T Bank and construction and permanent financing for the Marriott by Browning Hotel Properties, LLC with M&T Bank in the amount of \$19,000,000 both for premises.

RETIRED PROJECTS

There were no retired projects in 2016

PENDING APPLICATIONS

One recognized application received in 2016 that did not close, continues to be processed.

Georgica Green Ventures, LLC

The Agency received an application for financial assistance from Georgica Green Ventures, LLC, a limited liability company qualified to do business in the State of New York with respect to a proposed development located within a designated urban renewal area in downtown Riverhead to replace the existing deteriorated and outdated retail storefront with a five-story, mixed-use building consisting of 117 rental apartments and 13,024 square feet of ground floor retail fronting the Main Street. The Project unit mix will consist of 29 studio, 60 one-bedroom and 28 two bedroom units. The majority of apartments will be kept affordable to residents earning 60% of the AMI (Average Median Income) with tiers of units available to residents earning between 90% and 130% of the AMI. Project cost is estimated to be \$47,338,188.

There was no public hearing scheduled in 2016 and the application and project continues to be processed through the Agency and site planning.

MARKETING

The Agency works closely with local economic development organizations, such as the Town of Riverhead Community Development Agency, the Riverhead Chamber of Commerce, Miller Business Resource Center 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, such as a "Subscription Database Seminar," and Financial Workshops 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, municipal economic development departments on Long Island, LIBDC 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 resources for leads and networking.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(UNAUDITED)

The Agency also meets regularly with the Long Island IDA's to corroborate on improving regulatory compliance as well as cooperative marketing ideas.

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks, editorials submitted to economic development periodicals, 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.

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 Executive 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 on the Board of the Riverhead Chamber of Commerce forging cooperative relationships locally and hosting coordinated seminars.

The Agency Executive Director participates on the CTEA (Career & Technical Education Act 2009) Local Advisory Council for Suffolk County Community College to assist with the grant planning process toward workforce development efforts.

This year the Executive Director worked closely with the Long Island IDA's and the New York State Economic Development Council to compile "best practices" for IDA's to submit to the NYS Comptroller for implementation.

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 35 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
200 Howell Avenue
Riverhead, NY 11901

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS

Current Assets

Cash	\$ 290,289
Prepaid expenses	15,833
Accounts receivable	2,440
Due from Other Governments	<u>5,000</u>

Total Current Assets 313,562

Noncurrent Assets

Fixed assets	9,067
Less: accumulated depreciation	<u>(8,646)</u>

Total Noncurrent Assets 421

TOTAL ASSETS 313,983

DEFERRED OUTFLOWS OF RESOURCES

Pension related - ERS	<u>83,800</u>
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TOTAL DEFERRED OUTFLOWS OF RESOURCES 83,800

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES \$ 397,783

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	<u>\$ 21,143</u>
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Total Current Liabilities 21,143

Noncurrent Liabilities

Compensated absences	13,639
Net pension liability - ERS	<u>77,954</u>

Total Noncurrent Liabilities 91,593

TOTAL LIABILITIES 112,736

DEFERRED INFLOWS OF RESOURCES

Pension related - ERS	<u>11,502</u>
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TOTAL DEFERRED INFLOWS OF RESOURCES 11,502

NET POSITION

Net Position

Unrestricted 273,545

TOTAL NET POSITION 273,545

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

\$ 397,783

See Notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Revenues

Charges for services	\$ 313,635
Other revenue	8,489
Other Governments	<u>5,000</u>

Total Operating Revenues	<u>327,124</u>
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Operating Expenses

Advertising expense	894
Compensated absence expense	2,176
Depreciation	152
Dues and subscriptions	1,295
Employee benefits	17,479
ERS change of assumptions	12,337
Insurance	1,252
Legal Notices	144
Office	2,183
Payroll	119,769
Payroll taxes	9,266
Professional fees	38,844
Rent	19,350
Seminars and conferences	525
Telephone	2,082
Travel	<u>1,818</u>

Total Operating Expenses	<u>229,566</u>
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Net Operating Income	<u>97,558</u>
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Non-Operating Revenue

Interest income	<u>69</u>
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Total Non-Operating Revenue	<u>69</u>
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Change in Net Position	<u>97,627</u>
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Net Position - Beginning of Year, as previously reported	169,237
Cumulative effect of change in accounting principle	<u>6,681</u>

Net Position - Beginning of Year, as restated	<u>175,918</u>
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Net Position - End of Year	<u><u>\$ 273,545</u></u>
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See notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2016

Cash Flows from Operating Activities:

Cash received from charges for services	\$ 313,635
Cash payments for contractual expenses	(70,132)
Cash payments for payroll and payroll taxes	<u>(129,035)</u>

Net cash provided by operating activities	<u>114,468</u>
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Cash Flows from Non Capital Financing Activities:

Cash received from payments in lieu of taxes	1,041,237
Cash paid for payments in lieu of taxes	<u>(1,041,237)</u>

Net cash provided by non capital financing activities	<u>-</u>
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Cash Flows from Investing Activities:

Interest income	<u>69</u>
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Net cash provided by investing activities	<u>69</u>
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Net increase in cash	114,537
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Cash - beginning of year	<u>178,192</u>
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Cash - end of year	<u><u>\$ 292,729</u></u>
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Reconciliation of Net Operating Income to

Net cash provided by operating activities:

Net operating income	\$ 97,558
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	152
Increase in Deferred Outflows of Resources	(60,387)
Net Pension Liability	61,222
Increase in Net Deferred Inflows of Resources	11,502
Changes in assets and liabilities:	
Accounts receivable	(750)
Due from Other Governments	5,000
Prepaid expenses	(445)
Accounts payable and accrued expenses	(1,560)
Compensated absences	<u>2,176</u>

Net cash provided by operating activities	<u><u>\$ 114,468</u></u>
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See notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: ORGANIZATION

Primary Government

The Riverhead Industrial Development Agency (the 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, which is used to finance business location or expansion projects. The Agency can also provide projects with tax benefits (property, sales, and mortgage recording tax) that are not available to most development projects.

The Agency is a component unit of the Town of Riverhead, New York, based on the criteria set forth in Governmental Accounting Standards Board Statements. Such criteria includes financial accountability and oversight responsibility.

Related Entity

The Riverhead IDA Economic Job Development Corporation (the LDC) is considered a related entity of the Agency and a component unit of the Town of Riverhead. The LDC was incorporated on February 3, 2011 and is a non-profit organization and shares a common Board of Directors with the Agency. The LDC in furtherance of its mission pursuant to NYS Not for Profit Corporation Law Section 201(14) may authorize distributions to the Agency.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash is composed of available cash balances maintained in bank deposit accounts, which are insured by the Federal Deposit Insurance Corporation (FDIC). The Agency may have amounts in excess of FDIC which are fully collateralized by third party agreements.

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. Additions and betterments are capitalized, whereas costs of maintenance and repairs are charged to expenses as incurred. Depreciation expense for the year ended December 31, 2016 was \$152.

PILOT's Payable

Payments in lieu of taxes (PILOT's) were received by the Agency and are remitted to the appropriate taxing jurisdictions.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Compensated Absences

Full-time employees are granted vacation, personal leave, and sick leave in varying amounts. This benefit is vested when earned and vacation days and sick time can be carried from year to year as long as it does not exceed certain limits. Benefits are accrued as they are earned. Compensated absences at December 31, 2016 amount to \$13,639.

Cumulative Effect of Change in Accounting Principle

The Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (Statement No. 68). Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. Accordingly, Beginning Net Position and Net Pension Liability on the Statement of Net Position were adjusted as noted in the following table:

	Net Pension Liability	Deferred Outflows	Net Position
Balance at December 31, 2015, as previously reported:	\$ -	\$ -	\$ 169,237
Restatement of beginning balance - Adoption of GASB Statement No. 68	-	23,413	23,413
NYS Employees' Retirement System Plan	(16,732)	-	(16,732)
	(16,732)	23,413	6,681
Balance, at December 31, 2015, as restated	\$ (16,732)	\$ 23,413	\$ 175,918

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3: EMPLOYEE BENEFIT PLAN

The Agency participates in the New York State and Local Employees' Retirement System (the Plan) also referred to as New York State and Local Retirement System (the NYSERS). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the NYSERS is held in the New York State Common Retirement Fund (the Fund), established to hold all net position and record changes in plan net position allocated to the NYSERS. The NYSERS benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once an employer elects to participate in the NYSERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The system is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Contributions

The NYSERS is noncontributory except for employees who joined the NYSERS after July 27th, 1976, who contribute 3.0% percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0% percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSERS' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2016	\$16,372
2015	\$19,971

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2016, the Agency reported a net pension liability of \$77,954 for its proportionate share of the NYSERS net pension liability. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2016, the Agency's proportionate share was 0.0004857%, which was a decrease of 0.000096% from its proportionate share measured at December 31, 2015.

For the year ended December 31, 2016, the Agency recognized pension expense of \$12,337. At December 31, 2016, the Agency reported deferred outflows/inflows of resources related to pensions from the following sources:

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 394	\$ 9,240
Change of Assumptions	20,788	-
Net difference between projected and actual earnings on pension plan investments	46,246	-
Changes in proportion an differences between the Agency's contributions and proportionate share of contributions	-	2,262
Contributions subsequent to the measurement date	<u>16,372</u>	<u>-</u>
Total	<u>\$ 83,800</u>	<u>\$ 11,502</u>

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

Plan's Year Ended March 31:

2017	\$ 14,098
2018	\$ 14,098
2019	\$ 14,098
2020	\$ 13,634
2021	\$ -

The Agency recognized \$16,372 as deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2016 which will be recognized as a reduction of the net pension liability in the year ending December 31, 2017.

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.70%
Salary Scale	4.9% indexed by service
Projected COLAs	1.4% compounded annually
Decrements	Developed from the Plan's 2010 experience study of the period April 1, 2005 through March 31, 2010
Mortality Improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.5% compounded annually, net of investment expenses

Long-term Rate of Return

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

Asset Type	Target Allocations in %	Long-Term expected real rate of return in %
Domestic Equity	38	7.30
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return	3	6.75
Opportunistic Portfolio	3	8.60
Real Estate	3	8.65
Bonds & Mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed Bonds	2	4.00
	<u>100%</u>	

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Proportionate Share of Net pension liability (asset)	<u>\$ 175,780</u>	<u>\$ 77,954</u>	<u>\$ (4,705)</u>

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers in the plan as of March 31, 2016 were as follows:

Total Pension Liability	\$ 172,303,544,000
Net Position	<u>(156,253,265,000)</u>
Net Pension liability (asset)	<u>\$ 16,050,279,000</u>
ERS net position as a percentage of total pension liability	90.68%

NOTE 4: DUE FROM OTHER GOVERNMENTS

Town of Riverhead

The Agency entered into an agreement in 2012 to provide administrative services for the Town of Riverhead for the Suffolk County / Town of Riverhead Empire Zone Program (the Agreement). Agency will provide compliance filing and monitoring of the Empire Zone Programs for the Town of Riverhead. The Agreement provides that the Agency receive \$5,000 annually ending in the year 2020. Due from other Governments from the Town of Riverhead at December 31, 2016 of \$5,000 is related to this Agreement.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 5: COMMITMENTS

Lease

The Agency entered into a lease agreement for office space in September 2013 to commence on October 1, 2013 and to end on September 30, 2017. Rent expense under the provisions of this lease agreement from January to September 2017 would be \$14,850. As of the date of this report, the Agency has not entered into a new lease agreement.

NOTE 6: SUBSEQUENT EVENTS

In connection with the preparation of the financial statements the Agency evaluated subsequent events after the statement of position date of December 31, 2016 through March 6, 2017, which was the date the financial statements were available to be issued. No subsequent events were identified.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2016

NYSERS	2016
Agency's proportion of the collective net pension liability	0.0004857%
Agency's proportionate share of the net collective pension liability	\$ 77,954
Agency's covered-employee payroll	\$ 104,498
Agency's proportionate share of the net collective pension liability as a percentage of its covered-employee payroll	74.60%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	97.90%

See Independent Auditors' Report.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF PENSION CONTRIBUTIONS
DECEMBER 31, 2016

	NYSERS December 31, 2016
	<hr/>
Contractually required contribution	\$ 16,372
Contributions in relation to the contractually required contribution	16,372
Contribution deficiency (excess)	<hr/> <u>\$ -</u> <hr/>
Agency's covered employee payroll	\$ 104,498
Contributions as a percentage of covered employee payroll	15.67%

See Independent Auditors' Report.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

	Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 177,465	\$ 313,635	\$ 136,170
Other revenue (appropriated fund balance)	81,445	13,489	(67,956)
Total Operating Revenues	258,910	327,124	68,214
Operating Expenses			
Advertising expenses	3,000	894	2,106
Compensated absence expense	3,989	2,176	1,813
Depreciation	568	152	416
Dues and subscriptions	1,260	1,295	(35)
Employee benefits	18,906	17,479	1,427
ERS change of assumptions	-	12,337	(12,337)
Insurance	1,380	1,252	128
Legal Notices	800	144	656
Office	3,880	2,183	1,697
Payroll	112,649	119,769	(7,120)
Payroll taxes	8,842	9,266	(424)
Professional fees	42,632	38,844	3,788
Rent	19,350	19,350	-
Seminars and conferences	1,000	525	475
Telephone	1,950	2,082	(132)
Travel	2,500	1,818	682
Total Operating Expenses	222,706	229,566	(6,860)
Non-Operating Revenue			
Interest Income	32	69	37
Total Non-Operating Revenue	32	69	37
Operating Revenue	<u>\$ 36,236</u>	<u>\$ 97,627</u>	<u>\$ 61,391</u>

See Independent Auditors' Report.



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**INDEPENDENT AUDITORS' 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
Town of Riverhead Industrial Development Agency
Riverhead, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

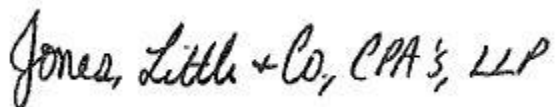
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jones, Little & Co., CPAs, LLP". The signature is written in a cursive, flowing style.

Port Jefferson Station, New York
March 6, 2017