

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
**(A Component Unit of the Town of Riverhead)**  
**Financial Statements**  
**December 31, 2010 and 2009**

**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, 2010 and 2009, 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, 2010 and 2009, 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 4, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 14 through 15, 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The accompanying summary schedule of prior findings, schedule of findings and corrective action plan on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the 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 do not express an opinion or provide any assurance on them.

Markowitz, Fenelon & Bank, LLP  
Southampton, New York

*Markowitz Fenelon & Bank LLP*

March 4, 2011

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2010  
(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, 2010. 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, 2010 by \$132,984.
- The Agency's total assets decreased by \$44,133 in year 2010. The Agency's total liabilities decreased by \$28,394 in year 2010.
- The agency's 2010 operating revenue increased \$139,309 over the 2009 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, 2010  
(Unaudited)

**Condensed Comparative Financial Statements:**

<b>Condensed Balance Sheets at December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Cash	\$ 143,459	\$ 188,641	\$ (45,182)	-24%
Current assets	329	1,331	(1,002)	-75%
Property and equipment (Net)	2,831	780	2,051	263%
Total assets	<u>\$ 146,619</u>	<u>\$ 190,752</u>	<u>\$ (44,133)</u>	<u>-23%</u>
Current liabilities	\$ 13,635	\$ 42,029	\$ (28,394)	-68%
Total liabilities	<u>13,635</u>	<u>42,029</u>	<u>(28,394)</u>	<u>-68%</u>
Unrestricted	132,984	148,723	(15,739)	-11%
Total net assets	<u>132,984</u>	<u>148,723</u>	<u>(15,739)</u>	<u>-11%</u>
Total liabilities and net assets	<u>\$ 146,619</u>	<u>\$ 190,752</u>	<u>\$ (44,133)</u>	<u>-23%</u>

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Total operating revenue	\$ 155,309	\$ 16,000	\$ 139,309	871%
Total operating expenses	171,246	103,082	68,164	66%
Operating income	(15,937)	(87,082)	71,145	82%
Non-operating revenues	198	284	(86)	-30%
Changes in net assets	<u>\$ (15,739)</u>	<u>\$ (86,798)</u>	<u>\$ 71,059</u>	<u>82%</u>

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

- Agency operations during 2010 resulted in \$150,910 in revenues being generated by fees associated with completed projects. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand. It is anticipated that the operating revenue of the Agency in 2011 may be minimal, although more than the current year.

**Budgetary Analysis:**

This section will discuss the significant budget to actual variances in 2010.

The Charges for services line in the 2010 budget was established at \$299,000. During 2010 several projects did not close and the executive director was terminated on September 28, 2010. These events resulted in an approximate \$146,000 operating revenue shortfall.

Payroll was budgeted at \$20,000 in anticipation of having a part-time Executive Assistant for twelve months. The position was never filled during 2010 resulting in the payroll and related costs being under budget.

Professional fees were necessary to fulfill the tasks required by the Executive Director, Chief Financial Officer and Executive Assistant resulting in the budget being over spent by approximately \$22,000.

The marketing and business development was less aggressive than budgeted resulting in under-spent variances in business development, dues and subscriptions, seminars and conferences, travel and entertainment.

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

### **Management's Discussion and Analysis**

**December 31, 2010**

**(Unaudited)**

The aggregate variance in all other budget lines was immaterial and 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 and prevent economic deterioration 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.

On December 11, 2009, New York State Governor Paterson signed into law the Public Authorities Reform Act of 2009, regarding the creation of an independent authorities budget office necessary to provide oversight of the operations and finances of public authorities in real time. The new law imposed additional rules and requirements for governmental agencies and their Boards. RIDA is taking all necessary action to comply with the provisions of the Act. The Agency's website is being redesigned and improved to meet the requirements of the law and to generate more public awareness as well as attract new businesses to the Town of Riverhead.

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

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Management's Discussion and Analysis

December 31, 2010

(Unaudited)

### **COMPLETED PROJECTS**

#### **Atlantis Holding Company LLC**

In September 2009, RIDA received an application for financial assistance from Atlantis Holding Company LLC with respect to (i) the acquisition from the Town of Riverhead Community Development Agency of four parcels of land consisting of approximately 6.1728 acres and located on 431 East Main Street, Riverhead, together with the buildings located thereon, and (ii) the construction and equipping of a new addition to an existing building at 431 Main Street, Riverhead, presently owned by Atlantis, for use as additional exhibit, banquet and conference center space, and construction and equipping of a new building for use as a hotel, and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$24,323,000.

The financial assistance requested by Atlantis: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (iii) the issuance of ARRA Tax Credit Obligations to finance all or a portion of the Project, and (iv) a partial abatement of real property taxes

#### **Deviation from RIDA Uniform Tax Exemption Policy: (iv) a partial abatement of real property taxes**

The Agency is allowing this deviation from such policy, which has been requested by Atlantis, because a) the Project is located within a highly distressed area as determined by the Riverhead Town Board through the adoption of the East Main Street Urban Renewal Plan and the supporting SEQRA record on file with the Riverhead Town Clerk, b) the Project is considered to be extremely significant and vital to the economic health and well being of the Town of Riverhead, Suffolk County and the Long Island Region, and c) pursuant to General Municipal Law Section 854(18), the Project is within an area designated to be an Empire Zone pursuant to Article 18A of such law.

Public hearing on the application was held by RIDA on November 9, 2009 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance occurred on December 7, 2009.

The closing for the project occurred on February 26, 2010.

#### **Jaral East End Hotel Corp**

In December 2009, RIDA received an application for financial assistance from Jaral East End Hotel Corp with respect to the renovation of an existing 100 room hotel and 250 seat catering facility of approximately 68,928 square feet located at 1830 Route 235, Riverhead, including renovation of the guest rooms, public areas and ballroom and the interior demolition and construction of new porte-cochere, and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$5,905,000.

The financial assistance requested by Jaral: (i) the provision of an exemption from Mortgage Recording Taxes, and (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property.

Public hearing on the application was held by RIDA on December 7, 2009 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance occurred on January 22, 2010.

The closing for the project occurred in February 2010.

#### **Country Limousines and Related Parties**

In March 2010, RIDA received an application for financial assistance from Country Limousines for financial assistance with respect to the restoration of a distressed 1929 building being located at 1 East Main Street, Riverhead, consisting of an approximately 9,000 square foot building to be used as a restaurant and catering facility, at an aggregate cost estimated to be \$1,640,000.



## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Management's Discussion and Analysis

December 31, 2010

(Unaudited)

The financial assistance requested by Country Limousines: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes by granting a partial abatement of real property taxes attributable to any increase in assessed value of the real property comprising the Project over the present value of such real property (\$127,500) for a period of ten years.

Public hearing on the application was held by RIDA on April 26, 2010 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance occurred on May 10, 2010.

The closing for the project occurred in June 2010.

### **PENDING APPLICATIONS**

#### **E.B.S. Building Systems**

In April 2010, 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 67,300 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.: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (iii) a partial abatement of real property taxes through a Payment-in-Lieu of Tax.

Public hearing on the application was held by RIDA on June 21, 2010 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance occurred on July 12, 2010.

Determined to be an IDA project: did not occur in 2010

The closing did not occur in 2010.

#### **Eastern Property Investor Consultant (EPIC)**

In September 2009, RIDA received an application for financial assistance from Eastern Property Investor Consultant with respect to the acquisition of a parcel of land of approximately 0.327 acres and the existing buildings located thereon, such buildings being located at 28, 30 and 40 Peconic Avenue, Riverhead, and to demolish thereof and construct a new four-story approximately 42,514 square foot building, the first floor of which is expected to be rented to presently unidentified commercial tenants and the remainder of which is expected to be rented to presently unidentified residential tenants as "workforce housing", and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$8,530,000.

The financial assistance requested by EPIC: (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.

#### **Deviation from RIDA Uniform Tax Exemption Policy: (iii) a partial abatement of real property taxes**

The Agency is allowing this deviation from such policy, which has been requested by Eastern, because a) the Project is located within a highly distressed area as determined by the Riverhead Town Board through the adoption of the East Main Street Urban Renewal Plan and the supporting SEQRA record on file with the Riverhead Town Clerk, b) the Project is considered to be extremely significant and vital to the economic health and well being of the Town of Riverhead, Suffolk County and the Long Island Region, and c) pursuant to General Municipal Law Section 854(18), the Project is within an area designated to be an Empire Zone pursuant to Article 18A of such law.

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

### **Management's Discussion and Analysis**

**December 31, 2010**

**(Unaudited)**

Public hearing on the application was held by RIDA on November 9, 2009 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance occurred on December 7, 2009.

Determined to be an IDA project: did not occur in 2010.

The closing for the project did not occur in 2010.

#### **Bowl 58 LLC**

In December 2009, RIDA received an application for financial assistance from Bowl 58 LLC with respect to the acquisition of a parcel of land of approximately 6.5 acres being located at 96 Main Road, Riverhead, and the construction of a new approximately 33,000 square foot building to be used as a 28-lane bowling center with a lounge, restaurant, arcade and party rooms, and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$10,200,000.

The financial assistance requested by Bowl 58: (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

Public hearing on the application was held by RIDA on December 7, 2009 after sufficient public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given.

Resolution approving the provision of financial assistance did not occur in 2010.

Determined to be an IDA project: did not occur in 2010.

The closing for the project did not occur in 2010.

#### **Marketing**

RIDA is developing a marketing strategy to attract new businesses to Riverhead and help existing businesses expand, to help them through the government and financial maze and find suitable sites. The strategy includes branding ("All Roads Lead to Riverhead" slogan was created); redesign of the web site to utilize the internet more aggressively to attract international businesses; restructure legal, agency and closing fees to become more transparent and to create additional revenue to fund the annual management and administration of project documents.

In addition, 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 to discuss with the company the benefits and incentives that can be obtained if they relocate.

#### **General Business Assistance**

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.

#### **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  
1 East Main Street #4  
Riverhead, NY 11901

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Statements of Net Assets  
Enterprise Fund  
As of December 31, 2010 and 2009

**ASSETS**

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash (Note 1)		
Checking	\$ 143,209	\$ 160,391
PILOT	250	28,250
Total Cash	<u>143,459</u>	<u>188,641</u>
Accounts Receivable	329	
Prepaid expenses		<u>1,331</u>
Total Current Assets	<u>329</u>	<u>1,331</u>
<b>Noncurrent Assets</b>		
Fixed assets	8,040	5,526
Less: accumulated depreciation	<u>(5,209)</u>	<u>(4,746)</u>
Total Noncurrent Assets	<u>2,831</u>	<u>780</u>
<b>Total Assets</b>	<u><u>\$ 146,619</u></u>	<u><u>\$ 190,752</u></u>

**LIABILITIES**

<b>Current Liabilities</b>		
Payroll taxes payable	\$	\$ 799
PILOT payments payable		28,000
Accounts payable and accrued expenses	<u>13,635</u>	<u>13,230</u>
Total Current Liabilities	<u>13,635</u>	<u>42,029</u>

**NET ASSETS**

<b>Net Assets</b>		
Unrestricted	<u>132,984</u>	<u>148,723</u>
Total Net Assets	<u>132,984</u>	<u>148,723</u>
Total Liabilities and Net Assets	<u><u>\$ 146,619</u></u>	<u><u>\$ 190,752</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Fund**  
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Charges for services	\$ 153,168	\$ 16,000
Subtenant Rent	<u>2,141</u>	
Total Operating Revenues	<u>155,309</u>	<u>16,000</u>
<b>Operating Expenses</b>		
Business development	2,835	999
Depreciation	463	480
Dues and subscriptions	1,050	(768)
Employee benefits		843
Insurance	527	527
Interest expense		25
Legal Notices	161	272
Meals and entertainment		210
Office	5,006	4,098
Payroll		12,512
Payroll taxes	11	1,101
Professional fees	137,934	64,043
Rent	19,544	15,657
Seminars and conferences	656	683
Telephone	1,923	1,788
Travel	<u>1,136</u>	<u>612</u>
Total Operating Expenses	<u>171,246</u>	<u>103,082</u>
Operating Loss	<u>(15,937)</u>	<u>(87,082)</u>
<b>Non-Operating Revenue</b>		
Interest income	<u>198</u>	<u>284</u>
Total Non-Operating Revenue	<u>198</u>	<u>284</u>
Change in Net Assets	(15,739)	(86,798)
Net Assets - Beginning of Year	<u>148,723</u>	<u>235,521</u>
Net Assets - End of Year	<u><u>\$ 132,984</u></u>	<u><u>\$ 148,723</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
**Statements of Cash Flows**  
**Enterprise Fund**  
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from providing services	\$ 152,919	\$ 16,000
Cash received for PILOTS		28,000
Cash received from subtenant	2,061	
Cash payments for contractual expenses	(169,037)	(88,651)
Cash payments for PILOTS	(27,999)	
Cash payments for personal services and benefits	(810)	(13,835)
	<u>(42,866)</u>	<u>(58,486)</u>
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Purchase of fixed assets	(2,514)	
Interest income	198	284
	<u>(2,316)</u>	<u>284</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Net decrease in cash</b>	(45,182)	(58,202)
<b>Cash - beginning of year</b>	<u>188,641</u>	<u>246,843</u>
<b>Cash - end of year</b>	<u><u>\$ 143,459</u></u>	<u><u>\$ 188,641</u></u>
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Used in Operating Activities</b>		
Operating loss	\$ (15,937)	\$ (87,082)
Adjustments to reconcile operating loss to net		
cash used in operating activities:		
Depreciation	463	480
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid expenses	1,331	(38)
Accounts Receivable	(329)	
Increase (Decrease) in:		
Accounts payable and accrued expenses	405	(468)
PILOTS payable	(28,000)	28,000
Payroll taxes payable	(799)	622
	<u>(42,866)</u>	<u>(58,486)</u>
<b>Net cash used in operating activities</b>	<u><u>\$ (42,866)</u></u>	<u><u>\$ (58,486)</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Notes to Basic Financial Statements  
December 31, 2010 and 2009

**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 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 \$250,000. Amounts in excess of insured limits were fully collateralized by a third party at December 31, 2010.

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, 2010 and 2009 was \$463 and \$480, 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, 2010 and 2009

**Note 1. Summary of Significant Accounting Policies (Continued)**

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**

In October 2010, the Agency executed a lease agreement with Country Limousine Service, Inc. to lease Unit 4 at 1 East Main Street in Riverhead, New York for a term of one year. The Agency is responsible for heat and electric to the premises and pay the cost thereof. At December 31, 2010, the annual future minimum payments remaining are as follows:

2011     \$ 18,000

Agency as Lessor:

In October 2010, the Agency entered into a lease agreement with the Riverhead Business Development District as sublessee. The sublessee pays rent of \$687 per month and additional rent equal to the pro rata floor area of the single room for utilities as billed based upon actual costs by the sublessor. The Agency billed \$2,141 in lease revenue and utilities for the year ended December 31, 2010. The following is an estimate of the future lease payments:

2011     \$6,183

**Note 3. Subsequent Events**

Management has evaluated subsequent events through March 4, 2011, the date the financial statements were available to be issued.

## **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

For the Year Ended December 31, 2010

(Unaudited)

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Operating Revenues</b>			
Charges for services	\$ 299,000	\$ 153,168	\$ (145,832) (1)
Subtenant Rent		<u>2,141</u>	<u>2,141</u>
<b>Total Operating Revenue</b>	<u>299,000</u>	<u>155,309</u>	<u>(143,691)</u>
<b>Operating Expenses</b>			
Personal Services			
Payroll	19,825		19,825 (3)
Contractual Expenses			
Business development	25,000	2,835	22,165 (2)
Depreciation		463	(463)
Dues and subscriptions	5,000	1,050	3,950 (2)
Insurance	1,000	527	473
Legal notices	500	161	339
Meals and entertainment	1,500		1,500 (2)
Office	6,964	5,006	1,958
Payroll Taxes	2,255	11	2,244 (3)
Professional fees	115,460	137,934	(22,474) (4)
Rent	18,000	19,544	(1,544)
Seminars and conferences	5,000	656	4,344 (2)
Telephone	1,700	1,923	(223)
Travel	4,500	1,136	3,364 (2)
Utilities	2,400		<u>2,400</u>
<b>Total Operating Expenses</b>	<u>209,104</u>	<u>171,246</u>	<u>37,858</u>
<b>Non-Operating Revenue</b>			
Interest Income	<u>1,200</u>	<u>198</u>	<u>(1,002) (5)</u>
<b>Total Non-Operating Revenue</b>	<u>1,200</u>	<u>198</u>	<u>(1,002)</u>
<b>Excess of Revenues over Expenditures</b>	91,096	(15,739)	(106,835)
<b>Net Assets - Beginning of Year</b>	<u>148,723</u>	<u>148,723</u>	
<b>Net Assets - End of Year</b>	<u>\$ 239,819</u>	<u>\$ 132,984</u>	<u>\$ (106,835)</u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Note to Budgetary Comparison Schedule  
Enterprise Fund  
For the Year Ended December 31, 2010

**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.	\$ (145,832)
(2) The marketing and development of the Agency was less aggressive than budgeted resulting in several accounts being under spent.	35,323
(3) A part time Executive Assistant was budgeted for in 2010 and the position was never filled.	22,069
(4) Professional fees were necessary to fulfill the tasks required by the Executive Director, Chief Financial Officer and Executive Assistant.	(22,474)
(5) Interest income was under budget due to declining agency revenues.	(1,002)
Miscellaneous	<u>5,081</u>
	<u><u>\$ (106,835)</u></u>



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**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 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, 2010 and 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 4, 2011. 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings, item 2007-2, that we consider to be a significant deficiency in internal control over financial reporting. 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.

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 also 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 4, 2011.

The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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

*Markowitz Fenelon & Bank LLP*

Markowitz, Fenelon & Bank, LLP  
Southampton, New York

March 4, 2011

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

### **Summary Schedule of Prior Findings**

**December 31, 2010**

#### **Significant Deficiencies**

##### **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 Interim Chief Financial Officer is responsible for most aspects of the accounting function, including recording cash receipts and disbursements, transferring funds to other accounts and all payroll functions. This person also has access to all aspects of the computer software system including creating and posting journal entries, cash disbursements and cash receipts.

**Cause:** Because of the limited size of the Agency, the Agency feels that it is both inefficient and cost defective 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.

**Current Status:** Due to the size of the Agency, they are unable to segregate these duties.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Schedule of Findings

December 31, 2010

**Significant Deficiencies**

**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.

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**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, 2010**

**The Agency will provide its Corrective Action Plan for the year ended December 31, 2010 as part of a separate report.**