

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Financial Statements
For the Year Ended December 31, 2012

ALBANESE SINI & REEVES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

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For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of net assets of the Town of Riverhead Industrial Development Agency (the RIDA) as of December 31, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the RIDA's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the RIDA as of December 31, 2012 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 opinion on the financial statements that comprise the RIDA's financial statements as a whole. The accompanying summary schedule of prior findings, schedule of finding and corrective action plan as listed in the table of contents 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 financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Allanese Sini & Reeves LLP

East Setauket, New York
February 26, 2013

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Riverhead Industrial Development Agency's (the RIDA) financial performance provides an overview of the RIDA's financial activities for the year ended December 31, 2012. Please read this in conjunction with the financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the RIDA exceeded liabilities at December 31, 2012 by approximately \$29,000.
- The RIDA total assets decreased by approximately \$15,000 and total liabilities increased by approximately \$7,000 for the year ended December 31, 2012.
- The RIDA fiscal year ended December 31, 2012 operating revenue increased approximately \$72,000.

FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the RIDA and its component unit the Riverhead IDA Economic Job Development Corporation. The financial statement of the RIDA, which is an enterprise type fund and, accordingly, reflects business-type activities.

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 assets and statement of revenues, expenses and changes in net assets report information about the RIDA as a whole and about its activities. These statements include all assets and liabilities of the RIDA 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 RIDA's net assets and changes in net assets. A net asset is the difference between assets and liabilities. This is one way to measure the RIDA's financial health, or financial position. Over time, increases or decreases in the RIDA's net assets are one indicator of financial health.

	Condensed Balance Sheets at December 31,			
	2012	2011	Dollar Change	Percent Change
Total Current Assets	\$ 70,722	69,595	1,127	2%
Total Noncurrent Assets	1,683	17,398	(15,715)	-90%
Total Assets	<u>\$ 72,405</u>	<u>86,993</u>	<u>(14,588)</u>	<u>-17%</u>
Total Current Liabilities	\$ 38,837	33,653	5,184	15%
Total Noncurrent Liabilities	4,266	2,163	2,103	97%
Total Liabilities	<u>43,103</u>	<u>35,816</u>	<u>7,287</u>	<u>20%</u>
Total Net Assets	<u>29,302</u>	<u>51,177</u>	<u>(21,875)</u>	<u>-43%</u>
Total Liabilities and Net Assets	<u>\$ 72,405</u>	<u>86,993</u>	<u>(14,588)</u>	<u>-17%</u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2012

Condensed Statement of Financial Position for the Year Ended December 31, 2012

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total Operating Revenues	\$ 165,735	93,715	72,020	77%
Total Operating Expenses	<u>187,669</u>	<u>175,612</u>	<u>12,057</u>	<u>7%</u>
Operating loss	\$ (21,934)	(81,897)	59,963	-73%
Total Non-Operating Revenue	<u>59</u>	<u>90</u>	<u>(31)</u>	<u>-34%</u>
	<u><u>\$ (21,875)</u></u>	<u><u>(81,807)</u></u>	<u><u>59,932</u></u>	<u><u>-108%</u></u>

Analysis of Financial Position and Results of Operations

RIDA operations during 2012 resulted in approximately \$106,000 in revenues for services. The RIDA continues its approach to economic development by attracting new businesses and helping existing business expand. It is anticipated that revenue will increase.

Budgetary Analysis

Charges for services was less than anticipated due to timing of project closing in 2012. Employee benefits were higher than budget due to NYS Employees Retirement increases.

General Overview of RIDA Function

The Riverhead Industrial Development Agency (the 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 the 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, the RIDA acts as a conduit through which the transaction takes place. Although the 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 the RIDA bonds, with the 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 the RIDA.

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

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2012

New York State Public Authority Accountability Act of 2005 (2005 Act), imposes rules and requirements for governmental agencies and their Boards. All members of the Board of Directors of the 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 2005 Act and have amended the RIDA 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 RIDA. The RIDA has taken all necessary action to comply with the provisions of the 2005 Act.

New York State Public Authorities Reform Act of 2009 (2009 Act), created an independent authorities budget office necessary to provide oversight of the operations and finances of public authorities in real time. The 2009 Act imposed additional rules and requirements for governmental agencies and their Boards. The RIDA has taken all necessary action to comply with the provisions of the 2009 Act. The RIDA has a website that is used to meet the requirements of the 2009 Act and to generate more public awareness as well as attract new businesses to Riverhead.

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

COMPLETED PROJECTS

Mirah Max, LLC

In December 2011, the RIDA received an application for financial assistance from Mirah Max LLC, a limited liability company qualified to do business in the State of New York on behalf of Mirah Max LLC, Ralph's of Riverhead, Inc. and other related entities (collectively, the Related Parties), with respect to the renovation and reconstruction of a distressed building located at 309 East Main Street, Riverhead, New York, comprising a 6,000 square foot one-story commercial building. The project will completely upgrade and modernize the existing building and reduce the building footprint to provide commercial space for use by retail food businesses. The project will create separate store fronts, new façade, new electric service, new water service, new gas service, new HVAC systems, new roof, new bathrooms, new demising walls and interior partitions, new fire alarm system, new signage and awnings, commercial and restaurant fixtures, including expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$1,150,000.

The financial assistance requested by Mirah Max LLC and the Related Parties with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (ii) a partial abatement of real property taxes by through a Payment-in-Lieu of Tax, and (iii) exemption from mortgage recording tax.

The closing of the project occurred in February 2012.

Main Road Holdings, Inc. / All Star Entertainment Center

In December 2011, the RIDA received an application for financial assistance from Main Road Holdings, LLC, a limited liability company qualified to do business in the State of New York, on behalf of the Applicant and 10 Pin of Aquebogue, LLC (the Related Party), a limited liability company qualified to do business in the State of New York, with respect to the acquisition by the Applicant of a parcel of land of approximately 6.02 acres being located at 96 Main Road, Riverhead, New York, and the renovation of an approximately 31,000 square foot building and the landscaping of the area surrounding the building, to be leased to and operated by the Related Party and to be used as a 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 \$5,250,000.

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The financial assistance requested by Main Road Holdings, LLC 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 through a Payment-in-Lieu of Tax.

The closing of the project occurred in February 2012.

Wolf Properties, LLC/Suffolk Theater

In October 2012, the RIDA received a final application for financial assistance from Wolf Properties, LLC, a limited liability company qualified to do work in the State of New York on behalf of Wolf Properties, LLC, The Suffolk Theater, LLC and other related entities, with respect to the renovation and reconstruction of a distressed 1930's art deco movie theater that has been closed, vacant and deteriorating in the heart of downtown Riverhead for 20 years. The building that is located at 118 East Main Street, Riverhead, New York is a 9,000 square foot former single screen movie theater. The project will take the historic theater and renovate it to its former glory for use as a theater and performing arts center at a total project cost of \$1,577,000.

The financial assistance requested by Wolf Properties, LLC and the Related Parties with respect to the Project: (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (ii) a partial abatement of real property taxes by through a Payment-in-Lieu of Tax, and (iii) exemption from mortgage recording tax.

The closing of the project occurred in November 2012.

Riverhead Medical Realty/IDI

In October of 2012, the RIDA received an application for continued financial assistance from Riverhead Medical Realty, LLC, a real estate holding company formed by Long Island Vitreo-Retinal Consultant, PC (LIVRC). IDI Ventures, LLC was previously granted assistance for the construction and equipping of a medical facility on Commerce Drive in Riverhead for use by Long Island Vitreo-Retinal Consultant, PC as a medical facility for eye care. LIVRC wanted to purchase the facility and continue the use. IDI Ventures entered into an agreement which permits the assignment of the rights and obligations of IDI upon approval by the RIDA. Therefore, LIVRC formed the Real Estate Holding company known as Riverhead Medical Realty, LLC to take title to the project which purchased the facility for \$2,250,000, an amount greater than the original cost of the facility.

The financial assistance request by IDI Ventures with respect to the project: (i) to authorize the assignment of IDI to Riverhead Medical Realty, LLC of the rights and obligations of Sale Agreement, PILOT and other RIDA documents dated as of April 8, 2003 including personal Guaranty of the principals and payment of all the RIDA fees and costs, (ii) the granting of a mortgage tax abatement up to the stated cost of purchase of \$2,250,000, (iii) a continuation of the PILOT under its existing terms and conditions, and sales and compensating use tax exemption as may be applicable.

The closing of the project occurred in November of 2012

REFINANCES

Several refinances were assisted during 2012. Those entities included PBMC, Browning, and John Wesley Village, II.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

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PENDING APPLICATIONS

Hampton Jitney, Inc.

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

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

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

The closing did not occur in 2012.

Final closing documents were approved January 7, 2013.

Woolworth Revitalization, LLC

In November 2012, the RIDA received an application for financial assistance from Woolworth Revitalization, LLC, a limited liability a limited liability company qualified to do business in the State of New York on behalf of Woolworth Revitalization, LLC, and other related entities (collectively, the Related Parties), with respect to the renovation and reconstruction of a distressed building located at 126-138 East Main Street, Riverhead, New York, comprising approximately 42,000 square foot commercial building to be acquired by the applicant for repurpose as mixed commercial, retail, restaurant and office space on the first floor with living accommodations on the second floor requiring the abatement of asbestos, new utility services, new roof, façade improvements all in compliance with existing zoning and master plan recommendations and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$5,707,500.

The financial assistance approved by RIDA for Woolworth Revitalization with respect to the Project is (i) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (ii) a partial abatement of real property taxes by granting a partial abatement of real property taxes attributable to any increase in assessed value of the real property comprising the Project over the present assessed value of such real property (\$61,300) for a period of ten (10) years, and (iii) the provision of an exemption from Mortgage Recording Taxes. The financial assistance described in (i), (ii) and (iii), above, would be consistent with the uniform tax-exemption policy adopted by the RIDA pursuant to Subdivision 4 of Section 874 of the General Municipal Law. Additionally the provision of real property abatement is subject to an improvement valuation which shall be adjusted by the percentage based upon the condition of the Project as of December 1st of the year immediately prior to which the PILOT payment is due.

The closing did not occur in 2012.

Final closing documents were approved on February 4, 2013.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

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E.B.S. Building Systems

In April 2010, the RIDA received an application for financial assistance from E.B.S. Building Systems LLC (E.B.S.) to support the establishment of its company in the Town of Riverhead. E.B.S. 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.

The closing did not occur in 2012.

Wading River Catering, LLC

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

A public hearing was not held in 2012. Project is in litigation and currently on hold.

MARKETING

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

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks. Cold calls, editorials, and general public relations are all part of the grassroots approach to the RIDA's marketing efforts. Participation on panels, in seminars and trade shows enhance marketing efforts.

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.

In addition, the current Director has the experience and knowledge to handle inquiries for assistance programs offered outside those of the RIDA; providing a one stop service for businesses. These resources include low cost financing options, State and Federal incentive programs, grants, business planning, and employment and housing assistance. The RIDA Director 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 Suffolk

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2012

County Industrial and Commercial Incentive Board that developed a county wide plan for a real property abatement program.

This past year the RIDA submitted a grant through the NYS Consolidated Funding Application on behalf of Corwin Duck Farms and assisted with other grants such as, on behalf of Bolt Bus and supported a NYS Main Street Grant through the Town of Riverhead. Additional assistance was offered to businesses affected during Superstorm Sandy. An emergency sales tax provision and plan was implemented shortly after the storm and offered to businesses that needed to rebuild due to damage from the storm.

The RIDA also administers the NYS 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.

The Suffolk County/Town of Riverhead Empire Zone (Zone) is an economic incentive program which acts as a catalyst for job creation, retention and the generation of property taxes for the Town of Riverhead and the Riverhead Central School District through the redevelopment of the 2,900 acre former Naval Weapons Industrial Reserve Plant in Calverton, NY. 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 Zone currently services 50 businesses.

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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  
200 Howell Avenue  
Riverhead, NY 11901

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Statement of Net Assets  
As of December 31, 2012

**ASSETS**

Current Assets

|                     |              |
|---------------------|--------------|
| Cash                | \$ 64,128    |
| Accounts Receivable | <u>6,594</u> |

Total Current Assets 70,722

Noncurrent Assets

|                                |                |
|--------------------------------|----------------|
| Fixed assets                   | 8,366          |
| Less: accumulated depreciation | <u>(6,683)</u> |

Total Noncurrent Assets 1,683

Total Assets \$ 72,405

**LIABILITIES AND NET ASSETS**

Current Liabilities

|                                       |               |
|---------------------------------------|---------------|
| Payroll taxes payable                 | \$ 4,599      |
| Accounts payable and accrued expenses | <u>34,238</u> |

Total Current Liabilities 38,837

Noncurrent Liabilities

|                      |              |
|----------------------|--------------|
| Compensated absences | <u>4,266</u> |
|----------------------|--------------|

Total Noncurrent Liabilities 4,266

Total Liabilities 43,103

**NET ASSETS**

Net Assets

|              |               |
|--------------|---------------|
| Unrestricted | <u>29,302</u> |
|--------------|---------------|

Total Net Assets 29,302

Total Liabilities and Net Assets \$ 72,405

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Statement of Revenues, Expenses and Changes in Net Assets

For The Year Ended December 31, 2012

|                                |                         |
|--------------------------------|-------------------------|
| <b>Operating Revenues</b>      |                         |
| Charges for services           | \$ 105,678              |
| Subtenant rent                 | 6,667                   |
| Other revenue                  | <u>53,390</u>           |
| Total Operating Revenues       | <u>165,735</u>          |
| <b>Operating Expenses</b>      |                         |
| Business development           | 350                     |
| Compensated absence expense    | 2,102                   |
| Depreciation                   | 715                     |
| Dues and subscriptions         | 1,297                   |
| Employee benefits              | 13,091                  |
| Insurance                      | 2,218                   |
| Legal Notices                  | 225                     |
| Meals and entertainment        | 70                      |
| Office                         | 2,782                   |
| Payroll                        | 85,051                  |
| Payroll taxes                  | 7,403                   |
| Professional fees              | 49,417                  |
| Rent                           | 18,000                  |
| Seminars and conferences       | 850                     |
| Telephone                      | 1,363                   |
| Travel                         | 1,323                   |
| Utilities                      | <u>1,412</u>            |
| Total Operating Expenses       | <u>187,669</u>          |
| Net Operating Loss             | <u>(21,934)</u>         |
| <b>Non-Operating Revenue</b>   |                         |
| Interest income                | <u>59</u>               |
| Total Non-Operating Revenue    | <u>59</u>               |
| Change in Net Assets           | (21,875)                |
| Net Assets - Beginning of Year | <u>51,177</u>           |
| Net Assets - End of Year       | <u><u>\$ 29,302</u></u> |

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Statement of Cash Flows  
For the Year Ended December 31, 2012

|                                                                                          |                          |
|------------------------------------------------------------------------------------------|--------------------------|
| <b>Cash Flows from Operating Activities:</b>                                             |                          |
| Cash received from providing services                                                    | \$ 105,678               |
| Cash received from subtenant rent                                                        | 6,667                    |
| Cash payments for contractual expenses                                                   | (29,355)                 |
| Cash payments for personal services and benefits                                         | <u>(88,115)</u>          |
| Net cash used in operating activities                                                    | <u>(5,125)</u>           |
| <b>Cash Flows from Investing Activities:</b>                                             |                          |
| Interest income                                                                          | <u>59</u>                |
| Net cash provided by investing activities                                                | <u>59</u>                |
| Net decrease in cash                                                                     | (5,066)                  |
| Cash - beginning of year                                                                 | <u>69,194</u>            |
| Cash - end of year                                                                       | <u><u>\$ 64,128</u></u>  |
| Reconciliation of Net Operating Loss to<br>Net Cash Used in Operating Activities:        |                          |
| Net Operating loss                                                                       | \$ (21,934)              |
| Adjustments to reconcile net operating loss to net<br>cash used in operating activities: |                          |
| Depreciation                                                                             | 715                      |
| Loss on Equipment                                                                        | 15,000                   |
| Changes in Assets and Liabilities:                                                       |                          |
| Accounts Receivable                                                                      | (6,193)                  |
| Payroll taxes payable                                                                    | 4,339                    |
| Accounts payable and accrued expenses                                                    | 845                      |
| Compensated absences                                                                     | <u>2,103</u>             |
| Net cash used in operating activities                                                    | <u><u>\$ (5,125)</u></u> |

*See accompanying notes.*

# RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2012

## Note 1. Organization

### Primary Government

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

The RIDA is a component unit of the Town of Riverhead, New York, based on the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14. Such criteria include financial accountability and oversight responsibility.

### Component Unit

The Riverhead IDA Economic Job Development Corporation (the LDC) is considered a component unit. The LDC is a non-profit organization and shares its constituency, membership and purpose with the RIDA. The LDC was incorporated on February 3, 2011.

## Note 2. Summary of Significant Accounting Policies

### 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 RIDA maintains accounts at financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). The RIDA 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. 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, 2012 was \$715.

### Basis of Accounting

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

*continued*

# RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2012

## Note 2. Summary of Significant Accounting Policies (continued)

### Income Taxes

The RIDA 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 doesn't exceed certain limits. Benefits are accrued as they are earned and are reflected in the financial statements. Compensated absences at December 31, 2012 amounted to \$4,266.

## Note 3. Employee Benefit Plan

The RIDA participates in the New York State (NYS) and Local Employees' Retirement System. As set forth in the New York State Retirement and Social Security Law, the NYS Comptroller serves as sole trustee and administrative head of the system. The NYS 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 4. Commitments

### Empire Zone

On January 11, 2012, the RIDA entered into an agreement to provide administrative services for the Town of Riverhead for the Suffolk County / Town of Riverhead Empire Zone Program (the Agreement). RIDA will provide compliance filing and monitoring of the Empire Zone Programs for the Town of Riverhead. RIDA received an initial fee of \$44,000 for this service and will receive \$5,000 annually for the next 9 years.

### Lease

The RIDA entered into a lease agreement for office space in September 2012 to commence October 1, 2012 and to end on September 30, 2017. The agreement provides for no rent for the period October 1, 2012 to December 31, 2012. Annual rent under the agreement is as follows:

| <u>Year ending</u> | <u>Annual Rent</u> |
|--------------------|--------------------|
| 2013               | \$13,050           |
| 2014               | 16,800             |
| 2015               | 18,750             |
| 2016               | 19,350             |
| 2017               | 14,850             |

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

## Budgetary Comparison Schedule

For the Year Ended December 31, 2012

(Unaudited)

|                                           | <u>Budgeted</u><br><u>Amounts</u> | <u>Actual</u>   | <u>Variance</u><br><u>with Final</u><br><u>Budget</u> |
|-------------------------------------------|-----------------------------------|-----------------|-------------------------------------------------------|
| <b>Operating Revenues</b>                 |                                   |                 |                                                       |
| Charges for services                      | \$ 194,507                        | 105,678         | (88,829)                                              |
| Subtenant Rent                            | -                                 | 6,667           | 6,667                                                 |
| Other revenue                             | -                                 | 53,390          | 53,390                                                |
|                                           | <u>194,507</u>                    | <u>165,735</u>  | <u>(28,772)</u>                                       |
| <b>Total Operating Revenue</b>            |                                   |                 |                                                       |
|                                           | <u>194,507</u>                    | <u>165,735</u>  | <u>(28,772)</u>                                       |
| <b>Operating Expenses</b>                 |                                   |                 |                                                       |
| Business development                      | -                                 | 350             | (350)                                                 |
| Compensated absence expense               | -                                 | 2,102           | (2,102)                                               |
| Depreciation                              | -                                 | 715             | (715)                                                 |
| Dues and subscriptions                    | 1,845                             | 1,297           | 548                                                   |
| Employee Benefits                         | 5,250                             | 13,091          | (7,841)                                               |
| Equipment                                 | 1,000                             | -               | 1,000                                                 |
| Insurance                                 | 3,250                             | 2,218           | 1,032                                                 |
| Legal notices                             | 200                               | 225             | (25)                                                  |
| Meals and entertainment                   | -                                 | 70              | (70)                                                  |
| Office                                    | 2,464                             | 2,782           | (318)                                                 |
| Payroll                                   | 83,175                            | 85,051          | (1,876)                                               |
| Payroll Taxes                             | 7,242                             | 7,403           | (161)                                                 |
| Professional fees                         | 48,825                            | 49,417          | (592)                                                 |
| Rent                                      | 12,000                            | 18,000          | (6,000)                                               |
| Seminars and conferences                  | 1,000                             | 850             | 150                                                   |
| Telephone                                 | 1,500                             | 1,363           | 137                                                   |
| Travel                                    | -                                 | 1,323           | (1,323)                                               |
| Utilities                                 | -                                 | 1,412           | (1,412)                                               |
|                                           | <u>167,751</u>                    | <u>187,669</u>  | <u>(19,918)</u>                                       |
| <b>Total Operating Expenses</b>           |                                   |                 |                                                       |
|                                           | <u>167,751</u>                    | <u>187,669</u>  | <u>(19,918)</u>                                       |
| <b>Non-Operating Revenue</b>              |                                   |                 |                                                       |
| Interest Income                           | 108                               | 59              | (49)                                                  |
|                                           | <u>108</u>                        | <u>59</u>       | <u>(49)</u>                                           |
| <b>Total Non-Operating Revenue</b>        |                                   |                 |                                                       |
|                                           | <u>108</u>                        | <u>59</u>       | <u>(49)</u>                                           |
| <b>Revenues over (under) Expenditures</b> | <u>\$ 26,864</u>                  | <u>(21,875)</u> | <u>(48,739)</u>                                       |

*See independent auditors' report.*

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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  
Town of Riverhead Industrial Development Agency  
Riverhead, New York

We have audited the financial statements of the net assets of the Town of Riverhead Industrial Development Agency (the RIDA) as of December 31, 2012, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. 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

Management of the RIDA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the RIDA's internal control over the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the RIDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the RIDA'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, as defined above.

### Compliance and Other Matters

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

We noted certain matters that are on the schedule of finding as listed in the table of contents.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Albanese Sini & Reeves LLP*

East Setauket, New York  
February 26, 2013

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Summary Schedule of Prior Findings

December 31, 2012

**PRIOR FINDINGS:**

**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 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 Riverhead Industrial Development Agency (the RIDA), the RIDA 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 RIDA should implement procedures requiring segregation of these incompatible duties.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Schedule of Finding

December 31, 2012

**OTHER FINDINGS:**

**Segregation of Duties:**

Due to the size of the Riverhead Industrial Development Agency (the RIDA) it is not practical to provide segregation of duties in the cash receipts, cash disbursements, and accounting functions. The RIDA has utilized current governance (Board Members) to provide checks and balance against these duties. Consideration to further having items such as bank statements, etc., be copied and sent to the Board Members also from the financial institutions will strengthen this control.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Corrective Action Plan

December 31, 2012

The Riverhead Industrial Development Agency will provide its Corrective Action Plan for the year ended December 31, 2012 as part of a separate report.