



RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS
DECEMBER 31, 2017

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Agency as of December 31, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Jones, Little & Co, CPAs, LLP

Port Jefferson Station, New York
March 5, 2018

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

This discussion and analysis of the Riverhead Industrial Development Agency (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2017. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- The assets of Agency exceeded its liabilities (including the net of deferred inflows and outflows of resources) at December 31, 2017 by \$213,799.
- The Agency's total assets decreased by \$54,247 and total liabilities increased by \$38,149 for the year ended December 31, 2017, primarily due to the changes in net position.
- The Agency's 2017 net operating resulted in a net loss of \$59,816 as compared to \$97,558 of net operating income for the year ended December 31, 2016.

Basic Financial Statements Ended December 31, 2017:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets and deferred outflows of the Agency as well as liabilities and deferred inflows.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are located immediately following the financial statements.
- The statement of net position and the statement of revenues, expenses and changes in net position report information about the Agency as a whole and about its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the Agency using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in net position. The net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position are an indicator of whether its financial health is improving or deteriorating.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

Condensed Balance Sheets at December 31,

	<u>2017</u>	<u>2016</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Current Assets	\$ 258,055	\$ 313,562	\$ (55,507)	-18%
Total Noncurrent Assets	1,681	421	1,260	299%
Total Assets	<u>259,736</u>	<u>313,983</u>	<u>(54,247)</u>	<u>-17%</u>
Deferred Outflows of Resources	39,258	83,800	(44,542)	-53%
Total Assets and Deferred Outflows of Resources	<u>\$ 298,994</u>	<u>\$ 397,783</u>	<u>\$ (98,789)</u>	<u>-25%</u>
Total Current Liabilities	\$ 23,497	\$ 21,143	\$ 2,354	11%
Total Noncurrent Liabilities	51,090	91,593	(40,503)	-44%
Total Liabilities	<u>74,587</u>	<u>112,736</u>	<u>(38,149)</u>	<u>-34%</u>
Total Deferred Inflows of Resources	10,608	11,502	(894)	-8%
Total Net Position	<u>213,799</u>	<u>273,545</u>	<u>(59,746)</u>	<u>-22%</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 298,994</u>	<u>\$ 397,783</u>	<u>\$ (98,789)</u>	<u>-25%</u>

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

	<u>2017</u>	<u>2016</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Total Operating Revenues	\$ 176,908	\$ 327,124	\$(150,216)	-46%
Total Operating Expenses	<u>236,724</u>	<u>229,566</u>	<u>7,158</u>	<u>3%</u>
Operating income	(59,816)	97,558	(157,374)	n/m
Total Non-Operating Revenue	<u>70</u>	<u>69</u>	<u>1</u>	<u>1%</u>
Change in Net Position	<u>\$ (59,746)</u>	<u>\$ 97,627</u>	<u>\$(157,373)</u>	<u>n/m</u>

n/m - not meaningful (percentage change calculation)

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

Analysis of Financial Position and Results of Operations:

The Agency operations during 2017 resulted in \$169,035 in revenues being generated by fees associated with completed projects. The Agency operations also include revenues of \$7,873 related to Empire Zone Fees, project refinance fees, compliance fees and other items. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand.

Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2017.

The charges for services line in the 2017 budget was established at \$221,421. During 2017, estimated projects closings will be closed in future periods or did not continue forth.

Professional fees are approximately \$5,300 higher than budget in 2017 as a result of the types of project closings.

The aggregate variance in all other budget lines was immaterial and individual explanation of each line is deemed unnecessary for this report.

Economic Condition and Outlook:

The Agency has analyzed the year ended December 31, 2017 financial statements, which while there was a decrease in net position, there is a positive remaining net position, thereby providing a stable outlook for the Agency.

COMPLETED PROJECTS

The following is a summary of the Riverhead Industrial Development Agency's (Agency's) projects which closed during the 2017 calendar year.

Georgica Green Ventures, LLC

In 2016, the Agency received an application for financial assistance from Georgica Green Ventures, LLC, to replace an existing deteriorated and outdated retail storefront with a five-story, mixed-use building consisting of 117 rental apartments and 13,024 square feet of ground floor retail fronting the Main Street. The Project unit mix will consist of 29 studio, 60 one-bedroom and 28 two-bedroom units. Project cost was estimated to be \$47,338,188.

During 2017 the Project was slightly modified. Georgica Green Ventures, LLC, also known as Riverhead Apartments LLC, as owner of the real property comprising the Project; Jobco Incorporated, the entity which will construct and furnish with respect to a proposed development located within a New York State Empire Zone and a designated urban renewal area at 221 East Main Street and 31 McDermott Avenue to replace the existing deteriorated and outdated retail storefront with a five-story, mixed-use building consisting of 116 rental apartments and 12,623 square feet of ground floor retail. The unit mix will now consist of 31 studio, 57 one-bedroom and 28 two-bedroom. The majority of apartments will be kept affordable to residents. Project cost is estimated to be \$57,072,763. Public hearing was held in July. The project was authorized in September and closed in December. Demolition began in 2018.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Peconic United Methodist Housing Development Fund Co (John Wesley Village LP)

The Agency received an Application for Financial Assistance from John Wesley Village LP, a New York limited partnership with respect to the acquisition and renovation of an existing 115-unit senior subsidized housing rental facility located at Middle Road, Riverhead, New York. The renovations proposed are anticipated to cost approximately \$1,900,000. The facility will be purchased and renovated by John Wesley Village LP at a total project cost of \$12,804,393. All Housing and Urban Development Agency contracts will be maintained and there will be no change in tenant eligibility or selection.

A Public Hearing was held November and authorization off financial assistance was provided in December. A closing is anticipated early 2018.

Peconic Management Group, LLC Phase III

In May the Agency received an application for financial assistance from Peconic Management Group LLC, a limited liability company qualified to do business in the State of New York for Phase III of its project with respect to the construction, furnishing and equipping of a two-story, 6,911 square foot building with associated site improvements on a 36,680 square foot parcel located at 1224 Ostrander Avenue, Riverhead, New York for use as medical office space as well as a proposed wellness center at an estimated total project cost of \$1,397,000. Public hearing was held in July. Financial assistance was authorized in August and closed in October. Construction anticipated to begin in 2018.

Browning Properties, LLC Hilton Garden Inn and Marriott Residence

The Agency provided an increase in financial assistance to Browning Hotel Properties, LLC, Browning Realty Management, LLC and Riverhead Hotel Management Corp. with respect to the construction of a Marriott Residence Inn as Phase II of the Browning Hotels project with an estimated to be \$26,849,775 in total project costs. In August that resolution #28-15 was amended to reflect the increased cost of construction of the Project from \$26,849,775 to the new total project cost of \$32,681,960.

CLOSED PROCEEDINGS/WITHDRAWN PROJECTS

The following projects were either rescinded or the Agency took action to close proceedings during the 2017 calendar year.

Calverton Rte 25 Distribution

The Agency has received an application for financial assistance from Calverton Distr. Rte 25 L.L.C., and PODS Enterprises, LLC, both qualified to do business in the State of New York with respect to the construction, furnishing and equipping of an approximate 45,212 square foot building with associated site improvements on a 6.2 acre parcel located at 3651 Middle Country Road, Calverton, New York for use as warehousing and distribution of portable storage units (PODS) for residential and commercial use at an estimated total project cost of \$7,337,105. A public hearing was held on November 6th. A letter of withdrawal was submitted and accepted in December.

REFINANCES/BOND MODIFICATIONS

Island Industries/Cal 81 Bond \$3,360,000 2001-2016 Bond redemption unreported in 2016 was paid off.

RETIRED PROJECTS

Riverhead Industrial Properties aka. Adchem Corporation bond redemption \$7,000,000, 1998-2018.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

PENDING APPLICATIONS

Calverton Addiction and Treatment Center aka Peconic Care

The Agency received an application for financial assistance from Calverton Addiction and Treatment LLC and EBDK at Calverton, LLC, both qualified to do business in the State of New York, as User of the Project with respect to the demolition of an existing 2,000 square foot building, along with construction, furnishing and equipping and associated site improvements of approximately 134,000 square feet of research and treatment facility consisting of six buildings on an approximate 39.736 acre parcel located in Calverton, New York for use as rehabilitation, treatment, dining, recreational, housekeeping and other services to be provided to its residents in conjunction with scientific research, inquiry, and education regarding opioid, alcohol and other forms of addiction. The applicant projects an estimated total project cost of \$59,062,000. A public hearing was held on December 4th. Consideration for assistance is anticipated early 2018.

MARKETING

The Agency works closely with local economic development organizations, such as the Town of Riverhead Community Development Agency, the Riverhead Chamber of Commerce, Miller Business Resource Center and Suffolk County Economic Development agencies 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 and general business assistance. The Agency also works closely with regional and national economic development organizations such as, the Stony Brook Small Business Development Center, municipal economic development departments on Long Island, LIBDC (Long Island Business Development Council) and the Long Island Association (LIA). The Agency participates in the LIA's IDA Long Island Coalition to boost the cooperative efforts and marketing of the region. Memberships to the New York State Economic Development Council and the International Economic Development Council not only provide exposure, but are resources for leads and networking. The Agency meets regularly with the Suffolk County IDA's to corroborate on improving regulatory compliance as well as cooperative marketing ideas.

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks, editorials submitted to economic development periodicals, such as NY Real Estate Journal. Cold calls, editorials, and general public relations are all part of the grassroots approach to the Agency's marketing efforts.

GENERAL BUSINESS ASSISTANCE

The Agency fields calls from real estate brokers, attorneys, and companies interested in establishing a presence in the Town of Riverhead who are seeking direction as to location, permitting processes and information regarding benefits and incentives.

In addition, the current Executive Director has the experience and knowledge to handle inquiries for assistance programs offered outside those of the Agency; providing a one stop service for businesses. These resources include low cost financing options, State and Federal incentive programs, grants, business planning, employment and housing assistance. The Agency staff assists businesses through the government and financial maze and helps interested parties find suitable sites and provides contact information to resources. The Director works with the local Chambers of Commerce forging cooperative relationships locally and hosting coordinated seminars.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
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The Agency Executive Director participates on the CTEA (Career & Technical Education Act 2009) Local Advisory Council for Suffolk County Community College to assist with the grant planning process toward workforce development efforts. The Agency continues to host its annual East End Employment Expo providing necessary human resource and public relations opportunities.

The Agency administers the Suffolk County/Town of Riverhead SC/TOR Empire Zone Program. The Empire Zone Program is a New York State Tax Credit program that has goals consistent with that of the Industrial Development Agency in regard to business attraction, expansion and retention. Although the program has sunset to new certifications, continued service to the zone certified entities and reporting is mandated by the State of New York for the life of the certified entity's benefit period. The SC/TOR Zone currently services 35 businesses. The Agency receives an annual fee for the administration of the zone.

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

Riverhead Industrial Development Agency
200 Howell Avenue
Riverhead, NY 11901

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:

ASSETS

Current Assets	
Cash	\$ 236,955
Prepaid expenses	14,350
Accounts receivable	1,750
Due from Other Governments	5,000
Total Current Assets	258,055
Noncurrent Assets	
Fixed assets	9,067
Less: accumulated depreciation	(8,786)
Net fixed assets	281
Other assets	1,400
Total Other Assets	1,681
TOTAL ASSETS	259,736

DEFERRED OUTFLOWS OF RESOURCES

Pension related - ERS	39,258
TOTAL DEFERRED OUTFLOWS OF RESOURCES	39,258

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES **\$ 298,994**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current Liabilities	
Accounts payable and accrued expenses	\$ 23,497
Total Current Liabilities	23,497
Noncurrent Liabilities	
Compensated absences	16,784
Net pension liability - ERS	34,306
Total Noncurrent Liabilities	51,090
TOTAL LIABILITIES	74,587

DEFERRED INFLOWS OF RESOURCES

Pension related - ERS	10,608
TOTAL DEFERRED INFLOWS OF RESOURCES	10,608

NET POSITION

Unrestricted	213,799
TOTAL NET POSITION	213,799
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 298,994

See Notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating Revenues	
Charges for services	\$ 169,035
Other revenue	2,873
Other Governments	<u>5,000</u>
Total Operating Revenues	<u>176,908</u>
Operating Expenses	
Advertising expense	786
Compensated absence expense	3,145
Depreciation	140
Dues and subscriptions	1,310
Employee benefits	17,222
Insurance	1,233
Legal Notices	531
Office	3,597
Payroll	123,504
Payroll taxes	9,590
Professional fees	52,721
Rent	17,650
Seminars and conferences	900
Telephone	2,011
Travel	<u>2,384</u>
Total Operating Expenses	<u>236,724</u>
Net Operating (Loss)	<u>(59,816)</u>
Non-Operating Revenue	
Interest income	<u>70</u>
Total Non-Operating Revenue	<u>70</u>
Change in Net Position	(59,746)
Net Position - Beginning of Year	<u>273,545</u>
Net Position - End of Year	<u><u>\$ 213,799</u></u>

See notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

Cash Flows from Operating Activities:	
Cash received from charges for services	\$ 169,035
Cash payments for contractual expenses	(89,345)
Cash payments for payroll and payroll taxes	<u>(133,094)</u>
Net cash used in operating activities	<u>(53,404)</u>
Cash Flows from Non Capital Financing Activities:	
Cash received from payments in lieu of taxes	1,164,582
Cash paid for payments in lieu of taxes	<u>(1,164,582)</u>
Net cash provided by non capital financing activities	<u>-</u>
Cash Flows from Investing Activities:	
Interest income	<u>70</u>
Net cash provided by investing activities	<u>70</u>
Net decrease in cash	(53,334)
Cash - beginning of year	<u>290,289</u>
Cash - end of year	<u><u>\$ 236,955</u></u>
Reconciliation of Net Operating Loss to	
Net cash used in operating activities:	
Net operating loss	\$ (59,816)
Adjustments to reconcile net operating loss to net	
cash used in operating activities:	
Depreciation	140
Changes in assets, deferred outflows, liabilities and deferred	
Prepaid expenses	1,483
Accounts receivable	690
Other assets	(1,400)
Deferred Outflows of Resources	44,542
Accounts payable and accrued expenses	2,354
Compensated absences	3,145
Net pension liability - ERS	(43,648)
Deferred Inflows of Resources	<u>(894)</u>
Net cash used in operating activities	<u><u>\$ (53,404)</u></u>

See notes to Financial Statements.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: ORGANIZATION

Primary Government

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

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

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

Related Entity

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

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

Estimates

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Additions and betterments are capitalized, whereas costs of maintenance and repairs are charged to expenses as incurred. Depreciation expense for the year ended December 31, 2017 was \$140.

PILOT's Payable

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

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

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

Income Taxes

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

Compensated Absences

Full-time employees are granted vacation, personal leave, and sick leave in varying amounts. This benefit is vested when earned and vacation days and sick time can be carried from year to year as long as it does not exceed certain limits. Benefits are accrued as they are earned. Compensated absences at December 31, 2017 amount to \$16,784.

NOTE 3: EMPLOYEE BENEFIT PLAN

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

Contributions

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

2017	\$17,222
2016	\$16,372
2015	\$19,971

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

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

At December 31, 2017, the Agency reported a net pension liability of \$34,306 for its proportionate share of the NYSERS net pension liability. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2017, the Agency's proportionate share was 0.0004727% which was a decrease of 0.000013% from its proportionate share measured at December 31, 2016.

For the year ended December 31, 2017, the Agency recognized pension expense of \$17,222. At December 31, 2017, the Agency reported deferred outflows/inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,113	\$ 6,745
Change of Assumptions	15,175	-
Net difference between projected and actual earnings on pension plan investments	8,872	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	-	3,863
Contributions subsequent to the measurement date	<u>14,098</u>	<u>-</u>
Total	<u>\$ 39,258</u>	<u>\$ 10,608</u>

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

Plan's Year Ended March 31:	
2018	\$ 7,175
2019	\$ 7,175
2020	\$ 6,733
2021	\$ (6,531)
2022	\$ -
thereafter	\$ -

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
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NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

The Agency recognized \$14,058 as deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2017 which will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017.

The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary Scale	3.80% indexed by service
Projected COLAs	1.30% compounded annually
Decrements	Developed from the Plan's 2010 experience study of the period April 1, 2005 through March 31, 2010
Mortality Improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.00% compounded annually, net of investment expenses

Long-term Rate of Return

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocations in %</u>	<u>Long-Term expected real rate of return in %</u>
Domestic equity	36	4.55
International equity	14	6.35
Private equity	10	7.75
Real estate	10	5.80
Absolute return	2	4.00
Opportunistic funds	3	5.89
Real assets	3	5.54
Bonds & mortgages	17	1.31
Cash	1	(0.25)
Inflation-indexed bonds	4	1.50
	100%	

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3: EMPLOYEE BENEFIT PLAN (continued)

Discount Rate

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

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

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

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Proportionate Share of Net pension liability (asset)	\$ 141,866	\$ 44,419	\$ (37,972)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers in the plan as of March 31, 2017 were as follows:

Total Pension Liability	\$ 177,400,586,000
Net Position	<u>(168,004,363,000)</u>
Net Pension liability (asset)	<u>\$ 9,396,223,000</u>
ERS net position as a percentage of total pension liability	94.70%

NOTE 4: DUE FROM OTHER GOVERNMENTS

Town of Riverhead

The Agency entered into an agreement in 2012 to provide administrative services for the Town of Riverhead for the Suffolk County / Town of Riverhead Empire Zone Program (the Agreement). Agency will provide compliance filing and monitoring of the Empire Zone Programs for the Town of Riverhead. The Agreement provides that the Agency receive \$5,000 annually ending in the year 2020. Due from other Governments from the Town of Riverhead at December 31, 2017 of \$5,000 is related to this Agreement.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5: COMMITMENTS

The Agency entered into a lease agreement for office space in 2017 that commenced on September 1, 2017 to August 31, 2022. The lessor is a partner of a property with a PILOT agreement with the Agency at a different location. The Agency has determined that the lease agreement for the office space is based on fair value. Rent expense, excluding gas, water and electric, under the provisions of the lease agreement for the term are as follows:

2018	\$8,484
2019	\$8,736
2020	\$8,996
2021	\$9,272
2022	\$6,304

NOTE 6: SUBSEQUENT EVENTS

In connection with the preparation of the financial statements the Agency evaluated subsequent events after the statement of position date of December 31, 2017 through March 5, 2018, which was the date the financial statements were available to be issued. No subsequent events were identified.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
DECEMBER 31, 2017

NYSERS	2017
Agency's proportion of the collective net pension liability	0.0004727%
Agency's proportionate share of the net collective pension liability	\$ 34,306
Agency's covered-employee payroll	\$ 109,919
Agency's proportionate share of the net collective pension liability as a percentage of its covered-employee payroll	31.21%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	97.90%

See Independent Auditors' Report.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF PENSION CONTRIBUTIONS
DECEMBER 31, 2017

	NYSERS
	December 31,
	2017
	<hr/>
Contractually required contribution	\$ 17,222
Contributions in relation to the contractually required contribution	17,222
Contribution deficiency (excess)	<hr/> <u>\$ -</u> <hr/>
Agency's covered employee payroll	\$ 109,919
Contributions as a percentage of covered employee payroll	15.67%

See Independent Auditors' Report.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

	Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 221,421	\$ 169,035	\$ (52,386)
Other revenue	6,500	7,873	1,373
Other revenue (appropriated fund balance)	11,341	-	(11,341)
Total Operating Revenues	239,262	176,908	(62,354)
Operating Expenses			
Advertising expenses	3,000	786	2,214
Compensated absence expense	925	3,145	(2,220)
Depreciation	527	140	387
Dues and subscriptions	1,495	1,310	185
Employee benefits	16,863	17,222	(359)
Insurance	1,474	1,233	241
Legal Notices	400	531	(131)
Office	2,380	3,597	(1,217)
Payroll	118,820	123,504	(4,684)
Payroll taxes	9,275	9,590	(315)
Professional fees	58,061	52,721	5,340
Rent	20,498	17,650	2,848
Seminars and conferences	1,000	900	100
Telephone	1,944	2,011	(67)
Travel	2,700	2,384	316
Total Operating Expenses	239,362	236,724	2,638
Non-Operating Revenue			
Interest Income	100	70	(30)
Total Non-Operating Revenue	100	70	(30)
Net Operating Loss	\$ -	\$ (59,746)	\$ (59,746)

See Independent Auditors' Report.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Jones, Little & Co, CPAs, LLP

Port Jefferson Station, New York
March 5, 2018