

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
**(A Component Unit of the Town of Riverhead)**  
**Financial Statements**  
**December 31, 2009 and 2008**

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

Table of Contents

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis (MD&amp;A)</b>	2
<b>Component Unit Financial Statements:</b>	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
<b>Notes to Basic Financial Statements</b>	11
<b>Required Supplementary Information Other Than MD&amp;A</b>	
Budgetary Comparison Schedule (unaudited)	13
Note to Budgetary Comparison Schedule	14
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	15
Summary Schedule of Prior Findings	17
Schedule of Findings	18
Corrective Action Plan	19



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### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2009 and 2008, and the respective changes in financial position and, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 13 through 14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with the management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The accompanying summary schedule of prior findings, schedule of findings and corrective action plan on pages 17 through 19 are presented for purposes of additional analysis and are not a required part of the financial statements. The summary schedule of prior findings, schedule of findings and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Markowitz Fenelon & Bank LLP*

Markowitz, Fenelon & Bank, LLP  
Southampton, New York

March 9, 2010

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2009  
(Unaudited)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of the Riverhead Industrial Development Agency's financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2009. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

**Financial Highlights:**

- The assets of the Agency exceeded its liabilities at December 31, 2009 by \$148,723.
- The Agency's total assets decreased by \$58,644 in year 2009. The Agency's total liabilities increased by \$28,154 in year 2009.
- The agency's 2009 operating revenue increased \$15,250 over the 2008 operating revenues.

**Basic Financial Statements:**

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

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

# RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

## Management's Discussion and Analysis

December 31, 2009

(Unaudited)

### Condensed Comparative Financial Statements:

<b>Condensed Balance Sheets at December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Cash	\$ 188,641	\$ 246,843	\$ (58,202)	-24%
Current assets	1,331	1,293	38	3%
Property and equipment (Net)	780	1,260	(480)	-38%
<b>Total assets</b>	<b>\$ 190,752</b>	<b>\$ 249,396</b>	<b>\$ (58,644)</b>	<b>-24%</b>
 Current liabilities	 \$ 42,029	 \$ 13,875	 \$ 28,154	 203%
<b>Total liabilities</b>	<b>42,029</b>	<b>13,875</b>	<b>28,154</b>	<b>203%</b>
 Unrestricted	 148,723	 235,521	 (86,798)	 -37%
<b>Total net assets</b>	<b>148,723</b>	<b>235,521</b>	<b>(86,798)</b>	<b>-37%</b>
 <b>Total liabilities and net assets</b>	 <b>\$ 190,752</b>	 <b>\$ 249,396</b>	 <b>\$ (58,644)</b>	 <b>-24%</b>

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Total operating revenue	\$ 16,000	\$ 750	\$ 15,250	2033%
Total operating expenses	103,082	169,863	(66,781)	-28%
Operating loss	(87,082)	(169,113)	82,031	-49%
Non-operating revenues	284	7,896	(7,612)	-96%
<b>Change in net assets</b>	<b>\$ (86,798)</b>	<b>\$ (161,217)</b>	<b>\$ 74,419</b>	<b>-46%</b>

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

- Agency operations during 2009 resulted in no revenues being generated by administrative fees associated with approved projects. The \$16,000 earned in 2009 represents application fees. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand. The approval of the Atlantis and Summer Wind (Eastern Property Investor Consultant) projects will result in project fees in 2010. However, given the national economic recession experienced during 2009, it is anticipated that the operating revenue of the Agency in 2010 may be minimal, although more than the current year.

### Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2009.

The Charges for services line in the 2009 budget was established at \$100,000. During 2009 the national economy never rebounded and the lack of an executive director resulted in an \$84,000 operating revenue shortfall.

Payroll was budgeted at \$60,000 in anticipation of having a part-time Executive Director for twelve months and a part-time Chief Financial Officer. A full-time Executive Director position was subcontracted and the part-time Chief Financial Officer resigned in October 2009. The Personal Service budget as well as all the associated fringe benefits and payroll taxes were under spent by approximately \$56,000 as a result of this.

Professional fees were necessary to fulfill the tasks required by the Executive Director and Chief Financial Officer resulting in the budget being over spent by approximately \$33,000.

## **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

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

**December 31, 2009**

**(Unaudited)**

In light of the economic downturn being experienced across the country, and the absence of an executive director, the Board of Directors thought it prudent to take a much less aggressive approach to attracting business to the Town of Riverhead. As a result, the marketing budget was under-spent by approximately \$11,800. Part of that marketing and business development budget included memberships in organizations such as NYSEDC, LI Partnership, LIBDC, Corenet and EAMC.

The aggregate variance in all other budget lines was approximately \$2,300. Individual explanation of each line is deemed unnecessary for this report.

#### **General Overview of IDA Function**

The Riverhead Industrial Development Agency (RIDA) is a public benefit corporation of the State of New York created in 1980, pursuant to Article 18A of the General Municipal Law. The purpose of RIDA is to promote economic development or redevelopment and prevent economic deterioration in the Town of Riverhead by assisting in the acquiring, constructing, reconstructing, leasing, improving and equipping of certain manufacturing, warehousing, research, civic, commercial, and industrial or public housing projects.

In order to promote economic development and redevelopment RIDA is authorized to provide financial assistance by issuing both tax-exempt and taxable industrial development bonds, by providing an exemption from mortgage recording taxes and sales and compensating use taxes and by providing real property tax abatement for a project. RIDA is authorized to provide financial assistance for applicants that either wish to locate or expand their eligible project in the Town of Riverhead. Typical projects eligible for financial assistance include the purchase and rehabilitation of existing buildings, the construction of new buildings or the construction of additions to existing buildings; including, in each case, the purchase and installation of machinery and equipment.

In providing financial assistance, RIDA acts as a conduit through which the transaction takes place. Although RIDA may issue bonds, it does not loan money to an applicant. Rather, a financial institution provides moneys directly to an applicant either by purchasing RIDA bonds, with RIDA making the proceeds available to the applicant, or by loaning moneys directly to the applicant. It is the responsibility of the applicant to arrange for a financial institution to finance the applicant's project. The applicant and the financial institution are responsible for negotiating all terms and conditions of any proposed bond issue or loan independent of RIDA.

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

On January 13, 2006, the New York State Governor signed into law the Public Authority Accountability Act of 2005, which imposed new rules and requirements for governmental agencies and their Boards. All members of the Board of Directors of RIDA have completed the training requirements included within the Act and have filed necessary financial disclosure statements. The Board of Directors has adopted policies and codes required by the Act and have amended the Agency by-laws to establish an Audit Committee and Governance Committee and appointed members thereto. A website has been established to make available for public review documents, notices and reports of the Agency. The Agency is taking all necessary action to comply with the provisions of the Act.

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

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

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2009  
(Unaudited)

**COMPLETED PROJECTS**

There were no completed projects in 2009.

**PENDING APPLICATIONS**

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

In September 2003, RIDA received an application for financial assistance from E.B.S. Building Systems LLC to support the establishment of its company in the Town of Riverhead. The company proposes to acquire approximately 10 acres located at EPCAL and construct thereon approximately 62,300 square feet of buildings to be used by E.B.S. in the manufacture of wood building components, including roof and floor trusses and wall panels and the purchase and installation of equipment.

The financial assistance requested by E.B.S. is the issuance of tax-exempt obligations in an amount not to exceed \$5,000,000, exemption from mortgage recording taxes, exemption from sales and compensating use taxes, and abatement from real property taxes in accordance with the Agency's Uniform Tax Exemption Policy.

Public hearing on the application was held by RIDA on November 10, 2003 after 30-day public notice and certified notice to the chief fiscal officers of the affected taxing jurisdictions was given. A subsequent public hearing was held by RIDA on April 4, 2005 due to the increased cost of the project.

The bond closing did not occur in 2009.

**Atlantis Holding Company LLC**

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

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

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

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

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

Determined to be an IDA project: did not occur in 2009.

The closing for the project did not occur in 2009.



**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2009  
(Unaudited)

**Eastern Property Investor Consultant (EPIC)**

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

The financial assistance requested by EPIC: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (iii) a partial abatement of real property taxes.

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

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

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

Determined to be an IDA project: did not occur in 2009.

The closing for the project did not occur in 2009.

**Jaral East End Hotel Corp**

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

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

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

Resolution approving the provision of financial assistance did not occur in 2009.

Determined to be an IDA project: did not occur in 2009.

The closing for the project did not occur in 2009.



**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
Management's Discussion and Analysis  
December 31, 2009  
(Unaudited)

**Bowl 58 LLC**

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

The financial assistance requested by Bowl 58: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, and (iii) a partial abatement of real property taxes

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

Resolution approving the provision of financial assistance did not occur in 2009.

Determined to be an IDA project: did not occur in 2009.

The closing for the project did not occur in 2009.

**Marketing**

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

In addition, RIDA works closely with the Community Development Agency Administrator and Empire Zone Coordinator to market the Town of Riverhead as a business location. When calls are received by either entity from businesses that are interested in Riverhead, cooperative meetings are generally held to discuss with the company the benefits and incentives that can be obtained if they relocate.

**General Business Assistance**

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

**Contacting RIDA's Financial Management**

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

Riverhead Industrial Development Agency  
446 Edwards Avenue Suite 2  
Calverton, NY 11933

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
**Statements of Net Assets**  
Enterprise Fund  
As of December 31, 2009 and 2008

**ASSETS**

	<u>2009</u>	<u>2008</u>
<b>Current Assets</b>		
Cash (Note 1)		
Checking	\$ 160,391	\$ 246,593
PILOT	<u>28,250</u>	<u>250</u>
Total Cash	<u>188,641</u>	<u>246,843</u>
Prepaid expenses	<u>1,331</u>	<u>1,293</u>
Total Current Assets	<u>1,331</u>	<u>1,293</u>
<b>Noncurrent Assets</b>		
Fixed assets	5,526	5,526
Less: accumulated depreciation	<u>(4,746)</u>	<u>(4,266)</u>
Total Noncurrent Assets	<u>780</u>	<u>1,260</u>
<b>Total Assets</b>	<u><u>\$ 190,752</u></u>	<u><u>\$ 249,396</u></u>

**LIABILITIES**

<b>Current Liabilities</b>		
Payroll taxes payable	\$ 799	\$ 177
PILOT payments payable	28,000	
Accounts payable and accrued expenses	<u>13,230</u>	<u>13,698</u>
Total Current Liabilities	<u>42,029</u>	<u>13,875</u>

**NET ASSETS**

<b>Net Assets</b>		
Unrestricted	<u>148,723</u>	<u>235,521</u>
Total Net Assets	<u>148,723</u>	<u>235,521</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 190,752</u></u>	<u><u>\$ 249,396</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Enterprise Fund**  
**As of December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Operating Revenues</b>		
Charges for services	\$ 16,000	\$ 750
<b>Total Operating Revenues</b>	<u>16,000</u>	<u>750</u>
<b>Operating Expenses</b>		
Personal Services		
Payroll	12,512	84,915
Contractual Expenses		
Business development	999	836
Depreciation	480	504
Dues and subscriptions	(768)	839
Employee benefits	843	16,689
Insurance	527	552
Interest expense	25	
Legal Notices	272	
Meals and entertainment	210	195
Office	4,098	2,741
Payroll taxes	1,101	6,934
Professional fees	64,043	33,977
Rent	15,657	15,558
Seminars and conferences	683	3,379
Telephone	1,788	1,607
Travel	612	1,137
<b>Total Operating Expenses</b>	<u>103,082</u>	<u>169,863</u>
<b>Operating (Loss) Income</b>	<u>(87,082)</u>	<u>(169,113)</u>
<b>Non-Operating Revenue</b>		
Interest income	284	7,896
<b>Total Non-Operating Revenue</b>	<u>284</u>	<u>7,896</u>
<b>Change in Net Assets</b>	(86,798)	(161,217)
<b>Net Assets - Beginning of Year</b>	<u>235,521</u>	<u>396,738</u>
<b>Net Assets - End of Year</b>	<u>\$ 148,723</u>	<u>\$ 235,521</u>

See accompanying notes to basic financial statements.

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
**Statements of Cash Flows**  
**Enterprise Fund**  
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from providing services	\$ 16,000	\$ 750
Cash received for PILOTS	28,000	
Cash payments for contractual expenses	(88,651)	(59,185)
Cash payments for personal services and benefits	<u>(13,835)</u>	<u>(104,020)</u>
Net cash (used in) provided by operating activities	<u>(58,486)</u>	<u>(162,455)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest income	<u>284</u>	<u>7,896</u>
Net cash provided by (used in) investing activities	<u>284</u>	<u>7,896</u>
Net (decrease) increase in cash	(58,202)	(154,559)
Cash - beginning of year	<u>246,843</u>	<u>401,402</u>
Cash - end of year	<u><u>\$ 188,641</u></u>	<u><u>\$ 246,843</u></u>
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash (Used in) Provided by Operating Activities</b>		
Operating (loss) income	\$ (87,082)	\$ (169,113)
Adjustments to reconcile operating (loss) income to net		
cash (used in) provided by operating activities:		
Depreciation	480	504
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Prepaid expenses	(38)	7,731
Increase (Decrease) in:		
Accounts payable and accrued expenses	(468)	1,431
PILOTS payable	28,000	
Compensated absences		(2,294)
Payroll taxes payable	<u>622</u>	<u>(714)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (58,486)</u></u>	<u><u>\$ (162,455)</u></u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Notes to Basic Financial Statements  
December 31, 2009 and 2008

**Note 1. Summary of Significant Accounting Policies**

**Purpose of Organization**

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

The Agency acts primarily as a conduit for Industrial Revenue Bonds (IRB), which is used to finance business location or expansion projects.

The Agency can also provide projects with tax benefits (property, sales and mortgage recording tax) that are not available to most development projects.

**Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months.

**Concentration of Credit Risk**

The Agency maintains two accounts in one financial institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts in excess of insured limits were fully collateralized by a third party at December 31, 2009.

**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, 2009 and 2008 was \$480 and \$504, respectively.

**Basis of Accounting**

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

**Income Taxes**

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

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Notes to Basic Financial Statements  
December 31, 2009 and 2008

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

Compensated Absences

Full-time employees are granted vacation, personal leave, and sick leave in varying amounts. This benefit is vested when earned and can be carried from year to year as long as it doesn't exceed certain limits. Benefits are accrued as they are earned and are reflected in the financial statements. In September 2008, the Agency's employment contract with its Executive Director was terminated and all compensated absences were paid. No new employment contracts have been executed.

Component Unit

The Agency is a component unit of the Town of Riverhead.

**Note 2. Employee Benefit Plan**

The Riverhead Industrial Development Agency participates in the New York State and Local Employees' Retirement System. As set forth in the New York State Retirement and Social Security Law, the Comptroller serves as sole trustee and administrative head of the system. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the system and for the custody and control of its funds.

**Note 3. Subsequent Events**

Management has evaluated subsequent events through March 9, 2010, the date the financial statements were available to be issued.

**Note 4. Contingent Liability**

The 2009-2010 State Budget added Section 2975-a to the Public Authorities Law authorizing the recovery of State governmental administrative costs from Industrial Development Agencies (IDA). The Division of Budget implemented this costs recovery by assessing a 4.727% flat fee on IDA revenues of all IDAs in the State that had over \$55,000 in revenue and that had submitted their 2008 data to the Public Authorities Reporting Information System (PARIS). When calculating the recovery billings the Division of Budget considered each IDA's revenues to include their total Payment in Lieu of Taxes (PILOTs). The bulk of the monies received from the PILOTs are passed through to the IDA's respective municipality and are not considered revenue. RIDA received its cost recovery bill in February 2010, in the amount of \$51,223. The bill has not been paid and legislation has been initiated to have the law repealed.

## REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule— Enterprise Fund



**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Budgetary Comparison Schedule  
Enterprise Fund  
Year Ended December 31, 2009  
(Unaudited)

	Budgeted Amounts	Actual	Variance with Final Budget
<b>Operating Revenues</b>			
Charges for services	\$ 100,000	\$ 16,000	\$ (84,000) (1)
<b>Total Operating Revenue</b>	<u>100,000</u>	<u>16,000</u>	<u>(84,000)</u>
<b>Operating Expenses</b>			
Personal Services			
Payroll	60,000	12,512	47,488 (2)
Contractual Expenses			
Business development	10,000	999	9,001 (3)
Depreciation		480	(480)
Dues and subscriptions	2,000	(768)	2,768 (4)
Employee benefits		843	(843)
Insurance	1,000	527	473
Interest Expense		25	(25)
Legal notices	500	272	228
Meals and entertainment		210	(210)
Office	6,904	4,098	2,806
Other services	1,000		1,000
Payroll Taxes	9,780	1,101	8,679 (2)
Professional fees	30,500	64,043	(33,543) (5)
Rent	14,500	15,657	(1,157)
Seminars and conferences	2,500	683	1,817
Telephone	-	1,788	(1,788)
Travel	1,000	612	388
<b>Total Operating Expenses</b>	<u>139,684</u>	<u>103,082</u>	<u>36,602</u>
<b>Non-Operating Revenue</b>			
Interest Income	4,800	284	(4,516) (6)
<b>Total Non-Operating Revenue</b>	<u>4,800</u>	<u>284</u>	<u>(4,516)</u>
<b>Excess of Expenditures over Revenues</b>	(34,884)	(86,798)	(51,914)
<b>Net Assets - Beginning of Year</b>	<u>235,521</u>	<u>235,521</u>	
<b>Net Assets - End of Year</b>	<u>\$ 200,637</u>	<u>\$ 148,723</u>	<u>\$ (51,914)</u>

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the Town of Riverhead)  
Note to Budgetary Comparison Schedule  
Enterprise Fund  
Year Ended December 31, 2009

**Note A - Budget-to-Actual Reconciliation**

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures in accordance with generally accepted accounting principles follows:

(1) The Agency budgeted revenues based on one project that was actually filed at the time of budget preparation, but was not executed. Additional projects were budgeted based on prior years actual projects. Due to the poor economy, these projects were not realized.	(84,000)
(2) The employment contract with the Executive Director was terminated in September 2008. The Agency is currently in negotiations with a replacement.	56,167
(3) Costs associated with a marketing and business development campaign were deferred to a later date by the Board of Directors. The Board believed it would not be prudent to incur these costs due to the poor economy.	9,001
(4) Dues to become a member of organizations that included NYSEDC, LI Partnership, LIBDC, Corenet and EAMC were never expended due to the downsizing of the marketing and development campaign.	2,768
(5) In August 2009 a consultant was retained to oversee the operations of the Agency and in November 2009 an another consultant was retained to assume the CFO duties. Both professional services were not provided for in the original budget.	(33,543)
(6) Interest income was under budget due to declining agency revenues.	(4,516)
Miscellaneous	<u>2,209</u>
	<u><u>\$ (51,914)</u></u>



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

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

We have audited the financial statements of the Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings, item 2007-2, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We also noted certain matters that we reported to the Board of Directors, Audit Committee and management of the Riverhead Industrial Development Agency, in a separate letter dated March 9, 2010.

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

*Markowitz, Fenelon & Bank LLP*

Markowitz, Fenelon & Bank, LLP  
Southampton, New York

March 9, 2010

# **RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

## **Summary Schedule of Prior Findings**

**December 31, 2009**

### **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 Agency, the Agency feels that it is both inefficient and cost defective to have additional employees in order to properly segregate the accounting functions.

**Effect:** Due to the lack of segregation of duties, errors or irregularities could go undetected.

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

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

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**

Schedule of Findings

December 31, 2009

**Significant Deficiencies**

**2007-2: Segregation of Duties**

**Criteria:** Internal controls should be implemented which provide for segregation of duties in the cash receipts, cash disbursements, and accounting functions.

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**Effect:** Due to the lack of segregation of duties, errors or irregularities could go undetected.

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

**RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY**  
**Corrective Action Plan**  
**December 31, 2009**

The Agency will provide its Corrective Action Plan for the year ended December 31, 2009 as part of a separate report.