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.

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


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

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.
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 taking 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.
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.
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 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.
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
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