

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Financial Statements
December 31, 2011

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

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (MD&A)	3
Component Unit Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to Basic Financial Statements	13
Required Supplementary Information Other Than MD&A	16
Budgetary Comparison Schedule	17
Note to Budgetary Comparison Schedule	18
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>	19
Summary Schedule of Prior Findings	21
Schedule of Findings	22
Corrective Action Plan	23



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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 year ended December 31, 2011, 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, 2011, and the respective changes in financial position and, cash flows thereof for the year 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 February 27, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 17 through 18, 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 21 through 23 are presented for purposes of additional analysis and are not a required part of the financial statements. The summary schedule of prior findings, schedule of findings and corrective action plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Markowitz Fenelon & Bank LLP

Markowitz, Fenelon & Bank, LLP
Southampton, New York

February 27, 2012

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2011
(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, 2011. 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, 2011 by \$51,177.
- The Agency's total assets decreased by \$59,626 in year 2011. The Agency's total liabilities increased by \$22,181 in year 2011.
- The agency's 2011 operating revenue decreased \$61,594 from the 2010 operating revenues.

Basic Financial Statements:

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

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

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2011
(Unaudited)

Condensed Comparative Financial Statements:

Condensed Balance Sheets at December 31,				
	2011	2010	Dollar Change	Percentage Change
Cash	\$ 69,194	\$ 143,459	\$ (74,265)	-52%
Current assets	401	329	72	22%
Property and equipment (Net)	17,398	2,831	14,567	515%
Total assets	\$ 86,993	\$ 146,619	\$ (59,626)	-41%
Current liabilities	\$ 33,653	\$ 13,635	\$ 20,018	147%
Non-current liabilities	2,163		2,163	100%
Total liabilities	35,816	13,635	22,181	163%
Unrestricted	51,177	132,984	(81,807)	-62%
Total net assets	51,177	132,984	(81,807)	-62%
Total liabilities and net assets	\$ 86,993	\$ 146,619	\$ (59,626)	-41%

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended December 31,				
	2011	2010	Dollar Change	Percentage Change
Total operating revenue	\$ 93,715	\$ 155,309	\$ (61,594)	-40%
Total operating expenses	175,612	171,246	4,366	3%
Operating income (loss)	(81,897)	(15,937)	(65,960)	-414%
None-operating revenues	90	198	(108)	-55%
Changes in net assets	\$ (81,807)	\$ (15,739)	\$ (66,068)	-420%

Analysis of Financial Position and Results of Operations:

- Agency operations during 2011 resulted in \$69,225 in revenues being generated by fees associated with completed projects. The Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand. It is anticipated that the operating revenue of the Agency in 2012 will be more than the current year.

Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2011.

The Charges for services line in the 2011 budget was established at \$150,000. During 2011 several projects did not close and a new executive director was hired on March 1, 2011. These events resulted in an approximate \$56,000 operating revenue shortfall.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2011

(Unaudited)

Payroll was budgeted at \$90,600 in anticipation of having an executive director for twelve months. The position was vacant from January 1 through February 28, 2011 and filled March 1, 2011 resulting in the payroll and related costs being under budget. Professional fees were under budget due to the decreased activity of the Agency.

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

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

General Overview of IDA Function

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

The Riverhead IDA Economic Job Development Corporation (the "LDC") is considered a component unit. The LDC is a non-profit organization formed by the Town of Riverhead. It shares its' membership and purpose with the IDA. The LDC was incorporated on February 3, 2011 and was not active during 2011.

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

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

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

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

On December 11, 2009, New York State Governor Paterson signed into law the Public Authorities Reform Act of 2009, regarding the creation of an independent authorities budget office necessary to provide oversight of the operations and finances of public authorities in real time. The new law imposed additional rules and requirements for governmental agencies and their Boards. RIDA is taking all necessary action to comply with the provisions of the Act. 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, 2011
(Unaudited)

COMPLETED PROJECTS

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. RIDA approved enhanced real property tax benefits consistent with the uniform tax exempt policy.

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

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

The closing for the project occurred on November 9, 2011.

Peconic Management Group, LLC

In June 2011, RIDA received an application for financial assistance from Peconic Management Group, LLC with respect to the construction of a 5,700 square foot medical facility on a .75 acre parcel located at Roanoke Avenue, Riverhead, for provision of medical offices with a Comprehensive Regional Bariatric Center and Outpatient Pulmonary Rehabilitation Center, and incidental expenses in connection therewith, at an aggregate cost, including costs associated with the financing thereof, estimated to be \$1,500,000.

The financial assistance requested by Peconic Management Group, LLC: (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. RIDA approved enhanced real property tax benefits consistent with the uniform tax exempt policy.

Public hearing on the application was held by RIDA on July 11, 2011 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 August 1, 2011.

The closing for the project occurred on August 18, 2011

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.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2011

(Unaudited)

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 and RIDA rescinded the resolution approving financial assistance in October 2010.

PENDING APPLICATIONS

E.B.S. Building Systems LLC

In April 2010, RIDA received an application for financial assistance from E.B.S. Building Systems LLC to support the establishment of its company in the Town of Riverhead. The company proposes to acquire approximately 10 acres located at EPCAL and construct thereon approximately 67,300 square feet of buildings to be used by E.B.S. in the manufacture of wood building components, including roof and floor trusses and wall panels and the purchase and installation of equipment.

The financial assistance requested by E.B.S.: (i) the provision of an exemption from Mortgage Recording Taxes, (ii) the provision of an exemption from Sales and Compensating Use Taxes on certain property, including tangible personal property, (iii) a partial abatement of real property taxes through a Payment-in-Lieu of Tax.

The closing did not occur in 2011.

Wading River Catering, LLC

In June 2011, 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 2011.

Hampton Jitney, Inc

In July 2011 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 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 and customer waiting and seating area, and 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.

Public hearing on the application was held by RIDA on August 1, 2011 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 October 3, 2011.

The financial assistance approved by RIDA for Hampton Jitney, Inc: (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 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 Agency pursuant to Subdivision 4 of Section 874 of the General Municipal Law.

The closing did not occur in 2011.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2011

(Unaudited)

Main Road Holdings, LLC

In December 2011, 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.

A public hearing was held in January 2012 and the project is scheduled to close on February 28, 2012.

Mirah Max, LLC

In December 2011, RIDA received an application for financial assistance from Mirah Max LLC, a New York business corporation 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 business. 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 through a Payment-in-Lieu of Tax, and (iii) exemption from mortgage recording tax.

A public hearing was held in January 2012 and the project closed on February 10, 2012.

Marketing

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. 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 Long Island, and the Long Island Association (LIA). 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. Outreach to regional brokers was also initiated during 2011 to enhance the rebranding initiated in 2010.

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

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2011

(Unaudited)

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, due to previous employment as the Suffolk County Empire Zone Coordinator, the new 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 RIDA Director assists businesses through the government and financial maze and helps interested parties find suitable sites and provides contact information to resources.

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
200 Howell Avenue
Riverhead, NY 11901

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Statement of Net Assets
Enterprise Fund
For the Year Ended December 31, 2011

ASSETS

Current Assets

Cash (Note 1)	
Checking	\$ 68,944
PILOT	<u>250</u>
Total Cash	69,194
Accounts Receivable	<u>401</u>
Total Current Assets	<u>69,595</u>

Noncurrent Assets

Fixed assets	23,366
Less: accumulated depreciation	<u>(5,968)</u>
Total Noncurrent Assets	<u>17,398</u>

Total Assets	<u><u>\$ 86,993</u></u>
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LIABILITIES

Current Liabilities

Payroll taxes payable	\$ 260
Accounts payable and accrued expenses	<u>33,393</u>
Total Current Liabilities	<u>33,653</u>

Noncurrent Liabilities

Compensated absences	<u>2,163</u>
Total Noncurrent Liabilities	<u>2,163</u>

Total Liabilities	<u>35,816</u>
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NET ASSETS

Net Assets

Unrestricted	<u>51,177</u>
Total Net Assets	<u>51,177</u>
Total Liabilities and Net Assets	<u><u>\$ 86,993</u></u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Statement of Revenues, Expenses and Changes in Net Assets
Enterprise Fund
For the Year Ended December 31, 2011

Operating Revenues	
Charges for services	\$ 83,475
Subtenant rent	8,824
Other revenue	<u>1,416</u>
Total Operating Revenues	<u>93,715</u>
Operating Expenses	
Business development	2,491
Compensated absence expense	2,163
Depreciation	759
Dues and subscriptions	1,095
Employee benefits	9,086
Insurance	2,986
Legal Notices	290
Meals and entertainment	5
Office	1,803
Payroll	71,060
Payroll taxes	6,070
Professional fees	47,057
Rent	24,000
Seminars and conferences	1,264
Telephone	1,726
Travel	2,069
Utilities	<u>1,688</u>
Total Operating Expenses	<u>175,612</u>
Operating Loss	<u>(81,897)</u>
Non-Operating Revenue	
Interest income	<u>90</u>
Total Non-Operating Revenue	<u>90</u>
Change in Net Assets	(81,807)
Net Assets - Beginning of Year	<u>132,984</u>
Net Assets - End of Year	<u><u>\$ 51,177</u></u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2011

Cash Flows from Operating Activities:	
Cash received from providing services	\$ 83,475
Cash received from subtenant	8,752
Cash payments for contractual expenses	(76,870)
Cash payments for personal services and benefits	<u>(74,386)</u>
Net cash used in operating activities	<u>(59,029)</u>
Cash Flows from Investing Activities:	
Purchase of fixed assets	(15,326)
Interest income	<u>90</u>
Net cash used in investing activities	<u>(15,236)</u>
Net decrease in cash	(74,265)
Cash - beginning of year	<u>143,459</u>
Cash - end of year	<u><u>\$ 69,194</u></u>
Reconciliation of Operating Income to	
Net Cash Used in Operating Activities	
Operating loss	\$ (81,897)
Adjustments to reconcile operating loss to net	
cash used in operating activities:	
Depreciation	759
Changes in Assets and Liabilities:	
(Increase) Decrease in:	
Accounts Receivable	(72)
Increase (Decrease) in:	
Accounts payable and accrued expenses	19,757
Payroll taxes payable	260
Compensated absences	<u>2,164</u>
Net cash used in operating activities	<u><u>\$ (59,029)</u></u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

Note 1. Organization

Primary Government

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.

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

Component Unit

The Riverhead IDA Economic Job Development Corporation (The "LDC") is considered a component unit. The LDC is a non-profit organization and shares its constituency, membership and purpose with the IDA. The LDC was incorporated on February 3, 2011, however, it was not active during 2011.

Note 2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Credit Risk

The 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, 2011.

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, 2011 was \$759.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Notes to Basic Financial Statements
For the Year Ended December 31, 2011

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 and are reflected in the financial statements. Compensated absences at December 31, 2011 was \$2,163.

Note 3. Reporting Entity

The Agency's financial reporting entity comprises the following:

Primary Agency	Riverhead Industrial Development Agency
Blended Component Unit	Riverhead IDA Economic Job Development Corporation

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary agency, as well as component units, which are legally separate organizations for which elected officials of the primary agency are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit's board, and either a) the ability to impose will be the primary agency, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary agency; or
- Fiscal dependency on the primary agency.

Blended Component Units – Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Agency Board or the component unit provides services entirely to the Agency. The component units' funds are blended into those of the Agency's by appropriate activity type to compose the primary Agency presentation.

Riverhead IDA Economic Job Development Corporation (LDC)

The Town of Riverhead created the Riverhead IDA Economic Job Development Corporation for relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, instructing or training individuals to improve or develop their capabilities for such jobs, and carrying out scientific research for the purpose of aiding the Town of Riverhead by attracting new industry to the Town and by encouraging the development of, or retention of, industries in the Town, thereby increasing economic activity in the Town, lessening the burdens of government, and acting in the public interest. The LDC was formed on February 3, 2011. Although it possesses many characteristics of a legally separate agency, the LDC is reported as if it were part of the primary agency. The LDC does not issue a separate financial report. For the year ended December 31, 2011, the Riverhead IDA Economic Job Development Corporation had no activity.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the Town of Riverhead)

Notes to Basic Financial Statements

For the Year Ended December 31, 2011

Note 4. 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 5. Subsequent Events

Management has evaluated subsequent events through February 27, 2012, the date the financial statements were available to be issued.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Required Supplementary Information Other than MD & A
For the Year Ended December 31, 2011

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

- **Budgetary Comparison Schedule – Enterprise Fund**

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Budgetary Comparison Schedule
Enterprise Fund
For the Year Ended December 31, 2011
(Unaudited)

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Operating Revenues			
Charges for services	(1) \$ 150,000	\$ 83,475	\$ (66,525)
Subtenant rent	(2)	8,824	8,824
Other revenue		1,416	1,416
Total Operating Revenue	<u>150,000</u>	<u>93,715</u>	<u>(56,285)</u>
Operating Expenses			
Personal Services			
Payroll	(4) 90,600	71,060	19,540
Contractual Expenses			
Business development	(3) 22,000	2,491	19,509
Compensated absences	(4)	2,163	(2,163)
Depreciation	211	759	(548)
Dues and subscriptions	(3) 1,500	1,095	405
Employee benefits	(4) 19,415	9,086	10,329
Equipment	(6) 1,500		1,500
Insurance	3,101	2,986	115
Legal notices	500	290	210
Meals and entertainment	(3) 500	5	495
Office	(6) 3,950	1,803	2,147
Payroll Taxes	(4) 6,885	6,070	815
Professional fees	(5) 56,760	47,057	9,703
Rent	(2) 14,000	24,000	(10,000)
Seminars and conferences	(3) 5,000	1,264	3,736
Telephone	2,000	1,726	274
Travel	(3) 500	2,069	(1,569)
Utilities	1,200	1,688	(488)
Total Operating Expenses	<u>229,622</u>	<u>175,612</u>	<u>54,010</u>
Non-Operating Revenue			
Interest Income	-	90	90
Total Non-Operating Revenue	<u>-</u>	<u>90</u>	<u>90</u>
Excess of Revenues over Expenditures	(79,622)	(81,807)	(2,185)
Net Assets - Beginning of Year	<u>132,984</u>	<u>132,984</u>	
Net Assets - End of Year	<u>\$ 53,362</u>	<u>\$ 51,177</u>	<u>\$ (2,185)</u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the Town of Riverhead)
Notes to Budgetary Comparison Schedule
Enterprise Fund
For the Year Ended December 31, 2011
(Unaudited)

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 prior years actual projects. Anticipated projects were never realized due to the poor economy and the fact that the Agency was without an Executive Director from October 2010 through February 2011.	\$ (66,525)
(2) Rent expense for the Agency was budgeted on a net basis taking into account the rent received from their subtenant.	(1,176)
(3) The marketing and development of the Agency was less aggressive than budgeted resulting in several accounts being underspent.	22,576
(4) Salary for an Executive Director was budgeted for in 2011, however, the position was not filled until March 1, 2011.	28,521
(5) Professional fees were under budget due to legal fees being less than anticipated because of decreased Agency activity.	9,703
(6) General office spending was decreased during the year due to the diminishing cash resources available.	3,647
Miscellaneous	<u>1,069</u>
	<u><u>\$ (2,185)</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 year ended December 31, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We also noted certain matters that we reported to the Board of Directors, Audit Committee and management of the Riverhead Industrial Development Agency, in a separate letter dated February 27, 2012.

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

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

Markowitz Fenelon & Bank LLP

Markowitz, Fenelon & Bank, LLP
Southampton, New York

February 27, 2012

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Summary of Schedule of Prior Findings
December 31, 2011

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, 2011

Significant Deficiencies

2007-2: Segregation of Duties

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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, 2011

The Agency will provide its Corrective Action Plan for the year ended December 31, 2011 as part of a separate report.