TOWN OF BABYLON L.D. CORPORATION II

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2013

TOWN OF BABYLON L.D. CORPORATION II
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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Board of Directors
Town of Babylon L.D. Corporation II
North Babylon, New York

Report on Financial Statements

We have audited the accompanying financial statement of the business-type activities of the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Corporation, as of December 31, 2013, 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.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the Corporation taken as a whole. The accompanying statement of indebtedness - conduit debt, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of indebtedness - conduit debt is the responsibility of management and has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the Corporation's internal control 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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance.

Albright, Viggiano, Zurek & Co., P.C.

Hauppauge, New York
March 28, 2014

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

This section presents management's analysis of the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York (the "Town") financial condition and activity for the year ended December 31, 2013, which is the Corporation's first year of operations. Comparative information will be available in 2014. Please read this information in conjunction with the financial statements.

FINANCIAL HIGHLIGHT

- The assets of the Corporation exceeded its liabilities at the close of 2013 by $65,891 (net position).

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Corporation's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Corporation's strategic plan, operating plan, bond covenants and other management tools were used for this analysis.

The financial statements report information about the Corporation, which is an enterprise-type fund. The Corporation applies full accrual accounting methods as used by similar business activities in the private sector. The statements offer short and long-term financial information.

The financial statements include statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows and notes to the financial statements. The statement of net position includes all of the Corporation's assets and liabilities and provides information about the nature and amount of investments.

The statement of revenues, expenses, and changes in net position presents the results of the Corporation's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides information about whether the Corporation has successfully recovered its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows presents changes in cash and cash equivalents resulting from operating and other activities.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. The notes present information about the Corporation's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

FINANCIAL ANALYSIS OF THE CORPORATION

One of the most important objectives of the financial analysis is to determine if the Corporation, as a whole, is better or worse off as a result of the year's activities. The statement of net position and the statement of revenues, expenses, and changes in net position provide useful information in this regard. The statements report the net position of the Corporation and changes in these net positions. The amount of net position, the difference between total assets, liabilities is a significant measure of the financial health or financial position of the Corporation. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth, zoning, and new government legislation or changes to existing government legislation should be considered in evaluating the financial condition of the Corporation.

The following condensed financial statements and other selected information serve as the financial data and indicators for management's monitoring and planning.

Net Position

A summary of the Corporation's condensed statements of net position at December 31, is presented as follows:

	2013
Assets	
Current and other assets	$ 76,807
Total Assets	76,807
Liabilities	
Current and other liabilities	10,916
Total Liabilities	10,916
Net Position	
Unrestricted	65,891
Total Net Position	$ 65,891

Total assets as of December 31, 2013 were $76,807 which exceeded liabilities by $65,891 (net position). Net position is comprised of unrestricted net position in the amount of $65,891, which is available to support operations. Total liabilities at December 31, 2013 totaled $10,916.

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

FINANCIAL ANALYSIS OF THE CORPORATION (continued)

Operating Results

The Corporation's condensed statements of revenues, expenses and changes in net position at December 31, are presented as follows:

	2013
Operating Revenues	
Charges for services	$ 130,370
Total Operating Revenues	130,370
Operating Expenses	
Contractual goods and services	65,509
Total Operating Expenses	65,509
Operating Income	64,861
Non-Operating Income	30
Change in Net Position	64,891
Net Position at Beginning of Year	-0-
Net Position at End of Year	$ 64,891

The Corporation's operating revenues in 2013 were $130,370 which represents fees for the one closing that occurred in 2013. The Corporation's expenses were to $65,509 in 2013. This is primarily due to payroll expenses and related employee costs. There were no transactions in 2012 as the Corporation was inactive.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN

To relieve and reduce unemployment, to maintain job opportunities and to better said job opportunities, to instruct or train individuals to improve or to develop their capabilities for jobs, to carry on scientific research for the purpose of aiding the community or geographical area by attracting industry to the community or area, or by encouraging the development of or retention of an industry in the community area and to lessen the burden of government and to act in the public interest. The public objective of each and every of the purposes enumerated above is to promote the general and public welfare of the townspeople.

The Corporation plans to continue and expand its assistance to businesses located, not-for-profits, and affordable housing developers in the Town of Babylon by providing Federally tax-exempt and taxable revenue bonds.

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our readers with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Babylon L.D. Corporation II at 816 Deer Park Avenue, North Babylon, NY 11703.

BASIC FINANCIAL STATEMENTS

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF NET POSITION
December 31, 2013

ASSETS		
Current Assets:		
Cash and cash equivalents	$	72,807
Prepaid expenses		4,000
Total Assets		76,807
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses		10,916
Total Liabilities		10,916
NET POSITION		
Unrestricted		65,891
Total Net Position	$	65,891

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2013

OPERATING REVENUES:		
Charges for services	$	130,370
OPERATING EXPENSES:		
Salary and payroll taxes		51,846
Professional fees		10,000
Rent		2,000
Advertising		540
Office expense		123
Total Operating Expenses		64,509
Income from Operations		65,861
NON-OPERATING REVENUES:		
Interest income		30
Total Non-Operating Revenues		30
Change in Net Position		65,891
Net Position at Beginning of Year		-0-
Net Position at End of Year	$	65,891

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers, clients	$	130,370
Cash payments for contractual expenses		(57,593)
Net Cash Provided by Operating Activities		72,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		30
Net Cash Provided by Investing Activities		30
Net Increase in Cash		72,807
Cash and Cash Equivalents at Beginning of Year		-0-
Cash and Cash Equivalents at End of Year	$	72,807
RECONCILIATION OF INCOME FROM OPERATING TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Income from operations	$	65,861
Adjustments to reconcile operating income to net cash provided/(used) by operating activities:		
(Increase) decrease in assets		
Prepaid expenses		(4,000)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses		10,916
Net Cash Provided by Operating Activities	$	72,777

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. Summary of Significant Accounting Policies

Organization

The Town of Babylon L.D. Corporation II (the "Corporation"), was created as a New York State not-for-profit public benefit corporation. The Corporation was established on August 18, 1988 pursuant to Section 1411 of the not-for-profit corporation law as defined in section 102(a)(5). The Board of Directors has complete responsibility for approval and adoption of policies of the Corporation and accountability for fiscal matters. The Board of Directors appoints the Executive Director of the Corporation who is the Chief Executive Officer. The Corporation is a government instrumental tax-exempt corporation that was created to promote the economic welfare, recreation opportunities and prosperity of the inhabitants of the Town of Babylon. The Corporation provides companies with the following incentives:

- Federally tax-exempt and taxable revenue bonds

Reporting Entity

The financial reporting entity includes all functions and activities over which the appointed officials exercise responsibility. No other governmental organization has been included or excluded from the reporting entity. The governing body of the Town of Babylon appoints the Corporation's Board of Directors which results in interdependency with the Town of Babylon. Accordingly, the Corporation has been determined to be a component unit of the Town of Babylon.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Corporation uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States, as prescribed by the Governmental Accounting Standards Board ("GASB"). GASB is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

The financial statements include statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, cash are defined as short-term highly liquid investments. The statement of cash flows presented uses the direct method.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. **Summary of Significant Accounting Policies** (continued)

Prepaid Expenses

Prepaid expenses represent rent expenses of the Corporation paid in advance.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that is applicable to a future reporting period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has no items qualifying for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenues) until that time. The Corporation has no items qualifying for reporting in this category.

Net Position Classification

In the financial statements, equity is classified as net position, and can be displayed in three components:

Net investment in capital assets – Consists of capital assets including, restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other categories of net position that do not meet the definition of "restricted" or "net investment in capital assets"

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as needed.

The Corporation currently has an unrestricted net position.

Revenue Recognition

The Corporation's primary source of operating revenue is from bond issuances fees, which are computed according to the Corporation's administrative fee schedule for bonds (Tax-Exempt & Taxable). Fees are recorded as income, when earned, at the time of closing, unless otherwise specified.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. Summary of Significant Accounting Policies (continued)

Advertising

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2013 totaled $540.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

The Corporation has adopted all of the current statements of the GASB that are applicable. Effective with the financial report for the year ended December 31, 2013, the Corporation implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year ended December 31, 2013. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. There are no items qualifying for deferred outflows or deferred inflows of resources.

Subsequent Events

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in interest bearing accounts.

The Corporation's investments are governed by a formal investment policy. The Corporation's monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State.

The Corporation is authorized to use certificates of deposit, and money market deposit accounts. Permissible investments include certificates of deposits, obligations of the United States, obligations of the State of New York, repurchase agreements, and obligations of agencies of the federal government where principal and interest are guaranteed by the United States.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

2. Cash and Cash Equivalents (continued)

Collateral is required for demand deposits and time deposits accounts at certain 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. The Corporation's collateral agreements are based on the Corporation's available balance. At the current time, the Corporation cash position does not exceed FDIC limits.

Custodial Credit Risk – Deposits/Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Corporation may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits are required to be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized,
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Corporation's name.

At December 31, 2013, the Corporation's cash was insured by the Federal Depository Insurance Corporation.

3. Accounts Receivable

As of December 31, 2013, there were no receivables due to the Corporation.

4. Revenues

The Corporation collects a one-time non-refundable fee of $1,500 for all bond issues per application.

Administrative fees are charged by the Corporation at closing as follows:

- ¾ of 1% of the bond project amount on the first $15 million
- ¼ of 1% of the bond project amount between $15 - $25 million
- ¼ of 1% of the bond project amount between $25 - $35 million
- 1/10 of the 1% of the bond project amount over $35 million

Applicants pay the Corporation's bond counsel fees at closing to handle the bond transaction.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

4. Revenues (continued)

The following is a detail of the fee and service income received for the year ended December 31:

	2013
Closing Fee Income	$ 128,870
Application Fee Income	1,500
Total Fee and Service Income	$ 130,370

5. Conduit Debt Obligations, Industrial Revenue Bonds and Note Transactions

The Corporation has at times, issued Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities and affordable housing deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, the Town, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2013, there were 2 series of Revenue Bonds and Notes outstanding, with an aggregate principal amount payable of $18,274,000.

6. Lease

The Corporation leases a large board room to the counselor of the Corporation for the purposes of meetings and conducting business. As of the date of this report, the lease is in effect which will expire in August 31, 2014 and the Corporation is paying $500 a month for the rental of the space. The lease commitment for 2014 totals $4,000.

7. Litigation

The Corporation is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Corporation. As of December 31, 2013, the Corporation is not the subject to any litigation.

8. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 *"Accounting and Financial Reporting for Pensions"* - an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

8. New Pronouncements (continued)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 69 *"Governmental Combinations and Disposals of Governmental Operations".* The statement establishes accounting and financial reporting standards related to governmental combinations and disposals of governmental operations. As used in this Statement, the term *government combination includes* a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 70 *"Accounting and Reporting for Nonexchange Financial Guarantees".* The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 71 *"Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

The Corporation is currently evaluating the impact of the above pronouncements.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF BABLYON L.D. CORPORATION II
STATEMENT OF INDEBTEDNESS - CONDUIT DEBT
December 31, 2013

Issue Date	Company Name	LDCProject Code	Interest Rates	Original Amount	Balance as of 1/2013	Balance as of 12/2013	Maturity Date
12/13	Dominican Village, Inc.	056187AA5	3.55%	17,955,000	-	17,955,000	8/1/2026
12/13	Dominican Village, Inc.	056187AB3	5.00%	319,000	-	319,000	12/1/2018
				18,274,000	-	18,274,000	

OTHER REPORTS

CERTIFIED PUBLIC ACCOUNTANTS

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

Honorable Corporation Board
Town of Babylon L.D. Corporation II
North Babylon, New York

We have audited, in accordance with the 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, the financial statement of the business-type activities of the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control over Financial Reporting

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

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

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

PERSONAL SERVICE. TRUSTED ADVICE.

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

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Compliance and Other Matters

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

Purpose of this Report

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

Albright, Veggiano, Zurek & Co., P.C.

Hauppauge, New York
March 28, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH CORPORATION INVESTMENT POLICY

Honorable Corporation Board
Town of Babylon L.D. Corporation II
North Babylon, New York

We have examined the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York, and compliance with the Corporation's investment policy during the period January 1, 2013 through December 31, 2013. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporations compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the period January 1, 2013 through December 31, 2013.

This report is intended solely for the information and use of the Board, audit committee, management of the Corporation, Authority Budget Office, and the New York State Comptroller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Albrecht, Viggiano, Zureck & Co., P.C.

Hauppauge, New York
March 28, 2014

PERSONAL SERVICE. TRUSTED ADVICE.

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

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