

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Financial Statements
For the Year Ended December 31, 2014

ALBANESE SINI & REEVES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

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For the Year Ended December 31, 2014

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise of the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Agency as of December 31, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2015, on our consideration that 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 compliances and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Albanese Sini & Reeves LLP

East Setauket, New York

April 3, 2015

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2014

(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Riverhead Industrial Development Agency's (Agency's) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2014. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- The assets of Agency exceeded its liabilities at December 31, 2014 by \$79,820.
- The Agency's total assets decreased by \$120,744 in year 2014 and the total liabilities decreased by \$7,431 in the year ended December 31, 2014.
- The Agency's 2014 operating revenues decreased \$250,170 from the 2013 operating revenues.
- The Agency has commitments for two projects closing in 2015 which will yield an estimated \$141,850 in project fees.

Basic Financial Statements Ended December 31, 2014:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets 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 statement of net position and the statement of revenues, expenses and changes in net position report information about the Agency as a whole and about its activities. These statements include all assets 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 position and changes in net position. The net position 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 position are an indicator of whether its financial health is improving or deteriorating.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2014

(Unaudited)

Condensed Comparative Financial Statements:**Condensed Balance Sheets at December 31,**

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total Current Assets	\$ 146,384	\$ 267,261	\$ (120,877)	-45%
Total Noncurrent Assets	1,100	967	133	14%
Total Assets	<u>\$ 147,484</u>	<u>\$ 268,228</u>	<u>\$ (120,744)</u>	<u>-45%</u>
Total Current Liabilities	\$ 57,125	\$ 68,545	\$ (11,420)	-17%
Total Noncurrent Liabilities	10,539	6,550	3,989	61%
Total Liabilities	<u>67,664</u>	<u>75,095</u>	<u>(7,431)</u>	<u>-10%</u>
Total Net Assets	<u>79,820</u>	<u>193,133</u>	<u>(113,313)</u>	<u>-59%</u>
Total Liabilities and Net Assets	<u>\$ 147,484</u>	<u>\$ 268,228</u>	<u>\$ (120,744)</u>	<u>-45%</u>

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

	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total Operating Revenues	\$ 105,277	\$ 355,447	\$ (250,170)	-70%
Total Operating Expenses	<u>218,734</u>	<u>191,720</u>	<u>27,014</u>	<u>14%</u>
Operating (loss) income	(113,457)	163,727	(277,184)	-169%
Total Non-Operating Revenue	<u>144</u>	<u>104</u>	<u>(40)</u>	<u>-38%</u>
Change in Net Position	<u>\$(113,313)</u>	<u>\$ 163,831</u>	<u>\$ (277,224)</u>	<u>-208%</u>

Analysis of Financial Position and Results of Operations:

Agency operations during 2014 resulted in \$67,408 in revenues being generated by fees associated with completed projects. The Agency operations also include revenues of \$37,869 related to Empire Zone Fees, project refinance fees, compliance fees and other items. Agency continues its approach to economic development by attracting new businesses and helping existing businesses expand.

Budgetary Analysis:

This section will discuss the significant budget to actual variances in 2014.

The charges for services line in the 2014 budget was established at \$125,924. During 2014 several anticipated projects did not close. This resulted in an approximate \$47,000 revenue shortage.

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December 31, 2014

(Unaudited)

Payroll for 2014 was budgeted for using the payroll at that time. There was an extra pay period in 2014, a cost of living and health care buy back increase resulting in an increase in both payroll and employee benefits causing both to be over budget.

Professional fees came in under budget.

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

Economic Condition and Outlook

The Agency has analyzed the results for the year ended December 31, 2014 which was a decrease in net position, which significantly diminishes the Agency's net position at the end of the year. As noted in the financial highlights above, the Agency has commitments for two projects closing in the year ending December 31, 2015 of approximately \$141,850, which exceeds the December 31, 2014 charges for services of \$78,958. Based upon a prudent budget for the year ending December 31, 2015, and a period of time thereafter, the Agency believes it will continue as a going concern.

COMPLETED PROJECTS

Hampton Jitney, Inc.

In July 2011, the Agency received an application for financial assistance from Hampton Jitney, Inc. a privately held corporation incorporated in the State of New York (Hampton Jitney), with respect to the construction and equipping of a new building and related site improvements at 253 Edwards Avenue, Calverton, New York, to be acquired by Hampton Jitney pursuant to an option to purchase held by the Hampton Jitney, 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). The Project is expected to be operated by the Hampton Jitney, 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 Agency for the Hampton Jitney: (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. Final closing documents were approved December 2012 and the Project closed in January 2013.

Construction began in 2013 and continued through 2014. In December 2014, the Agency approved a request of an increase in the project cost to \$11,119,665, Grand Opening is scheduled for 2015.

Thirty West Main, LLC

In November of 2013, the Agency received an application for financial assistance from Thirty West Main, LLC a limited liability company qualified to do business in the State of New York (Thirty West Main), with respect to the acquisition of parcel and renovation, reuse and equipping of existing 12,000 square foot building, located within a designated urban renewal area at 30 West Main Street, Riverhead, New York (S.C.T.M. No. 0600-128-6-22) for use as not more than one

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(Unaudited)

third retail space with the balance for office professional including shared use business start-up offices with support services estimated at a cost of \$1,630,000 (the Project).

The Project did not close in 2013. A public hearing was scheduled for 2014.

A public hearing and approval occurred in 2014. The financial assistance approved by the Agency for the Project was (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 real property tax abatement equal to two-thirds (2/3) of the assessed value of the improvements, subject to completion of the improvements detailed below, for a period of ten years, effective for the 2014/2015 tax billing year. PILOT payments shall be calculated and paid on the land assessment and one-third (1/3) of the improvement assessment or such greater amount as set forth if the required improvements have not been completed by December 2, 2014 or subsequent anniversary. Of the two-thirds (2/3) a-third shall be granted upon completion of the second floor improvements listed in Schedule B of the agreement and one-third (1/3) shall be granted for the completion of the improvements listed in Schedule B, and (iii) the provision of an abatement of the Mortgage Recording Tax not to exceed \$1,630,000 and initially on the Purchase Money Mortgage in the Principal Sum of \$500,000. A grand opening occurred in November of 2014 and tenants began taking occupancy.

December of 2014, the Agency approved a request for an increase in the project cost to \$2,040,000.

Riveredge, LLC

In January of 2014, the Agency received a request for continued assistance on Phase ii of a pre-existing project originally induced in 2007, Riveredge, LLC to construct an additional 123,946 square foot facility at 962 Burman Boulevard, Calverton, New York (S.C.T.M. No. 0600-135.10-01.00-005.000) to be leased to Riverhead Building Supply Corp. as a warehouse and millwork manufacturing facility of doors, windows and custom millwork products and distribution center to support an existing millwork distribution facility at an estimated total cost of \$5,056,219.00 (the Project).

A public hearing was held in March and financial assistance was approved. The Agency provided the Project with the following financial assistance with respect to the Project: (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 on the assessed valuation of project as determined by the difference between the total assessment for 2014-2015 and the total assessment for the year of exemption as shown on Schedule A in the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes.

Construction commenced through 2014.

WITHDRAWN PROJECTS

Simshabs X, Inc.

In June 2013, the Agency received a draft application for financial assistance from Simshabs, X as property owner, being a company qualified to do business in the State of New York (Simshabs), with respect to the construction of a 70,000 +/- square foot building located at 11 West Main Street, Riverhead, New York (S.C.T.M. #0600-128.00-03.00-068.0021) for use as 48 units of one and two-bedroom residential apartments and indoor parking facility for project known as Blue River Estates at an aggregate cost, including costs associated with the financing thereof, estimated to be \$9,650,000.

The Public Hearing on Simshabs X was postponed and the application was eventually withdrawn due to site plan difficulties in 2014.

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(Unaudited)

Wading River Catering, LLC

In June 2011, the Agency received an application for financial assistance from Wading River Catering, LLC a limited liability company qualified to do business in the State of New York (Wading River Catering), on behalf of the Wading River Catering 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 (the Project).

A public hearing was not held in 2013. The Project is in litigation and currently on hold. Wading River Catering declared bankruptcy in 2014 and the application is closed.

REFINANCES

Several refinances and financial refundings were assisted during 2014. Those entities included Eastern Property Investor Consultants, llc, RGR/East End Veterinary Emergency Center, and Eastern Wholesale Fence.

RETIRED PROJECTS

IDA bond projects retired in 2014 – Reilly Woodworks (formerly Michael Reilly Design). Three projects graduated from the IDA program in 2014 and will fully returned to the tax rolls in 2015 – Neefus Stype/JeJoep, John Wesley Village III, LI Vitreo Retinal Consultants (IDI). One deed transfer was completed for Altaire Pharmaceuticals (Sawaya).

PENDING APPLICATIONS

Peconic United Methodist Housing Development Fund Co (John Wesley Village LP)

In August of 2014, the Agency received a request for financial assistance from PECONIC UNITED METHODIST HOUSING DEVELOPMENT FUND COMPANY, INC. a New York not-for-profit company and JOHN WESLEY VILLAGE LP (JOHN WESLEY), with respect to the renovation of an existing 115 unit senior housing rental facility located at Middle Road, Riverhead, New York (SCTM #0600-82-02-4.6). The renovation shall include kitchen and bathroom replacement, wireless/central station call need assistance system, handicapped site access improvements, sidewalk upgrade work and safety and health improvements at an estimated cost of \$3,698,649 (the Project). The facility will be purchased by John Wesley Village LP at a total project cost of \$24,378,235. John Wesley LP would be a for profit entity.

A public hearing was held in September and financial assistance was approved. It was determined that the Agency shall provide JOHN WESLEY with the following financial assistance with respect to the Project: (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 as set forth in Schedule A of the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes. The financial assistance authorized would not be effective until closing. The approval was contingent upon JOHN WESLEY obtaining financing for the project through the New York State Housing Finance Agency into the approximate amount of \$12,000,000, with the exact amount to be determined by bond authority underwriters, and the issuance of low-income tax credits in the approximate amount of \$9,000,000 with the actual amount to be determined by New York State Homes and Community Renewal Agency, reflecting investor participation which funding will be evidenced by a Federal Housing Administration (FHA) insured mortgage placed upon the facility.

A closing did not occur in 2014.

Peconic Crossing, LLC

In October of 2014, the Agency received a request for financial assistance from Peconic Crossing, LLC, as property owner, and Conifer Realty, LLC, as operating entity, in conjunction with Community Development Corporation of Long

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

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(Unaudited)

Island, Inc. all qualified to do business in the State of New York (collectively referred to herein as Peconic Crossing), with respect to the acquisition of parcel, demolition of existing structure, and construction of a 70,000 +/- square foot building located within a designated urban renewal area at 11 West Main Street, Riverhead, New York (S.C.T.M. #0600-128.00-03.00-068.002) for use as 48 units of workforce rental housing with downstairs interior parking garage and vehicle access across adjacent parcel to Peconic Avenue for project known as Peconic Crossing at an aggregate cost, including costs associated with the financing thereof, estimated to be \$16,710,091 (the Project). The project is requesting that the Agency contemplate financial assistance such as (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, 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 Agency pursuant to Subdivision 4 of Section 874 of the General Municipal Law.

A public hearing was held in December 2014 and held open due to amendments made to the Project since the submission of the application. A new public hearing will be posted and published in 2015 upon receipt of the amended application.

Skydive Realty, LLC

In November of 2013, the Agency received an application for financial assistance from Skydive Realty, LLC, of the limited liability company qualified to do business in the State of New York (Skydive), with respect to the establishment of a 44,000 square foot indoor skydiving instruction and training facility on one acre of a 16.34 acre parcel located at 400 David Court, Calverton, New York (S.C.T.M. 0600-135.010-0001-010.000) for use by Indoor Skydiving New York Inc. at an estimated cost of \$4,553,000 (the Project).

A public hearing was held and financial assistance was approved for Project in March of 2014. The Agency provided Skydive with the following financial assistance with respect to the Project: (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 as determined by the Board of Assessors for the 2013/2014 tax year for a period of ten years as designated in Schedule A of the agreement, and (iii) the provision of an exemption from Mortgage Recording Taxes.

Due to an unusual catastrophic incident at Skydive this Project did not close in 2014 and continues to be on hold.

E.B.S. Building Systems

In April 2010, the Agency received an application for financial assistance from E.B.S. Building Systems, LLC (EBS) to support the establishment of its company in the Town of Riverhead. EBS proposes to acquire approximately 10 acres located at EPCAL and construct thereon approximately 67,300 square feet of buildings to be used by EBS 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 EBS included: (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 PILOT.

The closing did not occur in 2013. Applications to keep permits open for EBS were acquired in 2013. There was no update in 2014.

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Management's Discussion and Analysis

December 31, 2014

(Unaudited)

Marketing

The Agency works closely with local economic development organizations, such as the Town of Riverhead Community Development Agency, the Riverhead Chamber of Commerce and Suffolk County to market the Town of Riverhead as a business location. Cooperative meetings are arranged to provide incentive proposals to potential companies. Co-sponsored seminars/events are both cost effective and effectual means from a public relations standpoint as well as marketing and general business assistance. The Agency also works closely with regional and national economic development organizations such as, the Stony Brook Small Business Development Center, Suffolk County Small Business Advisory Council, municipal economic development departments on Long Island, and the Long Island Association (LIA). The Agency participates in the LIA's IDA Long Island Coalition to boost the cooperative efforts and marketing of the region. Memberships to the New York State Economic Development Council and the International Economic Development Council not only provide exposure, but are prime resources for leads and networking.

Efforts are ongoing with in-house marketing using electronic media, such as the website and social networks, editorials submitted to economic development magazines, such as NY Real Estate Journal. Cold calls, editorials, and general public relations are all part of the grassroots approach to the Agency's marketing efforts. The Agency participates on panels hosted by Long Island Business periodicals; in seminars and in trade shows which all enhance marketing efforts.

General Business Assistance

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

In addition, the current Director has the experience and knowledge to handle inquiries for assistance programs offered outside those of the Agency; providing a one stop service for businesses. These resources include low cost financing options, State and Federal incentive programs, grants, business planning, employment and housing assistance. The Agency staff assists businesses through the government and financial maze and helps interested parties find suitable sites and provides contact information to resources. The Director currently sits as President of the Riverhead Chamber of Commerce forging cooperative relationships locally and hosting coordinated seminars such as a Tax Incentive Seminar in February of 2014.

The Agency continues to host its annual East End Employment Expo and hosted several seminars on subjects such as "Creative Financing" and "Tax Incentives."

The Agency administers the Suffolk County/Town of Riverhead SC/TOR Empire Zone Program. The Empire Zone Program is a New York State Tax Credit program that has goals consistent with that of the Industrial Development Agency in regard to business attraction, expansion and retention. Although the program has sunset to new certifications, continued service to the zone certified entities and reporting is mandated by the State of New York for the life of the certified entity's benefit period. The SC/TOR Zone currently services 42 businesses. The Agency receives an annual fee for the administration of the zone.

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

Riverhead Industrial Development Agency
200 Howell Avenue
Riverhead, New York 11901

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Statement of Net Position

December 31, 2014

ASSETS

Current Assets

Cash	\$ 118,766
Prepaid expenses	17,993
Accounts receivable	<u>9,625</u>

Total Current Assets 146,384

Noncurrent Assets

Fixed assets	9,067
Less: accumulated depreciation	<u>(7,967)</u>

Total Noncurrent Assets 1,100

Total Assets \$ 147,484

LIABILITIES AND NET POSITION

Current Liabilities

PILOT's payable	\$ 33,000
Accounts payable and accrued expenses	<u>24,125</u>

Total Current Liabilities 57,125

Noncurrent Liabilities

Compensated absences	<u>10,539</u>
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Total Noncurrent Liabilities 10,539

Total Liabilities 67,664

NET POSITION

Net Position

Unrestricted	<u>79,820</u>
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Total Net Position 79,820

Total Liabilities and Net Position \$ 147,484

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2014

Operating Revenues	
Charges for services	\$ 78,958
Other revenue	<u>26,319</u>
Total Operating Revenues	<u>105,277</u>
Operating Expenses	
Business development	2,115
Compensated absence expense	3,989
Depreciation	568
Dues and subscriptions	1,260
Employee benefits	21,227
Insurance	1,291
Legal Notices	231
Office	3,566
Payroll	114,335
Payroll taxes	9,731
Professional fees	38,881
Rent	16,800
Seminars and conferences	925
Telephone	1,664
Travel	<u>2,151</u>
Total Operating Expenses	<u>218,734</u>
Net Operating Loss	<u>(113,457)</u>
Non-Operating Revenue	
Interest income	<u>144</u>
Total Non-Operating Revenue	<u>144</u>
Change in Net Position	(113,313)
Net Position - Beginning of Year	<u>193,133</u>
Net Position - End of Year	<u><u>\$ 79,820</u></u>

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Statement of Cash Flows

For the Year Ended December 31, 2014

Cash Flows from Operating Activities:	
Cash received from charges for services	\$ 78,958
Cash payments for contractual expenses	(90,332)
Cash payments for payroll and payroll taxes	<u>(130,965)</u>
Net cash used in operating activities	<u>(142,339)</u>
Cash Flows from Investing Activities:	
Interest income	<u>144</u>
Net cash provided by investing activities	<u>144</u>
Net decrease in cash	(142,195)
Cash - beginning of year	<u>260,961</u>
Cash - end of year	<u><u>\$ 118,766</u></u>
Reconciliation of Net Operating Income to	
Net cash provided by operating activities:	
Net operating income	\$ (113,457)
Adjustments to reconcile net operating income to net	
cash provided by operating activities:	
Depreciation	568
Changes in assets and liabilities:	
Accounts receivable	(3,325)
Prepaid expenses	(17,993)
Payroll taxes payable	(6,899)
Fixed assets	(701)
PILOT's payable	(18,099)
Accounts payable and accrued expenses	13,578
Compensated absences	<u>3,989</u>
Net cash provided by operating activities	<u><u>\$ (142,339)</u></u>

See accompanying notes.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2014

NOTE 1. ORGANIZATION

Primary Government

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

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

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

Related Entity

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash 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 accounts at financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). The Agency may have amounts in excess of FDIC which are fully collateralized by third party agreements.

Estimates

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. 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, 2013 was \$568.

continued

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PILOT's Payable

Payments in lieu of taxes (PILOT's) were received by the Agency and are remitted to the appropriate taxing jurisdictions. As of December 31, 2014 the Agency had \$33,000 in PILOT's payable.

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, 2014 amounted to \$10,539.

NOTE 3. EMPLOYEE BENEFIT PLAN

The Agency participates in the New York State (NYS) and Local Employees' Retirement System. As set forth in the New York State Retirement and Social Security Law, the NYS Comptroller serves as sole trustee and administrative head of the system. The NYS 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 4. COMMITMENTS

Empire Zone

On January 11, 2012, the Agency entered into an agreement to provide administrative services for the Town of Riverhead for the Suffolk County / Town of Riverhead Empire Zone Program (the Agreement). Agency will provide compliance filing and monitoring of the Empire Zone Programs for the Town of Riverhead. The Agency received an initial fee of \$44,000 for this service and will receive \$5,000 annually ending in the year 2020.

continued

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2014

NOTE 4. COMMITMENTS (continued)

Lease

The Agency entered into a lease agreement for office space in September 2013 to commence October 1, 2013 and to end on September 30, 2017. The agreement provides for no rent for the period October 1, 2013 to December 31, 2013. Annual rent under the agreement is as follows:

<u>Year ending</u>	<u>Annual Rent</u>
2015	\$ 18,750
2016	19,350
2017	14,850

NOTE 5. SUBSEQUENT EVENTS

The Agency has analyzed the results for the year ended December 31, 2014 which was a decrease in net position, which significantly diminishes the Agency's net position at the end of the year. The Agency has commitments for two projects closing in the year ending December 31, 2015 of approximately \$141,850, which exceeds the December 31, 2014 charges for services of \$78,958. Based upon a prudent budget for the year ending December 31, 2015, and a period of time thereafter, the Agency believes it will continue as a going concern.

In connection with the preparation of the financial statements the Agency evaluated subsequent events after the statement of position date of December 31, 2014 through April 3, 2015 which was the date the financial statements were available to be issued. No subsequent events were identified.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Budgetary Comparison Schedule

For the Year Ended December 31, 2014

(Unaudited)

	Budgeted Amounts	Actual	Variance with Final Budget Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 125,924	78,958	(46,966)
Other revenue (appropriated fund balance)	178,163	26,319	(151,844)
Total Operating Revenues	304,087	105,277	(198,810)
Operating Expenses			
Business development	1,000	2,115	(1,115)
Compensated absence expense	2,500	3,989	(1,489)
Depreciation	715	568	147
Dues and subscriptions	1,445	1,260	185
Employee Benefits	20,800	21,227	(427)
Insurance	1,231	1,291	(60)
Legal notices	700	231	469
Office	2,580	3,566	(986)
Payroll	108,551	114,335	(5,784)
Payroll Taxes	9,112	9,731	(619)
Professional fees	41,487	38,881	2,606
Rent	16,800	16,800	-
Seminars and conferences	1,000	925	75
Telephone	1,500	1,664	(164)
Travel	1,500	2,151	(651)
Total Operating Expenses	210,921	218,734	(7,813)
Non-Operating Revenue			
Interest Income	60	144	84
Total Non-Operating Revenue	60	144	84
Revenues over (under) Expenditures	\$ 93,226	(113,313)	(206,539)

See independent auditors' report.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Town of Riverhead Industrial Development Agency (the Agency), a component unit of the Town of Riverhead, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated April 3, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Albanese Sini & Reeves LLP

East Setauket, New York
April 3, 2015

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Summary Schedule of Prior Findings

December 31, 2014

PRIOR FINDINGS:

Significant Deficiencies

None.

Other Findings

An important part of the Riverhead Industrial Development Agency's (the Agency) mission is to continue to monitor projects that have existing Agency benefits. The Agency performs detail project monitoring updates on the existing projects throughout the year. Due to the size of the Agency staff it is not practical to expand that detail monitoring and provide independent surprise sight exams and or verify reporting with independent information. As the Agency expands its projects, consideration to devoting manpower to such activities should be considered.

December 31, 2014 Update

Recommendation considered, due to staff size and budgetary constraints the Agency will continue its monitoring process.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Finding

December 31, 2014

CURRENT FINDINGS:

Significant Deficiencies

None.

Other Findings

The Agency did not complete its filing with New York State Authorities Budget Office timely for the December 31, 2014 annual report. While, such filings are in the process of being promptly completed, the filings are past the deadline. We have noted that prior filings by the Agency have been performed timely and while the situations that created the delay in the current period appear to be isolated and reasonable, the Agency should avoid this situation in the future.

RIVERHEAD INDUSTRIAL DEVELOPMENT AGENCY

Corrective Action Plan

December 31, 2014

Management Response

Timely submission of annual compliance reports by projects continues to be a hindrance. The board has taken action to impose late fines as well as calling compliance hearings when businesses are in default of their agreements.

Additionally the unforeseen vacancy of two board seats interrupted annual operations, as well as extenuating personal circumstances of the single staffed office resulted in a delay of normal operations.

Barring these unusual circumstances, the Agency continues to have a consistent record with reporting and compliance.