ISLIP RESOURCE RECOVERY AGENCY

FINANCIAL REPORT

December 31, 2012 and 2011

ISLIP RESOURCE RECOVERY AGENCY

FINANCIAL REPORT

December 31, 2012 and 2011

C O N T E N T S

BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
New York, New York

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Islip Resource Recovery Agency
Islip, New York

Report on the Financial Statements

We have audited the accompanying combined statement of net position of the Islip Resource Recovery Agency (Agency) as of December 31, 2012, and the related combined statement of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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

Our responsibility is to express an opinion on these combined 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 from material misstatement.

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 entity'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 entity'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2012, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Auditors

The financial statements of the Agency, as of and for the year ended December 31, 2011, were audited by other auditors who report dated March 23, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8 and the required schedule of funding progress for other postemployment benefit plan on page 25, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements. The combining statement of net position, combining statement of revenue, expenses, and changes in net position, and combining statement of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position, combining statement of revenue, expenses, and changes in net position, and combining statement of cash flows, are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information as of and for the year ended December 31, 2012, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position, combining statement of revenue, expenses, and changes in net position, and combining statement of cash flows as of and for the year ended December 31, 2012, are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplementary information as of and for the year ended December 31, 2011, was audited by other auditors whose report, dated March 23, 2012, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, 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 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.

Bollam Sheedy Torani & Co LLP

New York, New York
March 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011

Our discussion and analysis of the Islip Resource Recovery Agency's (Agency) financial performance provides an overview of the Agency's financial activities for the years ended December 31, 2012, 2011, and 2010. Please read this discussion and analysis along with the basic combined financial statements and the accompanying notes to the combined financial statements.

Overview of the Combined Financial Statements

The annual report consists of management's discussion and analysis, combined statements of net position, combined statements of revenue, expenses, and changes in net position, combined statements of cash flows, and notes to the combined financial statements. The combined statement of net position provides a record or snapshot of the assets and liabilities at the close of each year. It presents the financial position of the Agency on an accrual basis utilizing historical costs. The combined statement of revenue, expenses, and changes in net position presents the results of the business activities of the Agency over the course of each fiscal year. The combined statement of cash flows is related to the other combined financial statements by the way it analyzes changes in assets and liabilities and their effect on cash and equivalents over the course of each year. The combined statement of cash flows is divided into three categories: operating, investing, and financing. The accompanying notes to the combined financial statements provide useful information regarding the Agency's significant accounting policies; explain significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, if any.

Summary of Organization and Business

The Islip Resource Recovery Agency is a public authority created by Public Authority Law 2046-C. The Agency is a body corporate and politic constituting a Public Benefit Corporation pursuant to the Islip Resource Recovery Act (the Act). Its membership consists of a five (5) member Board of Directors comprised, ex-officio, of the members of the Islip Town Board. Furthermore, the Agency is considered a component unit of the Town of Islip (Town).

The Agency is authorized by the Act to finance, acquire, construct, operate, and maintain a solid waste management-resource recovery system (which consists of one (1) closed landfill, one (1) inactive landfill, one (1) cleanfill landfill, one (1) multi-purpose recycling facility, one (1) waste to energy facility, and one (1) yard waste compost facility); in the Town and to contract with the Town for the purpose of receiving, treating, and disposing of municipal solid waste generated in the Town.

Condensed Combined Statements of Net Position

	December 31, 2012	December 31, 2011	December 31, 2010
ASSETS			
Current assets	$ 53,647,921	$ 47,424,067	$ 46,416,322
Restricted assets	13,284,286	20,448,733	17,579,108
Capital assets, net	18,036,744	21,492,901	24,585,502
Long-term receivables	-	17,698	69,299
Other assets, deferred charges, net	521,522	624,934	627,175
Total assets	**$ 85,490,473**	**$ 90,008,333**	**$ 89,277,406**
LIABILITIES			
Current liabilities	$ 11,170,482	$ 16,515,769	$ 7,921,744
Long-term liabilities	42,431,381	44,219,892	57,114,923
Total liabilities	53,601,863	60,735,661	65,036,667
NET POSITION			
Net investment in capital assets	457,561	(1,045,413)	(2,621,943)
Restricted	12,831,442	19,875,514	13,957,315
Unrestricted	18,599,607	10,442,571	12,905,367
Total net position	31,888,610	29,272,672	24,240,739
Total liabilities and net position	**$ 85,490,473**	**$ 90,008,333**	**$ 89,277,406**

Summary of Organization and Business - Continued

Condensed Combined Statements of Revenue, Expenses, and Changes in Net Position

	December 31, 2012	December 31, 2011	December 31, 2010
Operating revenue	$ 42,139,183	$ 40,463,573	$ 42,165,519
Administrative charges	8,863,078	9,306,670	9,843,086
Service fees	11,956,436	11,735,526	11,074,935
Ash treatment	2,927,168	3,042,583	3,271,200
Inter-municipal tipping fees	106,240	123,941	573,044
Depreciation and amortization	3,586,378	3,552,401	3,562,813
Landfill closure and post-closure costs	4,850,974	323,046	(1,557,209)
Personal services and employee benefit	3,217,968	3,137,176	2,915,868
Contractual expenses	2,679,238	2,892,842	3,314,006
Other administrative and operating expenses	763,017	643,454	667,881
Total operating expenses	38,950,497	34,757,639	33,665,624
Operating income	3,188,686	5,705,934	8,499,895
Nonoperating expense	(572,748)	(674,001)	(1,086,182)
Change in net position	$ 2,615,938	$ 5,031,933	$ 7,413,713

Debt Administration

The Agency's Series 2004E and F outstanding bonds were rated Al by Moody's Investors Services on July 6, 2012.

At December 31, 2012 and 2011, the Agency had $16,585,000 and $21,400,000, respectively, in bonds, outstanding, a decrease of 22.5%. At December 31, 2010, the Agency had $25,925,000 in bonds outstanding, a decrease of 17.5% to 2011.

Blydenburgh Cleanfill

The Blydenburgh Cleanfill Landfill, Phase I and Phase II, remains active and continues to accept construction and demolition debris. It is projected that these cells will have available capacity through 2015.

The Agency continues to operate its Groundwater Remediation Facility as required by the New York State Department of Environmental Conservation (NYSDEC) and Environmental Protection Agency (EPA). All post-closure requirements are being met.

Sayville Landfill

The capping of the Lincoln Avenue Landfill (Sayville Landfill) started in 2012, and it is planned to be completed in June of 2013. Post-closure Groundwater, Gas and Site Monitoring are expected to commence in 2014 and continue for 30 years.

In addition, the Sayville Landfill site houses the Agency's multi-purpose recycling facility. This facility accepts and processes all curbside recyclable materials generated by the residents of the Town.

Other Selected Information

	December 31, 2012	2011	2010
Collection unit			
Dwelling units	8,620	8,610	8,610
Collection fees	$ 3,038,231	$ 2,961,410	$ 2,898,798
MacArthur Resource Recovery Facility (MRRF) Operations			
Billable tons	165,507	168,264	161,365
Tipping fees	$ 34,175,040	$ 32,473,529	$ 33,385,419
Kilowatt Hours (kWh) produced	55,603,554	53,773,652	54,891,965
Electricity sales	$ 3,182,367	$ 3,059,714	$ 3,574,475
Compost, sales revenue	$ 164,870	$ 233,500	$ 265,676
Sayville, recycling fees	$ 993,612	$ 1,141,315	$ 832,034

MacArthur Resource Recovery Facility (MRRF) Electricity Warranty

The electric export warranty agreement calls for the generation of 53,152,847 kWh per year. The total kWh produced for 2012 was 55,603,554. This generated a surplus of 2,450,707 kWh. This excess calculates to $47,075 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

The total kWh produced for 2011 was 53,773,652. This generated a surplus of 620,805 kWh. This excess calculates to $11,627 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

The total kWh produced for 2010 was 54,891,965. This generated a surplus of 1,739,118 kWh. This excess calculates to $38,152 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2012, the total of ash generated was 57,322 tons, which was 9,350 tons less than the contractual limit of 38% of billable tons. This savings resulted in an ash warranty payment to the operator in the amount of $191,015.

During 2011, the total of ash generated was 60,824 tons, which was 7,599 tons less than the contractual limit of 38% of billable tons. This savings resulted in an ash warranty payment to the operator in the amount of $152,168.

During 2010, the total of ash generated was 61,306 tons, which was 5,896 tons less than the contractual limit of 38% of billable tons. This savings resulted in an ash warranty payment to the operator in the amount of $115,323.

Collection Unit

The Agency continues to maintain and provide solid waste collection services to approximately 9,000 homes within the Town's consolidated refuse and collection district. During 2012, 2011, and 2010, the Agency's collection unit continues to service seven contract bid areas on behalf of the Town's consolidated refuse and garbage district.

Financial Condition

The Agency's financial condition remained strong at year-end with sufficient cash and equivalents coupled with an adequate and reliable solid waste facility and collection system in place. The current financial condition, technical support staff capabilities, and operational planning to meet taxpayer needs are well balanced and under control. The following summarizes the statements of net position:

	December 31,		
	2012	2011	2010
Current assets	$ 53,647,921	$ 47,424,067	$ 46,416,322
Capital assets	$ 18,036,744	$ 21,492,901	$ 24,585,502
Net position	$ 31,888,610	$ 29,272,672	$ 24,240,739

Capital Assets

At December 31, 2012, the Agency had $18,036,744 in net capital assets, including buildings and equipment, as compared to $21,492,901 at December 31, 2011. The net decrease from 2011 in the amount of $3,456,157 is due to $3,586,378 in current year depreciation and amortization expense offset by capital asset additions of $130,220.

At December 31, 2010, the Agency had $24,585,502 in net capital assets, including buildings and equipment. The net decrease to 2011, in the amount of $3,092,601 is due to $3,552,401 in depreciation and amortization expense offset by capital asset additions of $459,800.

Results of Operations

Revenue

Operating revenue falls into various categories, with the three (3) major sources being tipping fees, collections, and sale of electricity. Ancillary revenue consists of recycling fees, ash disposal, rent revenue, and other sales.

	Years Ended December 31,		
	2012	2011	2010
Tipping fees	$ 34,175,040	$ 32,473,529	$ 33,385,419
Collections	3,038,231	2,961,410	2,898,798
Sale of electricity	3,182,367	3,059,714	3,574,475
Ancillary revenue	1,743,545	1,968,920	2,306,827
Total operating revenue	$ 42,139,183	$ 40,463,573	$ 42,165,519

In 2012, the revenue for tipping fees increased by 5% when compared to 2011, due to Hurricane Sandy, which impacted the collection of clean debris and yard waste. This increase was offset by a slight decrease of less than 1% on tipping fees from commercial carriers.

In 2011, the revenue for tipping fees from commercial carters decreased by more than 10% when compared to 2010. The continued economic downturn had an impact on the retail community, affecting consumer spending and causing a reduction in municipal solid waste.

Results of Operations - Continued

Revenue - Continued

The Agency offset some of the decreased commercial revenue by entering into a supplementary waste operations agreement with Covanta Holding Corporation. The revenue for 2012, 2011, and 2010 amounted to $357,000, $403,000, and $543,000, respectively.

The total production of electricity and the average price per kWh for 2012 increased when compared to 2011, resulting in an increase in revenue from the sale of electricity.

The total production of electricity and the average price per kWh for 2011 decreased when compared to 2010, resulting in a decrease in revenue from the sale of electricity.

In 2012, the ancillary revenue decreased by 11% when compared to 2011 due to a decrease in reimbursement of bond premiums from the Town and on the compost sale revenue.

In 2011, the ancillary revenue decreased by 15%; in 2010, there was a significant reimbursement of bond premiums from the Town. However, the recycling revenue increased by 37% due to the increase of the price of metals in 2011.

Expenses

The majority of the Agency's expenses incurred directly relate to the collection and disposal of solid waste. The largest operating expenses of the Agency are administrative charges, which reimburse the Town for allocated expenses and service fees paid to the third-party operator of the Agency's power generating waste to energy facility.

In 2012, there was an increase in total expenses mainly because of an increase of service fees and the year-end adjustment in landfill closure and post-closure costs, partially offset by decreases in administrative fees, ash treatment, and contractual expenses. In addition, the Agency continues to show a reduction of the intermunicipal tipping fees, which is also a result of the decline of the tons of municipal solid waste that the Agency received during 2012.

The bond indenture requires the Agency to maintain a reserve to fund future bond principal and interest payments. This requirement is equal to the maximum aggregate debt service on all series of bonds issued and outstanding under the indenture for a particular project in the current or any succeeding bond year. At December 31, 2012, 2011, and 2010, the minimum amount required was $5,961,438, $5,961,438, and $5,982,063, respectively. Amounts restricted under the Agency's bond indenture were invested in cash, certificates of deposits, money market funds and government securities.

In 2011 as compared to 2010, there was an increase in total expenses mainly because of an increase of service fees and the year-end adjustment in landfill closure and post-closure costs, partially offset by decreases in administrative fees, ash treatment, and contractual expenses. In addition, the Agency continues to show a reduction of the intermunicipal tipping fees, which is also a result of the decline of the tons of municipal solid waste that the Agency received during 2011.

Capital Reserve

In 2010, a capital reserve fund of $2,500,000 was created to be used for the payment of the cost of capital improvements to the lands, structure, and facilities of the Agency. As of December 31, 2011, the balance of the capital reserve account was $7,021,507, which includes an additional $4,500,000 payment plus interest earned during 2011. In 2012, the Agency used $7,000,000 from the capital reserve account for capping the Sayville Landfill, leaving a balance at December 31, 2012, of $50,649, which represents the interest earned on this account during 2012.

Cash Flows Activity

The following table summarizes the Agency's total operating revenue and net cash provided by operations over the last three fiscal years.

	Years Ended December 31,		
	2012	2011	2010
Total operating revenue	$ 42,139,183	$ 40,463,573	$ 42,165,519
Net cash provided by operating activities	$ 4,796,931	$ 9,073,401	$ 10,214,104

Capital Assets and Long-Term Debt

The investment in capital assets to date exceeds $94,000,000, and the Agency maintains a constant review of the capital expenditure needs necessary to provide maintenance and capital upgrades. This investment was initially funded by the issuance of long-term debt. Annual cash flows are utilized for current upgrades and maintenance.

Final Comments

The Agency, in a continuing commitment to its mission to provide affordable, efficient, and reliable solid waste services, is continually examining its work practices to find more efficient and productive methods of achieving this mission. The Agency will continue monitoring the possibility of new capital investments and the investigation of new methods of processing and disposing solid waste, in accordance with changing environmental regulations, industry practices, and the needs of Islip constituents.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Islip Resource Recovery Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Islip Resource Recovery Agency, 401 Main Street, Islip, New York 11751.

ISLIP RESOURCE RECOVERY AGENCY

COMBINED STATEMENTS OF NET POSITION

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 50,506,048	$ 44,223,733
Accounts receivable, net	1,155,153	1,149,002
Notes receivable, net	35,996	55,205
Due from other governments	78,991	8,489
Due from primary government	1,612,193	1,738,454
Prepaid expenses	259,540	249,184
Total current assets	53,647,921	47,424,067
RESTRICTED ASSETS		
Cash and equivalents	10,732,072	17,738,132
Investments	2,552,214	2,710,601
OTHER ASSETS		
Capital assets, net	18,036,744	21,492,901
Notes receivable, net	-	17,698
Deferred charges, bond financing costs, net	521,522	624,934
Total assets	**$ 85,490,473**	**$ 90,008,333**
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 4,995,000	$ 4,815,000
Accounts payable and accrued expenses	2,931,055	1,439,695
Due to other governments	296,634	230,871
Due to primary government	137,949	204,984
Current portion of estimated liability for landfill closure and post-closure costs	2,357,000	9,252,000
Total current liabilities	10,717,638	15,942,550
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest on bonds	452,844	573,219
OTHER LIABILITIES		
Estimated liability for landfill closure and post-closure costs, less current portion	27,614,019	24,424,108
Long-term debt, less current portion	12,584,183	17,723,314
Compensated absences	408,720	390,924
Other postemployment benefits	1,824,459	1,681,546
Total other liabilities	42,431,381	44,219,892
Total liabilities	53,601,863	60,735,661
NET POSITION		
Net investment in capital assets	457,561	(1,045,413)
Restricted	12,831,442	19,875,514
Unrestricted	18,599,607	10,442,571
Total net position	31,888,610	29,272,672
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
Total liabilities and net position	**$ 85,490,473**	**$ 90,008,333**

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

ISLIP RESOURCE RECOVERY AGENCY

COMBINED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31, 2012	2011
OPERATING REVENUE		
Tipping fees	$ 34,175,040	$ 32,473,529
Collections	3,038,231	2,961,410
Sale of electricity	3,182,367	3,059,714
Recycling	993,612	1,141,315
Other revenue	389,901	460,791
Rent revenue	66,900	66,600
Ash disposal	293,132	300,214
Total operating revenue	42,139,183	40,463,573
OPERATING EXPENSES		
Administrative charges	8,863,078	9,306,670
Service fees	11,956,436	11,735,526
Ash treatment	2,927,168	3,042,583
Intermunicipal tipping fees	106,240	123,941
Depreciation	3,586,378	3,552,401
Landfill closure and post-closure costs	4,850,974	323,046
Personal services	1,650,454	1,635,186
Employee benefits	1,567,514	1,501,990
Contractual expenses	2,679,238	2,892,842
Professional fees	90,285	125,833
Rent and utilities	184,899	196,695
Miscellaneous	487,833	320,926
Total operating expenses	38,950,497	34,757,639
Operating income	**3,188,686**	**5,705,934**
NONOPERATING REVENUE (EXPENSE)		
Interest income and investment earnings	412,595	485,859
Debt service (interest)	(985,343)	(1,159,860)
Total nonoperating revenue (expense)	(572,748)	(674,001)
CHANGE IN NET POSITION	**2,615,938**	**5,031,933**
NET POSITION, beginning of year	29,272,672	24,240,739
NET POSITION, end of year	**$ 31,888,610**	**$ 29,272,672**

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

ISLIP RESOURCE RECOVERY AGENCY

COMBINED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	Years Ended December 31, 2011
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	$ 42,225,698	$ 39,763,486
Cash payments		
Personal services and employee benefits	(2,797,416)	(2,712,361)
Goods and services	(34,631,351)	(27,977,724)
	4,796,931	**9,073,401**
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from notes receivable	-	169,824
Acquisition and construction of capital assets	(130,220)	(459,800)
Principal payments on revenue bonds payable	(4,815,000)	(4,693,742)
Interest payments on revenue bonds payable	(1,146,440)	(1,288,320)
	(6,091,660)	**(6,272,038)**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sale or redemption of investments	27,691,906	26,008,453
Purchase of investments	(27,533,517)	(15,019,532)
Interest income and investment earnings	412,595	485,859
	570,984	**11,474,780**
Net increase (decrease) in cash and equivalents	**(723,745)**	**14,276,143**
CASH AND CASH EQUIVALENTS, beginning of year	61,961,865	47,685,722
CASH AND CASH EQUIVALENTS, end of year	**$ 61,238,120**	**$ 61,961,865**

The accompanying Notes to Combined Financial Statements are an integral part of these statements.

	Years Ended December 31, 2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 3,188,686	$ 5,705,934
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,586,378	3,552,401
Provision (release) for allowance	(67,161)	-
Changes in		
Accounts receivable	61,009	(290,018)
Notes receivable	36,908	-
Due from other governments	(70,502)	6,777
Due from primary government	126,261	(416,846)
Prepaid expenses	(10,356)	(8,284)
Accounts payable and accrued expenses	1,231,517	141,070
Due to other governments	56,307	(9,899)
Due to primary government	(57,579)	(66,834)
Estimated liability for landfill closure and post-closure costs	(3,705,089)	34,285
Compensated absences	17,796	41,553
Other postemployment benefits	402,756	383,262
	4,796,931	**9,073,401**
RECONCILIATION OF CASH AND EQUIVALENTS, beginning of year		
Current assets, cash and equivalents	44,223,733	43,806,136
Restricted assets, cash and equivalents	17,738,132	3,879,586
	61,961,865	**47,685,722**
RECONCILIATION OF CASH AND EQUIVALENTS, at end of year		
Current assets, cash and equivalents	50,506,048	44,223,733
Restricted assets, cash and equivalents	10,732,072	17,738,132
	$ 61,238,120	**$ 61,961,865**

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description

The Islip Resource Recovery Agency (Agency) was authorized by the New York State Legislature and established by a referendum approved by a majority of the Town of Islip's voters in 1982 as a body corporate and politic constituting a public benefit corporation and a public authority of the State of New York pursuant to the Islip Resource Recovery Agency Act (Act).

The Agency is governed by a five member Board of Directors comprised, ex-officio, of the five members of the Board of the Town of Islip, and is considered a component unit of the Town of Islip (Town).

The Agency is authorized by the Act to finance, acquire, construct, operate, and maintain a solid waste management-resource recovery system (which consists of one closed landfill; one inactive landfill; a cleanfill, Phase I and Phase II; the MacArthur Resource Recovery Facility, a material recovery facility; and a composting facility) in the Town and to contract with the Town for the purpose of receiving, treating, and disposing of municipal solid waste generated in the Town.

All governmental activities and functions performed for the Agency are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following are the more significant accounting policies.

a. Reporting Entity

The reporting entity consists of the funds of the Agency. No other governmental organizations have been included or excluded from the reporting entity.

b. Basis of Accounting

The Agency's combined financial statements consist of two enterprise funds (Agency and Collection Unit). These are proprietary funds used to account for activities that are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position, and changes in financial position on the accrual basis.

The Agency Fund is used to account for the activities described above.

On January 30, 1987, in a joint meeting of the Agency and the Islip Town Boards, the Agency agreed to provide automated garbage-collection services for ten Town garbage districts. The Agency provided service for seven Town garbage districts at that time. The Agency Board authorized the acquisition of all necessary equipment, facility leases, and the hiring of the necessary personnel to provide the service. The Collection Unit Fund was established to record these activities.

The Agency follows enterprise fund reporting and, accordingly, the combined financial statements have been prepared using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

c. Budgetary Accounting

The Agency is not required by law to establish a budget. For management control purposes, budgeting is utilized for various activities. The initial budget is approved by the Agency's Board of Directors and subsequent amendments are made by management.

d. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.

e. Cash and Equivalents

For financial statement purposes, investments with maturities of three months or less when purchased are considered cash equivalents.

f. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management has established an allowance for uncollectible accounts of $183,417 and $250,308 for the years ended December 31, 2012 and 2011, respectively.

g. Investments

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each statement of net position date. Treasury obligations have been classified as held-to-maturity as the Agency has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost, which approximated fair value at December 31, 2012 and 2011. Related amortization and interest are included in interest income as earned.

h. Capital Assets

Property and equipment are stated at cost. Major expenditures for property and those which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts, and resulting gains and losses are included in income. The assets are depreciated over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

	Estimated Useful Life
Furniture, fixtures, machinery, equipment, trucks, vehicles, and containers	4 - 10 years
Buildings and site improvements	5 - 40 years
MacArthur Resource Recovery Facility	25 years

i. Bond Financing Costs

Legal fees, printing costs, and other expenses associated with the issuance of the Agency's revenue bonds are being amortized on the straight-line method over the term of the bond obligation.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

j. Landfill Closure and Post-Closure Costs

New York State and Federal laws and regulations require the Agency to place a final cover on its landfill sites when the sites are filled to capacity and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Although closure and post-closure care costs will be paid after the sites cease to accept waste, the Agency is required to report the costs as an operating expense in each period based on landfill capacity used as of each statement of net position date.

The Agency currently has three sites that are required by law to incur these costs. One landfill has been capped and closed, one landfill is inactive, and one landfill, a cleanfill landfill - Phase I and Phase II, is currently active. The New York State Department of Environmental Conservation (NYSDEC) has classified the inactive site as nonhazardous.

The New York State Environmental Conservation Law provides for State assistance payments of 50%, or $2 million, whichever is less, of the approved costs of municipal landfill closures. Accordingly, the Agency has reduced its liability by a total of $4,000,000 for the two sites that are not yet closed.

The estimated liability for landfill closure and post-closure care costs amounted to $29,971,019 and $33,676,108 as of December 31, 2012 and 2011, respectively. The amount recognized for the cleanfill landfill, Phase I, is based upon the usage of 90.54% and 84.00% of capacity for 2012 and 2011, respectively. The amount recognized for the cleanfill landfill, Phase II, is based on the usage of 93.14% and 93.90% of the capacity for 2012 and 2011, respectively. It is estimated that an additional $1,435,079 will be recognized as closure and post-closure care expenses between December 31, 2012 and 2015, when the site is expected to be filled to capacity.

The estimated total cost of the landfill closure and post-closure care of $29,971,019 and $33,676,108 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of December 31, 2012 and 2011, respectfully. However, the, actual costs of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Agency is not required by New York State and Federal laws and regulations to make annual contributions to finance closure and post-closure care for these sites.

k. Insurance

The Agency participates in the Town's self-insurance program for all risks except state unemployment insurance and workers' compensation. The Town assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

l Compensated Absences

Pursuant to Agency policy, its employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days and a portion of unused sick leave. Upon termination of service, employees receive payment for unused sick leave up to a maximum of 150 days and unused vacation leave up to a maximum of 50 days at year-end plus accrued time for the current year less any time used. The cost of accumulated vacation and sick leave is recorded as a liability when incurred.

m. Operating Revenue and Expenses

Operating revenue and expenses generally result from providing services in connection with the Agency's principal on-going operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

n. Postemployment Benefits

In addition to providing pension benefits, the Agency provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Agency's employees may become eligible for these benefits if they reach normal retirement age while working for the Agency. Health care benefits and survivors' benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. During 2012 and 2011, $163,801 and $166,850, respectively, was paid on behalf of eleven retirees. See Note 8 for further disclosure of postemployment benefits.

o. Subsequent Events

The Agency has evaluated events after December 31, 2012, and through March 25, 2013, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

NOTE 2 - CASH, EQUIVALENTS, AND INVESTMENTS

a. Investments

Investments of the Agency are categorized by level of credit risk (the risk that a counter party to an investment transaction will not fulfill its obligations). Category 1 - the lowest risk, includes investments that are insured or registered or for which securities are held by the Agency or its agent in the Agency's name. Category 2 - includes investments that are uninsured or unregistered with securities held by the counter party's trust department or agent, in the Agency's name. Category 3 - the highest risk, includes investments that are uninsured and unregistered with securities held by the counter party, or by its trust department or agent but not in the Agency's name. At December 31, 2012 and 2011, all the Agency's investments are classified as Category 1. Following are the components of the Agency's restricted investments:

	December 31, 2012	December 31, 2011
U.S. Government securities	$ -	$ 2,710,601
Certificates of deposit	1,631,669	-
Money market funds	920,545	-
	$ 2,552,214	$ 2,710,601

During 2012, the Agency purchased and sold direct obligations of the U.S. government and certificates of deposit with financial institutions approved by the Agency's Board of Directors. The Agency's 2011 investments consisted of obligations of the U.S. government. The investments in certificates of deposit are brokered and can be sold in secondary markets prior to maturity. The Agency's certificates of deposit are fully secured by the Federal Deposit Insurance Corporation (FDIC) insurance and mature in the next 1 to 5 years.

The Agency, which is a blended component unit of the Town, adheres to the Town's investment policy. The investment policy allows investments in certificates of deposit, time deposits, obligations of the United States, obligations of New York State, repurchase agreements of obligations of the United States, and obligations of agencies of the Federal government where principal and interest are guaranteed by the United States. All investments are made pursuant to this investment policy and comply with applicable provisions of State and Federal law. In addition, the written investment policy requires certificates of deposit and time deposit accounts to be fully covered by FDIC insurance, or by the delivery of authorized investments (collateralized).

NOTE 2 - CASH, EQUIVALENTS AND INVESTMENTS - Continued

b. Cash and Equivalents

The Town maintains a consolidated account and temporary investments with a financial institution on behalf of the Agency. The Agency's restricted cash consists of a money market fund with underlying investments in U.S. Treasury securities and deposits with the Bank of New York. The Agency's cash and cash equivalents are as follows:

	December 31, 2012		
	Agency Fund	Collection Unit Fund	Total
Unrestricted			
Agency	$ 50,000	$ -	$ 50,000
Town (allocated share)	42,383,245	8,072,803	50,456,048
	$ 42,433,245	$ 8,072,803	$ 50,506,048
Restricted, Agency	$ 10,562,072	$ 170,000	$ 10,732,072

	December 31, 2011		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	$ 50,000	$ -	$ 50,000
Town (allocated share)	36,479,104	7,694,629	44,173,733
	$ 36,529,104	$ 7,694,629	$ 44,223,733
Restricted, Agency	$ 17,568,132	$ 170,000	$ 17,738,132

The unrestricted Agency balance of $50,000 was covered by FDIC insurance or by collateral held by the Agency's agent in the Agency's name. The Agency's allocated share from the Town is collateralized in full by a trustee agreement with the Town.

Restricted cash accounts are maintained in accordance with the terms of the bond indentures of the Agency. The Agency has approximately $8.66 million in restricted cash accounts deposited with the Bank of New York Mellon (BONY) that were not covered by FDIC insurance or collateral at December 31, 2012. BONY has a short-term deposit credit rating of P1 from Moody's and A-1+ from S&P at December 31, 2012. The money market fund had a credit rating of AAA from S&P and Moody's as of December 31, 2012 and 2011.

Reconciliation of cash and equivalents per the statements of cash flows to the statements of net position:

	December 31, 2012		
	Unrestricted	Restricted	Total
Cash and equivalents, beginning of year	$ 44,223,733	17,398,132	$ 61,621,865
Net increase/(decrease)	6,282,315	(6,666,060)	(383,745)
Cash and equivalents, end of year	$ 50,506,048	10,732,072	$ 61,238,120

	December 31, 2011		
	Unrestricted	Restricted	Total
Cash and equivalents, beginning of year	$ 43,806,136	$ 3,879,586	$ 47,685,722
Net increase	417,597	13,858,546	14,276,143
Cash and equivalents, end of year	$ 44,223,733	$ 17,738,132	$ 61,961,865

NOTE 3 - DUE FROM/TO OTHER GOVERNMENTS

Amounts due from other governments consist of tipping fees receivable and are as follows:

	December 31, 2012	December 31, 2011
New York State	$ -	$ 948
Towns and Villages	21,875	7,541
Total	$ 21,875	$ 8,489

Amounts due to other governments consist of the following:

December 31, 2012	Suffolk County, New York	Towns and Villages	Total
Intermunicipal ash disposal agreement	$ -	$ 240,395	$ 240,395
Leachate collection	1,302	-	1,302
Total due to other governments	$ 1,302	$ 240,395	$ 241,697

December 31, 2011	Suffolk County, New York	Towns and Villages	Total
Intermunicipal ash disposal agreement	$ -	$ 225,086	$ 225,086
Intermunicipal commodity agreement	-	4,793	4,793
Leachate collection	992	-	992
Total due to other governments	$ 992	$ 229,879	$ 230,871

NOTE 4 - CAPITAL ASSETS

Activity for capital assets is summarized as follows:

December 31, 2012	December 31, 2011	Additions	Dispositions	December 31, 2012
MacArthur Resource Recovery Facility	$ 83,501,046	$ -	$ -	$ 83,501,046
Landfill monitoring equipment	2,283,196	-	-	2,283,196
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	3,070,146	64,908	-	3,135,054
Machinery and equipment	910,568	1,614	-	912,182
Buildings	1,180,057	-	-	1,180,057
Containers	740,586	54,777	-	795,363
Furniture and fixtures	160,358	8,922	-	169,280
	94,048,472	130,221	-	94,178,693
Less accumulated depreciation and amortization	(73,388,392)	(3,586,378)	-	(76,974,770)
	20,660,080	(3,456,157)	-	17,203,923
Land	832,821	-	-	832,821
Total	$ 21,492,901	$ (3,456,157)	$ -	$ 18,036,744

NOTE 4 - CAPITAL ASSETS - Continued

	December 31, 2011			
	December 31, 2010	Additions	Dispositions	December 31, 2011
MacArthur Resource Recovery Facility	$ 83,501,046	$ -	$ -	$ 83,501,046
Landfill monitoring equipment	2,283,196	-	-	2,283,196
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	2,820,572	276,604	(27,030)	3,070,146
Machinery and equipment	826,770	83,798	-	910,568
Buildings	1,180,057	-	-	1,180,057
Containers	672,926	67,660	-	740,586
Furniture and fixtures	159,642	716	-	160,358
	93,646,724	428,778	(27,030)	94,048,472
Less accumulated depreciation and amortization	(69,863,021)	(3,552,401)	27,030	(73,388,392)
	23,783,703	(3,123,623)	-	20,660,080
Land	801,799	31,022	-	832,821
Total	$ 24,585,502	$ (3,092,601)	$ -	$ 21,492,901

Depreciation and amortization expense for the years ended December 31, 2012 and 2011, is $3,586,378 and $3,552,401, respectively.

NOTE 5 - LONG-TERM DEBT

The Agency issued $17,430,000 of Series E Bonds and $8,515,000 of Series F Bonds in 2004. The Series E Bonds with interest rates of 4.00% to 5.75% were dated March 1, 2004, and were issued to finance the costs of making certain modifications for the solid waste disposal and electric generating facility located in the Town. The Series F Bonds with interest rates of 4.50% to 5.00% were dated April 5, 2004, and were used to refund $8,755,000 principal amount of the Series 1994B Bonds, which were callable on July 1, 2004.

a. Revenue Bonds Payable

The following is a summary of changes in bonds payable for the years ended December 31,

	January 1, 2011	Principal Repayments	January 1, 2012	Principal Repayments	December 31, 2012
Serial bonds (6.125% to 7.20%, issued April 1994, maturity dates through July 2011)	$ 3,750,000	$ (3,750,000)	$ -	$ -	$ -
Serial bonds (5.00% to 5.15%, issued April 2004, maturity dates through July 2023)	14,035,000	(775,000)	13,260,000	815,000	12,445,000
Serial bonds (5.00%, issued March 2004, maturity dates through July 2013)	8,140,000	-	8,140,000	4,000,000	4,140,000
Total	$ 25,925,000	$ (4,525,000)	$ 21,400,000	$ 4,815,000	$ 16,585,000

NOTE 5 - LONG-TERM DEBT - Continued

a. *Revenue Bonds Payable* - Continued

	Years Ended December 31, 2012	2011
Outstanding principal	$ 16,585,000	$ 21,400,000
Add: Unamortized debt premium	1,021,462	1,220,147
Deferred loss on early retirement of debt	(27,279)	(81,833)
	17,579,183	22,538,314
Less amounts due within one year	(4,995,000)	(4,815,000)
Long-term debt	$ 12,584,183	$ 17,723,314

The Agency's constitutional debt limit at December 31, 2012 and 2011, was $50,000,000. The bond indenture limits indebtedness to the amounts issued under that agreement. The Agency also covenants and agrees not to sell, convey, transfer, mortgage, or encumber its interest in the project, except as specifically allowed, so long as the bonds are outstanding.

A summary of the Agency's debt service requirements for bonds payable are as follows:

	Principal	Interest	Total
For the year ending December 31, 2013	$ 4,995,000	$ 905,688	$ 5,900,688
2014	900,000	655,938	1,555,938
2015	945,000	610,938	1,555,938
2016	995,000	557,781	1,552,781
2017	1,050,000	501,813	1,551,813
2018 through 2022	6,230,000	1,537,550	7,767,550
2023	1,470,000	84,525	1,554,525
	$ 16,585,000	$ 4,854,233	$ 21,439,233

b. *Advance Refunding of Bonds*

On April 5, 2004, the Agency issued $8,515,000 in Series F 2004 Revenue Refunding Bonds with interest rates ranging from 4.5% to 5.0% to advance refund $8,755,000 of Series 1994B Bonds with maturities in 2009, 2012, and 2013 of the $16,000,000 total outstanding Series B Bonds with interest rates ranging from 6.0% to 7.25% (callable on July 1, 2004). The net proceeds of $8,902,551 after payment of $400,189 in underwriting fees, insurance, and other issuance costs) were placed in escrow and used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the refunding. As a result, this portion of the 1994 Series B Bonds are considered to be defeased, and the liability for these bonds has been removed from long-term debt. Defeased bonds have been fully repaid from funds deposited in the trust.

The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $506,427. This difference, reported in the accompanying combined financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 using the straight-line method. The Agency completed the advance refunding to reduce its total debt service payments over the next nine years by approximately $1,310,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $1,017,000.

NOTE 6 - NET POSITION

The Agency's net position is categorized as either net investment in capital assets; restricted or unrestricted.

Net investment in capital assets includes capital assets net of accumulated depreciation and the liabilities used to finance those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is excluded from the determination of this amount. Rather that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted net position includes assets restricted for debt service and capital reserves, less obligations to be repaid with restricted assets.

Unrestricted net position includes all net position not classified as either net investment in capital assets or restricted net position.

The restricted net position amounts are calculated as follows:

	December 31,	
	2012	2011
Invested in capital assets, net of related debt		
Capital assets, net	$ 18,036,744	$ 21,492,901
Less revenue bonds payable, net	(17,579,183)	(22,538,314)
Invested in capital asset, net of related debt	$ 457,561	$ (1,045,413)
Restricted net position		
Restricted assets	$ 13,284,286	$ 20,448,733
Less liabilities payable from restricted assets	(452,844)	(573,219)
Restricted net position	$ 12,831,442	$ 19,875,514
Restricted net position for capital reserves	$ 50,649	$ 7,021,507
Restricted net position for debt service	12,780,793	12,854,007
Total restricted net position	$ 12,831,442	$ 19,875,514

NOTE 7 - PENSION PLANS

The Agency participates in the New York State (State) and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system that provides retirement benefits as well as death and disability benefits. These benefits are provided in accordance with the New York State Retirement and Social Security Law (NYSRSSL), which also governs obligations of employers and employees to contribute. The benefits to employees are guaranteed under the State constitution. The Agency's election to participate in the State plans is irrevocable.

As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of ERS and for the custody and control of their funds. ERS issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

ERS is noncontributory, except for employees with who joined the System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010, who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers. The rates billed by the Comptroller for ERS ranged from 9.9% to 23.0% for April through December 2012 and from 12.6% to 19.5% for April 2011 through March 2012.

NOTE 7 - PENSION PLANS - Continued

The required contributions for the current year and two preceding years were as follows:

	ERS
2012	$ 303,049
2011	238,255
2010	163,713

NOTE 8 - POSTEMPLOYMENT HEALTHCARE PLAN

a. Plan Description

The Agency's defined benefit postemployment healthcare plan provided under the Empire, Health Insurance Plan of New York (HIP), and Vytra plans (Plans) provide medical insurance benefits to eligible employees, retirees, and their dependents. Empire, HIP, and Vytra are agent multiple-employer postemployment healthcare plans. The Agency has the authority to establish and amend benefit provisions of the Plans. Empire, HIP, and Vytra issue publicly available financial reports that include financial statements and required supplementary information.

b. Funding Policy

The contribution requirements of Plan members and the Agency are established and may be amended. The Agency currently provides coverage under its healthcare plan at no cost to its members hired prior to April 8, 2010. All full-time employees hired on or after April 8, 2010, are required to contribute each year 5%, 10%, or 15% of healthcare premiums applicable to them based on their base annual salary levels.

The annual required contribution (ARC) is an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

c. Annual Other Postemployment Benefits (OPEB)

For the years ended December 31, 2012 and 2011, the Agency's annual OPEB cost of $566,557 and $540,672, respectively, for Empire, HIP, and Vytra was equal to the ARC. The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, the net OPEB obligation for 2012 and 2011, and the changes in the Agency's net obligation were as follows:

	December 31,	
	2012	2011
Normal cost	$ 232,846	$ 227,167
Amortization of unfunded actuarial accrued liability	327,293	303,713
Interest	19,129	18,087
Annual required contribution	579,268	548,967
Interest on net OPEB obligation	67,262	51,931
Adjustment to annual required contribution	(79,973)	(60,226)
Annual OPEB cost	566,557	540,672
Contributions made	(163,801)	(157,410)
Increase in net OPEB obligation	402,756	383,262
Net OPEB obligation at beginning of year	1,681,546	1,298,284
Net OPEB obligation at end of year	$ 2,084,302	$ 1,681,546
Percentage of Annual OPEB Cost Contributed	28.9%	29.1%

NOTE 8 - POSTEMPLOYMENT HEALTHCARE PLAN - Continued

d. Funded Status and Funding Progress

The funded status of the Plan is as follows:

	December 31, 2012	December 31, 2011
Actuarial Accrued Liability (AAL)	$ 7,157,092	$ 6,809,006
Actuarial value of plan assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 7,157,092	$ 6,809,006
Funded Ratio (Actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (Active plan members)	$ 2,111,822	$ 2,060,314
UAAL as a percentage of covered payroll	438.60%	330.48%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress; presented as required supplementary information, presents multi-year trend information that would show whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 10.0% (Pre-65) and 8.0% (Post-65), reduced by decrements to an ultimate rate of 5%. The year the ultimate trend rates are reached is 2016 for Pre-65 and 2014 for Post-65. Both rates include a 2.5% inflation assumption. The actuarial value of the Plan’s assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The Plan’s unfunded actuarial accrued liability is being amortized over a thirty-year period. The remaining amortization period at December 31, 2012, was 24.89 years.

NOTE 9 - RELATED PARTY TRANSACTIONS

On December 1, 1985, the Agency entered into a twenty-five year solid waste agreement with the Town, amended April 1989, March 1994, January 1997 and January 2004. The January 2004 amendment extended the term of the agreement until December 1, 2023, and the January 1997 amendment revised the repayment schedule. Under the terms of the agreement, the Agency took title to the Town’s solid waste disposal facilities. The Town was retained by the Agency to provide management and administrative services for the Agency. The Town is reimbursed for these items through the remittance of administrative fees.

NOTE 9 - RELATED PARTY TRANSACTIONS - Continued

In July 1992, the Agency entered into a management service agreement which defines the charges to the Agency for services provided by the Town. This agreement is generally amended on an annual basis. The most recent amendment is dated October 2011. The administrative fees expense amounted to $8,892,017 and $9,306,670 for the years ended December 31, 2012 and 2011, respectively. The overpaid administrative fees at December 31, 2012 and 2011, amounted to $295,869 and $1,365,566, respectively.

In April 1989, the Agency entered into an agreement to lease the Blydenburgh Landfill and the Sayville Landfill Facility (inclusive of the material recovery facility) to the Town for a period of 99 years. The annual lease payment is $1 for each of the facilities.

Tipping fees revenue earned from the disposal of Town waste was approximately $2,359,000 and $1,349,000 for the years ended December 31, 2012 and 2011, respectively.

Amounts due from the primary government (Town of Islip) consist of the following:

	December 31,	
	2012	2011
Tipping fees	$ 1,097,295	$ 172,998
Administrative fees	295,869	1,365,566
Accrued expenses	167,516	150,009
Other	51,513	49,881
	$ 1,612,193	$ 1,738,454

Amounts due to the primary government at December 31, 2012 and 2011, consisted of accounts payable and accrued expenses of $241,697 and $204,984, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Commitments and contingencies at December 31, 2012, consist of the following:

a. Litigation

The Agency is a defendant in several lawsuits arising from the normal conduct of its affairs. Management is of the opinion that the liability, if any, from these will not have a material adverse impact on the financial position of the Agency.

b. Environmental Issues

The MacArthur Resource Recovery Facility (Facility) is operated by Veolia Environmental Services North America Corp., f/k/a Montenay Islip, Inc. (Company) under an agreement effective March 8, 1990, for a period of twenty years with a renewal option for five years. The agreement was amended in May 1994. Under the terms of the agreement, the Company receives a service fee. The service fee consists of base, ash management, and operating fees which are determined by the number of tons of municipal solid waste processed, plus 85% of the revenue from the sale of recovered materials, and 25% of the revenue from the sale of electricity up to a threshold amount. The original 56,000,000 kWh threshold was reduced in 2005 due to limitations resulting from the installation of the emission control system. The threshold was reduced further in 2007 to 53,152,847 kWh. The Company also receives 50% of the revenue from the sale of any additional electricity sold each year.

In October 2008, the operations agreement between the Company and the Agency was amended and extended through March 8, 2015. Effective November 1, 2008, the Agency will be charged $0.00 per ton for the first 25,000 tons of municipal solid waste transferred through the station in any calendar year, and $2.00 per ton for each additional ton transferred during the remainder of the year.

NOTE 10 - COMMITMENTS AND CONTINGENCIES - Continued

b. Environmental Issues - Continued

Effective August 2009, Covanta Holding Corporation (Covanta Company) acquired from Veolia Environmental Services North America Corp. most of Veolia's North American energy-from-waste business. The operations agreement between the Covanta Company and the Agency is continued under Covanta.

c. Operation of MacArthur Resource Recovery Facility

The Agency reimburses the Covanta Company for "pass-through costs" which consist of certain insurance costs, LIPA charges, fees, supplies, and expenses incurred in connection with Agency bonds, and Town and highway taxes.

NOTE 11 - RISK MANAGEMENT

The Agency is exposed to various risks of loss from related torts; theft of, damage to, and destruction of assets, errors and omissions; and natural disasters. The Agency has obtained sufficient insurance coverage to protect itself against such losses.

NOTE 12 - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term *deferred* in the financial statements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - an Amendment of Statements No. 10 and No. 62.* This statement establishes clarification on two recently issued statements; No. 54, *Fund Balance Reporting and Governmental Fund Type Definition* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement resolves conflicting guidance created as a result of the issuance of these two statements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* 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. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

The scope of this statement also addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics as defined in the statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for periods beginning after June 15, 2014, with early implementation encouraged.

Management has not estimated the extent of the potential impact of these statements on the Agency's financial statements.

ISLIP RESOURCE RECOVERY AGENCY

REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFIT PLAN

The schedule of funding progress presents the results of OPEB valuations for the most recent and the two preceding valuations. All determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued liability (UAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAL as a percentage of covered payroll ((b-a)/c)
1/1/2011	$ -	$ 6,809,006	$ 6,809,006	0%	$ 2,060,314	330.50%
1/1/2009	-	5,875,575	5,875,575	0%	1,339,549	438.62%
1/1/2007	-	4,592,555	4,592,555	0%	N/A	N/A

See Independent Auditor's Report.

ISLIP RESOURCE RECOVERY AGENCY

SUPPLEMENTARY INFORMATION - COMBINING BALANCE SHEET

	December 31, 2012		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and equivalents	$ 42,433,245	$ 8,072,803	$ 50,506,048
Accounts receivable, net	1,155,153	-	1,155,153
Notes receivable, net	35,996	-	35,996
Due from other governments	24,564	54,427	78,991
Due from primary government	1,612,193	-	1,612,193
Prepaid expenses	107,993	151,547	259,540
Total current assets	45,369,144	8,278,777	53,647,921
RESTRICTED ASSETS			
Cash and equivalents	10,562,072	170,000	10,732,072
Investments	2,552,214	-	2,552,214
OTHER ASSETS			
Capital assets, net	17,469,078	567,666	18,036,744
Note receivable, net	-	-	-
Deferred charges, bond financing costs, net	521,522	-	521,522
Total assets	**$ 76,474,030**	**$ 9,016,443**	**$ 85,490,473**
CURRENT LIABILITIES			
Current portion of long-term debt	$ 4,995,000	$ -	$ 4,995,000
Accounts payable and accrued expenses	2,531,127	399,928	2,931,055
Due to other governments	296,634	-	296,634
Due to primary government	-	137,949	137,949
Current portion of estimated liability for landfill			-
closure and post-closure costs	2,357,000	-	2,357,000
Total current liabilities	10,179,761	537,877	10,717,638
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accrued interest on bonds	452,844	-	452,844
OTHER LIABILITIES			
Estimated liability for landfill closure and post-closure costs, less current portion	27,614,019	-	27,614,019
Long-term debt, less current portion	12,584,183	-	12,584,183
Compensated absences	223,818	184,902	408,720
Other postemployment benefits	857,066	967,393	1,824,459
Total other liabilities	41,279,086	1,152,295	42,431,381
Total liabilities	51,911,691	1,690,172	53,601,863
NET POSITION			
Net investment in capital assets	(110,105)	567,666	457,561
Restricted	12,661,442	170,000	12,831,442
Unrestricted	12,011,003	6,588,604	18,599,607
Total net position	24,562,340	7,326,270	31,888,610
Total liabilities and net position	**$ 76,474,031**	**$ 9,016,442**	**$ 85,490,473**

See Independent Auditor’s Report.

	December 31, 2011		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and equivalents	$ 36,529,104	$ 7,694,629	$ 44,223,733
Accounts receivable, net	1,149,002	-	1,149,002
Notes receivable, net	55,205	-	55,205
Due from other governments	8,489	-	8,489
Due from primary government	1,738,454	-	1,738,454
Prepaid expenses	97,494	151,690	249,184
Total current assets	39,577,748	7,846,319	47,424,067
RESTRICTED ASSETS			
Cash and equivalents	17,568,132	170,000	17,738,132
Investments	2,710,601	-	2,710,601
OTHER ASSETS			
Capital assets, net	20,844,342	648,559	21,492,901
Note receivable, net	17,698	-	17,698
Deferred charges, bond financing costs, net	624,934	-	624,934
Total assets	**$ 81,343,455**	**$ 8,664,878**	**$ 90,008,333**
CURRENT LIABILITIES			
Current portion of long-term debt	$ 4,815,000	$ -	$ 4,815,000
Accounts payable and accrued expenses	1,348,139	91,556	1,439,695
Due to other governments	230,871	-	230,871
Due to primary government	57,579	147,405	204,984
Current portion of estimated liability for landfill closure and post-closure costs	9,252,000	-	9,252,000
Total current liabilities	15,703,589	238,961	15,942,550
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accrued interest on bonds	573,219	-	573,219
OTHER LIABILITIES			
Estimated liability for landfill closure and post-closure costs, less current portion	24,424,108	-	24,424,108
Long-term debt, less current portion	17,723,314	-	17,723,314
Compensated absences	208,666	182,258	390,924
Other postemployment benefits	714,153	967,393	1,681,546
Total other liabilities	43,070,241	1,149,651	44,219,892
Total liabilities	59,347,049	1,388,612	60,735,661
NET POSITION			
Net investment in capital assets	(1,693,972)	648,559	(1,045,413)
Restricted	19,705,514	170,000	19,875,514
Unrestricted	3,984,864	6,457,707	10,442,571
Total net position	21,996,406	7,276,266	29,272,672
Total liabilities and net position	**$ 81,343,455**	**$ 8,664,878**	**$ 90,008,333**

ISLIP RESOURCE RECOVERY AGENCY

SUPPLEMENTARY INFORMATION -
COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION

	Year Ended December 31, 2012			
	Agency	**Collection**	**Elimination**	**Total**
OPERATING REVENUE				
Tipping fees	$ 34,175,040	$ -	$ -	$ 34,175,040
Collections	-	3,038,231	-	3,038,231
Sale of electricity	3,182,367	-	-	3,182,367
Recycling	993,612	-	-	993,612
Other revenue	332,745	57,156	-	389,901
Rent revenue	66,900	-	-	66,900
Ash disposal	293,132	-	-	293,132
Total operating revenue	39,043,796	3,095,387	-	42,139,183
OPERATING EXPENSES				
Administrative charges	8,863,078	-	-	8,863,078
Service fees	11,956,436	-	-	11,956,436
Ash treatment	2,927,168	-	-	2,927,168
Intermunicipal tipping fees	106,240	-	-	106,240
Depreciation and amortization	3,379,770	206,608	-	3,586,378
Landfill closure and post-closure costs	4,850,974	-	-	4,850,974
Personal services	553,444	1,097,010	-	1,650,454
Employee benefits	512,050	1,055,464	-	1,567,514
Contractual expenses	2,045,077	634,161	-	2,679,238
Professional fees	90,285	-	-	90,285
Rent and utilities	99,242	85,657	-	184,899
Miscellaneous	487,833	-	-	487,833
Total operating expenses	35,871,597	3,078,900	-	38,950,497
Operating income	**3,172,199**	**16,487**	**-**	**3,188,686**
NONOPERATING REVENUE (EXPENSE)				
Interest income	379,079	33,516	-	412,595
Debt service (interest)	(985,343)	-	-	(985,343)
Total nonoperating revenue (expense)	(606,264)	33,516	-	(572,748)
CHANGE IN NET POSITION	**2,565,935**	**50,003**	**-**	**2,615,938**
NET POSITION, beginning of year	21,996,406	7,276,266	-	29,272,672
NET POSITION, end of year	**$ 24,562,341**	**$ 7,326,269**	**$ -**	**$ 31,888,610**

See Independent Auditor’s Report.

	December 31, 2011			
	Agency	Collection	Elimination	Total
OPERATING REVENUE				
Tipping fees	32,473,529	$ -	$ -	$ 32,473,529
Collections	-	2,961,410	-	2,961,410
Sale of electricity	3,059,714	-	-	3,059,714
Recycling	1,141,315	-	-	1,141,315
Other revenue	451,428	9,363	-	460,791
Rent revenue	66,600	-	-	66,600
Ash disposal	300,214	-	-	300,214
Total operating revenue	37,492,800	2,970,773	-	40,463,573
OPERATING EXPENSES				
Administrative charges	9,306,670	-	-	9,306,670
Service fees	11,735,526	-	-	11,735,526
Ash treatment	3,042,583	-	-	3,042,583
Intermunicipal tipping fees	123,941	-	-	123,941
Depreciation and amortization	3,374,843	177,558	-	3,552,401
Landfill closure and post-closure costs	323,046	-	-	323,046
Personal services	550,967	1,084,219	-	1,635,186
Employee benefits	392,161	1,109,829	-	1,501,990
Contractual expenses	2,301,688	591,154	-	2,892,842
Professional fees	125,833	-	-	125,833
Rent and utilities	109,273	87,422	-	196,695
Miscellaneous	307,761	13,165	-	320,926
Total operating expenses	31,694,292	3,063,347	-	34,757,639
Operating income	**5,798,508**	**(92,574)**	**-**	**5,705,934**
NONOPERATING REVENUE (EXPENSE)				
Interest income	441,814	44,045	-	485,859
Debt service (interest)	(1,159,860)	-	-	(1,159,860)
Total nonoperating revenue (expense)	(718,046)	44,045	-	(674,001)
CHANGE IN NET POSITION	**5,080,462**	**(48,529)**	**-**	**5,031,933**
NET POSITION, beginning of year	16,915,944	7,324,795	-	24,240,739
NET POSITION, end of year	**$ 21,996,406**	**$ 7,276,266**	**$ -**	**$ 29,272,672**

ISLIP RESOURCE RECOVERY AGENCY

SUPPLEMENTARY INFORMATION - COMBINING STATEMENT OF CASH FLOWS

	December 31, 2012		
	Agency	Collection	Total
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash received from customers	$ 39,184,738	$ 3,040,960	$ 42,225,698
Cash payments			
Personal services and employee benefits	(907,429)	(1,889,987)	(2,797,416)
Goods and services	(33,950,750)	(680,601)	(34,631,351)
	4,326,559	**470,372**	**4,796,931**
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(4,506)	(125,714)	(130,220)
Principal payments on revenue bonds	(4,815,000)	-	(4,815,000)
Interest payments on revenue bonds	(1,146,440)	-	(1,146,440)
	(5,965,946)	**(125,714)**	**(6,091,660)**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Proceeds from sale or redemption of investments	27,691,906	-	27,691,906
Purchase of investments	(27,533,517)	-	(27,533,517)
Interest income	379,079	33,516	412,595
	537,468	**33,516**	**570,984**
Net increase (decrease) in cash and equivalents	**(1,101,919)**	**378,174**	**(723,745)**
CASH AND CASH EQUIVALENTS, beginning of year	54,097,236	7,864,629	61,961,865
CASH AND CASH EQUIVALENTS, end of year	**$ 52,995,317**	**$ 8,242,803**	**$ 61,238,120**

See Independent Auditor’s Report.

	Year Ended December 31, 2012		
	Agency	Collection	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	$ 3,172,199	$ 16,487	$ 3,188,686
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	3,379,770	206,608	3,586,378
Provision (release) for allowance	(67,161)	-	(67,161)
Changes in			
Accounts receivable	61,009	-	61,009
Notes receivable	36,908	-	36,908
Due from other governments	(16,075)	(54,427)	(70,502)
Due from primary government	126,261	-	126,261
Prepaid expenses	(10,499)	143	(10,356)
Accounts payable and accrued expenses	1,182,987	48,530	1,231,517
Due to other governments	65,763	(9,456)	56,307
Due to primary government	(57,579)	-	(57,579)
Estimated liability for landfill closure and post-closure costs	(3,705,089)	-	(3,705,089)
Compensated absences	15,152	2,644	17,796
Other postemployment benefits	142,913	259,843	402,756
	4,326,559	**470,372**	**4,796,931**
RECONCILIATION OF CASH AND CASH EQUIVALENTS, beginning of year			
Current assets, cash and equivalents	36,529,104	7,694,629	44,223,733
Restricted assets, cash and equivalents	17,568,132	170,000	17,738,132
Total	**54,097,236**	**7,864,629**	**61,961,865**
RECONCILIATION OF CASH AND CASH EQUIVALENTS, end of year			
Current assets, ash and equivalents	42,433,245	8,072,803	50,506,048
Restricted assets, cash and equivalents	10,562,072	170,000	10,732,072
	$ 52,995,317	**$ 8,242,803**	**$ 61,238,120**

ISLIP RESOURCE RECOVERY AGENCY

SUPPLEMENTARY INFORMATION -
COMBINING STATEMENT OF CASH FLOWS

	December 31, 2011		
	Agency	**Collection**	**Total**
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash received from customers	$ 36,792,713	$ 2,970,773	$ 39,763,486
Cash payments			
Personal services and employee benefits	(829,311)	(1,883,050)	(2,712,361)
Goods and services	(27,238,156)	(739,568)	(27,977,724)
	8,725,246	**348,155**	**9,073,401**
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from notes receivable	169,824	-	169,824
Intra-Agency balances	(89,881)	89,881	-
Acquisition and construction of capital assets	(113,138)	(346,662)	(459,800)
Principal payments on revenue bonds	(4,693,742)	-	(4,693,742)
Interest payments on revenue bonds	(1,288,320)	-	(1,288,320)
	(6,015,257)	**(256,781)**	**(6,272,038)**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Proceeds from sale or redemption of investments	26,008,453	-	26,008,453
Purchase of investments	(15,019,532)	-	(15,019,532)
Interest income	441,814	44,045	485,859
	11,430,735	**44,045**	**11,474,780**
Net increase in cash and equivalents	**14,140,724**	**135,419**	**14,276,143**
CASH AND CASH EQUIVALENTS, beginning of year	39,956,512	7,729,210	47,685,722
CASH AND CASH EQUIVALENTS, end of year	**$ 54,097,236**	**$ 7,864,629**	**$ 61,961,865**

See Independent Auditor’s Report.

	Year Ended December 31, 2011		
	Agency	**Collection**	**Total**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 5,798,508	$ (92,574)	$ 5,705,934
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	3,374,843	177,558	3,552,401
Provision (release) for allowance			
Changes in			
Accounts receivable	(290,018)	-	(290,018)
Due from other governments	6,777	-	6,777
Due from primary government	(416,846)	-	(416,846)
Prepaid expenses	3,455	(11,739)	(8,284)
Accounts payable and accrued expenses	113,233	27,837	141,070
Due to other governments	(9,899)		(9,899)
Due to primary government	(2,909)	(63,925)	(66,834)
Estimated liability for landfill closure and post-closure costs	34,285		34,285
Compensated absences	66,962	(25,409)	41,553
Other postemployment benefits	46,855	336,407	383,262
	8,725,246	**348,155**	**9,073,401**
RECONCILIATION OF CASH AND CASH EQUIVALENTS, beginning of year			
Current assets, cash and equivalents	36,076,926	7,729,210	43,806,136
Restricted assets, cash and equivalents	3,897,586	-	3,897,586
Total	**39,974,512**	**7,729,210**	**47,703,722**
RECONCILIATION OF CASH AND CASH EQUIVALENTS, end of year			
Current assets, cash and equivalents	36,529,104	7,694,629	44,223,733
Restricted assets, cash and equivalents	17,568,132	170,000	17,738,132
	$ 54,097,236	**$ 7,864,629**	**$ 61,961,865**

BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
New York, New York

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*

The Board of Directors
Islip Resource Recovery Agency
Islip, New York

We have audited, 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, the combined statement of net position of the Islip Resource Recovery Agency (Agency), as of December 31, 2012, and the related combined statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related combined notes to the financial statements, and have issued our report thereon dated March 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 entity'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 from 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 12-01.

The Agency's Response to Findings

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bollam Sheedy Torani & Co LLP

New York, New York
March 25, 2013

ISLIP RESOURCE RECOVERY AGENCY

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified?	________	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	________	Yes	X	None Reported
• Noncompliance material to financial statements?	________	Yes	X	No

Section II - Financial Statement Findings

None.

Section III - Compliance Findings

12-01. Collateralization of Bank Deposits Held Under Bond Indentures

Criteria: In accordance with the Agency's investment policy and Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York, deposits shall be secured by the Federal Deposit Insurance Act to the extent available and then by either a pledge of eligible securities, or by eligible surety bonds. For the year ended December 31, 2012, the Agency had approximately $8.66 million in unsecured deposits with the Bank of New York Mellon (BONY). These funds were invested in U.S. Treasury bills that matured on December 27, 2012, and were then reinvested in U.S. Treasury bills on January 16, 2013. BONY's short-term deposits received a credit rating of P1 from Moody's and A-1+ from S&P.

Condition: Approximately $8.66 million of the Agency's deposits were exposed to custodial credit risk at December 31, 2012, as they were not covered by FDIC insurance or eligible collateral arrangements.

Effect: The Agency was not in compliance with its investment policy and Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York regarding collateralization of deposits.

Cause: The Agency's trustee failed to reinvest proceeds from the sale of U.S. Treasury securities into qualifying investments. The Agency does not have an agreement with BONY to secure deposits in excess of FDIC insurance levels.

Recommendation: The Agency should work with its custodian to ensure deposits are beyond FDIC insurance levels and secured in accordance with the Agency's investment policy and New York State law.

View of Responsible Officials and Planned Corrective Action: The uncollateralized deposits were a direct result of Treasury Bills that had matured and were not immediately reinvested. This matter arose due to a processing error at the Bank of New York (BONY). Management of the Agency has spoken with BONY who indicated that they simply did not supply their trades desk with the information in a timely manner in order for the funds to be reinvested within a day or two of maturity, thus the funds remained in cash uninvested longer than they should have. Representatives from BONY have assured management of the Agency that this matter will not occur in the future.