

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Financial Report

December 31, 2013 and 2012

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(A Component Unit of the Town of Islip)

Financial Report

December 31, 2013 and 2012

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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 financial statements of the Islip Resource Recovery Agency (Agency), a component unit of the Town of Islip, which comprise the combined statement of net position as of December 31, 2013, and the related combined statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the 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 the 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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1o, the Agency adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Agency has restated net position as of January 1, 2012, to conform to the presentation requirements of this statement.

Other Matters

Prior Year Financial Statements

The financial statements of the Islip Resource Recovery Agency, as of and for the year ended December 31, 2012, were audited by Bollam, Sheedy, Torani & Co. LLP which merged with Sax Macy Fromm & Co., PC to form SaxBST LLP as of January 1, 2014. Bollam, Sheedy, Torani & Co. LLP's report dated March 25, 2013, 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 4 through 10 and the required schedule of funding progress for other postemployment benefit plan on page 31, 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. The 2012 required supplementary information was subject to audit procedures applied in the audit of the basic financial statements by Bollam, Sheedy, Torani & Co. LLP, and their report dated March 25, 2013, did not express an opinion or provide any assurance on the information.

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.

Supplementary Information - Continued

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, 2013, 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, 2013, are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2012 supplementary information was subject to audit procedures applied in the audit of the basic financial statements by Bollam, Sheedy, Torani & Co. LLP, and their report dated March 25, 2013, expressed an unmodified opinion on such information in relation to the basic 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 24, 2014, 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.

SaxBST LLP

New York, New York
March 24, 2014

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Management's Discussion and Analysis December 31, 2013 and 2012

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, 2013, 2012, and 2011. 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 financial 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 statements of net position provide 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 two (2) closed landfills, 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.

Islip Resource Recovery Agency
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Management's Discussion and Analysis
December 31, 2013 and 2012

Summary of Organization and Business - Continued

Condensed Combined Statements of Net Position

	December 31,		
	2013	2012	2011
ASSETS			
Current assets	\$ 57,157,411	\$ 53,647,921	\$ 47,424,067
Restricted assets	11,411,452	13,284,286	20,448,733
Capital assets, net	14,625,734	18,036,744	21,492,901
Long-term receivables	8,566	-	17,698
Total assets	<u><u>\$ 83,203,163</u></u>	<u><u>\$ 84,968,951</u></u>	<u><u>\$ 89,383,399</u></u>
LIABILITIES			
Current liabilities	\$ 4,722,184	\$ 10,910,639	\$ 16,515,769
Long-term liabilities	47,987,345	42,691,224	44,219,892
Total liabilities	<u><u>52,709,529</u></u>	<u><u>53,601,863</u></u>	<u><u>60,735,661</u></u>
NET POSITION			
Net investment in capital assets	2,160,138	457,561	(1,045,413)
Restricted	11,083,483	12,831,442	19,875,514
Unrestricted	17,250,013	18,078,085	9,817,637
Total net position	<u><u>30,493,634</u></u>	<u><u>31,367,088</u></u>	<u><u>28,647,738</u></u>
Total liabilities and net position	<u><u>\$ 83,203,163</u></u>	<u><u>\$ 84,968,951</u></u>	<u><u>\$ 89,383,399</u></u>

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

	December 31,		
	2013	2012	2011
Operating revenue	\$ 41,326,623	\$ 42,139,183	\$ 40,463,573
Administrative charges	9,240,798	8,863,078	9,306,670
Service fees	11,674,923	11,956,436	11,735,526
Ash treatment	2,802,166	2,927,168	3,042,583
Inter-municipal tipping fees	114,771	106,240	123,941
Depreciation and amortization	3,563,439	3,586,378	3,552,401
Landfill closure and post-closure costs	6,719,142	4,850,974	323,046
Personal services and employee benefit	3,343,054	3,217,968	3,137,176
Contractual expenses	3,197,960	2,679,238	2,892,842
Other administrative and operating expenses	1,176,396	763,017	643,454
Total operating expenses	<u><u>41,832,649</u></u>	<u><u>38,950,497</u></u>	<u><u>34,757,639</u></u>
Operating income	(506,026)	3,188,686	5,705,934
Nonoperating expense	(367,428)	(469,336)	(674,001)
Adoption of GASB 65	-	-	(624,934)
Change in net position	<u><u>\$ (873,454)</u></u>	<u><u>\$ 2,719,350</u></u>	<u><u>\$ 4,406,999</u></u>

Islip Resource Recovery Agency
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Management's Discussion and Analysis
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Debt Administration

The Agency's Series 2004E and F outstanding bonds were rated A1 by Moody's Investors Services on July 6, 2012.

At December 31, 2013 and 2012, the Agency had \$11,590,000 and \$16,585,000 respectively, in bonds, outstanding, a decrease of 30.00%. At December 31, 2011, the Agency had \$21,400,000 in bonds outstanding, a decrease of 22.5% to 2012.

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 was completed in May 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,		
	2013	2012	2011
Collection unit			
Dwelling units	8,618	8,620	8,610
Collection fees	<u>\$ 3,086,895</u>	<u>\$ 3,038,231</u>	<u>\$ 2,961,410</u>
MacArthur Resource Recovery Facility (MRRF) Operations			
Billable tons	161,998	165,507	168,264
Tipping fees	<u>\$ 32,345,630</u>	<u>\$ 34,175,040</u>	<u>\$ 32,473,529</u>
Kilowatt Hours (kWh) produced	55,761,886	55,603,554	53,773,652
Electricity sales	<u>\$ 3,121,680</u>	<u>\$ 3,182,367</u>	<u>\$ 3,059,714</u>
Compost, sales revenue	<u>\$ 256,171</u>	<u>\$ 164,870</u>	<u>\$ 233,500</u>
Sayville, recycling fees	<u>\$ 731,787</u>	<u>\$ 993,612</u>	<u>\$ 1,141,315</u>

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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 2013 was 55,761,886. This generated a surplus of 2,609,039 kWh. This excess calculates to \$49,458 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

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.

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2013, the total of ash generated was 53,840 tons, which was 9,624 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 \$199,891.

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, 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.

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 2013, 2012, and 2011, 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,		
	2013	2012	2011
Current assets	\$ 57,157,411	\$ 53,647,921	\$ 47,424,067
Capital assets	\$ 14,625,734	\$ 18,036,744	\$ 21,492,901
Net position	\$ 30,493,634	\$ 31,367,088	\$ 29,272,672

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Management's Discussion and Analysis
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Capital Assets

At December 31, 2013, the Agency had \$14,625,734 in net capital assets, including buildings and equipment, as compared to \$18,036,742 at December 31, 2012. The net decrease from 2012 in the amount of \$3,411,010 is due to \$3,563,439 in current year depreciation and amortization expense offset by capital asset additions of \$152,429.

At December 31, 2011, the Agency had \$21,492,901 in net capital assets, including buildings and equipment. The net decrease to 2011, in the amount of \$3,456,157 is due to \$3,586,378 in depreciation and amortization expense offset by capital asset additions of \$130,220.

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,		
	2013	2012	2011
Tipping fees	\$ 32,345,630	\$ 34,175,040	\$ 32,473,529
Collections	3,086,895	3,038,231	2,961,410
Sale of electricity	3,121,680	3,182,367	3,059,714
Ancillary revenue	2,772,418	1,743,545	1,968,920
Total operating revenue	\$ 41,326,623	\$ 42,139,183	\$ 40,463,573

In 2013, the revenue for tipping fees decreased by 5.35% when compared to 2012, due to Hurricane Sandy, which impacted the collection of clean debris and yard waste of the prior year. This decrease also includes a decline of 24% on tipping fees from commercial carriers.

In 2012, the revenue for tipping fees from commercial carters increased by more than 5% when compared to 2011 because of Hurricane Sandy.

The Agency offset some of the decreased commercial revenue by entering into a supplementary waste operations agreement with Covanta Holding Corporation. The revenue for 2013, 2012, and 2011 amounted to \$125,000, \$357,000, and \$403,000, respectively.

Although the total production of electricity increased when compared to 2012, the average price per kWh for 2013 decreased resulting in a decline in revenue from the sale of electricity.

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.

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Management's Discussion and Analysis December 31, 2013 and 2012

Results of Operations - Continued

Revenue - Continued

In 2013, the ancillary revenue had a considerable increase of 59% when compared to 2012 due to various reimbursements. The Agency received a reimbursement of legal costs from the New York State Office of the State Comptroller related to a joint litigation matter against a third party. The Agency also received a grant for a solar panel project located at the Blydenburgh Landfill. Finally, the Agency received an insurance recovery related to fire damages at the recycling center.

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.

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 2013, there was an increase in total expenses mainly due to an adjustment in the estimated landfill closure and post-closure obligation, contractual expenses, and other administrative and operating expenses. These increases were partially offset by decreases in services fees and ash treatment.

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 inter-municipal 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, 2013, 2012, and 2011, the minimum amount required was \$5,900,688, \$5,961,438, and \$5,961,438, respectively. Amounts restricted under the Agency's bond indenture were invested in cash, certificates of deposits, money market funds, and government securities.

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. The balance at December 31, 2013, is \$50,793.

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Management's Discussion and Analysis
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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,		
	2013	2012	2011
Total operating revenue	<u>\$ 41,326,623</u>	<u>\$ 42,139,183</u>	<u>\$ 40,463,573</u>
Net cash provided by operating activities	<u>\$ 8,878,065</u>	<u>\$ 4,796,931</u>	<u>\$ 9,073,401</u>

Capital Assets and Long-Term Debt

The investment in capital assets to date approximates \$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
(A Component Unit of the Town of Islip)

Combined Statements of Net Position

ASSETS	December 31,	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 55,498,627	\$ 50,506,048
Accounts receivable, net	1,272,569	1,212,269
Notes receivable, net	11,714	35,996
Due from other governments	10,411	21,875
Due from primary government	89,391	1,612,193
Prepaid expenses	274,699	259,540
Total current assets	57,157,411	53,647,921
RESTRICTED ASSETS		
Cash and equivalents	8,956,703	10,732,072
Investments	2,454,749	2,552,214
OTHER ASSETS		
Capital assets, net	14,625,734	18,036,744
Notes receivable, net	8,566	-
Total assets	\$ 83,203,163	\$ 84,968,951
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 900,000	\$ 4,995,000
Accounts payable and accrued expenses	1,945,377	2,671,213
Due to other governments	235,041	241,697
Due to primary government	433,797	192,885
Current portion of estimated liability for landfill closure and post-closure costs	880,000	2,357,000
Total current liabilities	4,394,215	10,457,795
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest on bonds	327,969	452,844
OTHER LIABILITIES		
Estimated liability for landfill closure and post-closure costs, less current portion	33,459,405	27,614,019
Long-term debt, less current portion	11,565,596	12,584,183
Compensated absences	462,128	408,720
Other postemployment benefits	2,500,216	2,084,302
Total other liabilities	47,987,345	42,691,224
Total liabilities	52,709,529	53,601,863
NET POSITION		
Net investment in capital assets	2,160,138	457,561
Restricted	11,083,483	12,831,442
Unrestricted	17,250,013	18,078,085
Total net position	30,493,634	31,367,088
Total liabilities and net position	\$ 83,203,163	\$ 84,968,951

See accompanying Notes to Combined Financial Statements.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Combined Statements of Revenue, Expenses, and Changes In Net Position

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
OPERATING REVENUE		
Tipping fees	\$ 32,345,630	\$ 34,175,040
Collections	3,086,895	3,038,231
Sale of electricity	3,121,680	3,182,367
Recycling	731,787	993,612
Other revenue	1,693,326	389,901
Rent revenue	68,000	66,900
Ash disposal	279,305	293,132
Total operating revenue	<u>41,326,623</u>	<u>42,139,183</u>
OPERATING EXPENSES		
Administrative charges	9,240,798	8,863,078
Service fees	11,674,923	11,956,436
Ash treatment	2,802,166	2,927,168
Intermunicipal tipping fees	114,771	106,240
Depreciation	3,563,439	3,586,378
Landfill closure and post-closure costs	6,719,142	4,850,974
Personal services	1,688,168	1,650,454
Employee benefits	1,654,886	1,567,514
Contractual expenses	3,197,960	2,679,238
Professional fees	118,803	90,285
Rent and utilities	205,463	184,899
Miscellaneous	852,130	487,833
Total operating expenses	<u>41,832,649</u>	<u>38,950,497</u>
Operating income (loss)	<u>(506,026)</u>	<u>3,188,686</u>
NONOPERATING REVENUE (EXPENSE)		
Interest income and investment earnings	294,798	412,595
Debt service (interest)	(662,226)	(881,931)
Total nonoperating revenue (expense)	<u>(367,428)</u>	<u>(469,336)</u>
CHANGE IN NET POSITION	(873,454)	2,719,350
NET POSITION, <i>beginning of year, restated</i>	<u>31,367,088</u>	<u>28,647,738</u>
NET POSITION, <i>end of year</i>	<u>\$ 30,493,634</u>	<u>\$ 31,367,088</u>

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Combined Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	\$ 42,816,305	\$ 42,225,698
Cash payments		
Personal services and employee benefits	(2,873,732)	(2,797,416)
Goods and services	(31,064,508)	(34,631,351)
	8,878,065	4,796,931
 CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(152,429)	(130,220)
Principal payments on revenue bonds payable	(4,995,000)	(4,815,000)
Interest payments on revenue bonds payable	(905,688)	(1,146,440)
	(6,053,117)	(6,091,660)
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sale or redemption of investments	29,667,061	27,691,906
Purchase of investments	(29,569,596)	(27,533,517)
Interest income and investment earnings	294,797	412,595
	392,262	570,984
 Net increase (decrease) in cash and equivalents	3,217,210	(723,745)
 CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	61,238,120	61,961,865
 CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 64,455,330	\$ 61,238,120

See accompanying Notes to Combined Financial Statements.

	Years Ended December 31,	
	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ (506,026)	\$ 3,188,686
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,563,439	3,586,378
Provision (release) for allowance	(86,850)	(67,161)
Changes in		
Accounts receivable	(27,877)	58,320
Notes receivable	15,716	36,908
Due from other governments	65,891	(67,813)
Due from primary government	1,522,802	181,197
Prepaid expenses	(15,158)	(10,356)
Accounts payable and accrued expenses	(725,836)	1,231,518
Due to other governments	(6,656)	1,370
Due to primary government	240,912	(57,579)
Estimated liability for landfill closure and post-closure costs	4,368,386	(3,705,089)
Compensated absences	53,408	17,796
Other postemployment benefits	415,914	402,756
	8,878,065	4,796,931
RECONCILIATION OF CASH AND EQUIVALENTS, beginning of year		
Current assets, cash and equivalents	50,506,049	44,223,733
Restricted assets, cash and equivalents	10,732,072	17,738,132
	61,238,121	61,961,865
RECONCILIATION OF CASH AND EQUIVALENTS, at end of year		
Current assets, cash and equivalents	55,498,627	50,506,048
Restricted assets, cash and equivalents	8,956,703	10,732,072
	\$ 64,455,330	\$ 61,238,120

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

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 two closed 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.

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 and Presentation of Financial Statements

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.

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.

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

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.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies

b. Basis of Accounting and Presentation of Financial Statements - Continued

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.

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. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. 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 \$96,297 and \$183,147 for the years ended December 31, 2013 and 2012, respectively.

g. Investments

Treasury obligations and certificates of deposit will be held to -maturity as the Agency has the positive intent and ability to hold the securities. These securities are stated at amortized cost, which approximated fair value at December 31, 2013 and 2012. Related amortization and interest are included in interest income as earned. Money market funds are recorded at fair value.

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:

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

h. Capital Assets - Continued

	<u>Estimated Useful Life</u>
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. 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. Two landfills have been capped and closed, and one landfill, a cleanfill landfill - Phase I and Phase II, is currently active.

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 \$2 million for the remaining site that is not yet closed.

The estimated liability for landfill closure and post-closure care costs amounted to \$34,339,405 and \$29,971,019 as of December 31, 2013 and 2012, respectively. The estimated total cost of the landfill closure and post-closure care 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, 2013 and 2012, respectively. 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 amount recognized for the cleanfill landfill, Phase I, is based upon the usage of 92.71% and 90.54% of capacity for 2013 and 2012, respectively. The amount recognized for the cleanfill landfill, Phase II, is based on the usage of 94.51% and 93.14% of the capacity for 2013 and 2012, respectively. It is estimated that an additional \$1,725,095 will be recognized as closure and post-closure care expenses between December 31, 2013 and 2015, when the site is expected to be filled to capacity.

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.

j. 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.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

k. 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.

l. 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 2013 and 2012, \$164,970 and \$163,801, respectively, was paid on behalf of eleven retirees. See Note 8 for further disclosure of postemployment benefits.

m. Subsequent Events

The Agency has evaluated events after December 31, 2013, and through March 24, 2014, 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.

n. Adoption of New Accounting Standards

The Agency has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). Under the provisions of GASB No. 65, certain items previously reported as assets and liabilities are reclassified as deferred outflows and inflows of resources. This statement also clarified the accounting treatment of debt issuance costs. Previously debt issuance costs were recorded as an asset and amortized over the life of the corresponding debt obligation using the effective interest method. Under GASB No. 65, debt issuance costs, except for any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. The Agency has restated its January 1, 2012 net position and interest expense as of December 31, 2012, to conform provisions of this statement.

Net position, January 1, 2012	\$ 29,272,672
Adoption of GASB No. 65	
Removal of Bond issuance costs	624,934
Restated net position, January 1, 2012	\$ 28,647,738
Interest expense, December 31, 2012	\$ 985,343
Adoption of GASB 65	
Removal of 2012 bond issuance cost amortization	103,412
Restated interest expense, December 31, 2012	\$ 881,931

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 2 - Cash, Equivalents, and Investments

a. Investments

Following are the components of the Agency's restricted investments:

	December 31,	
	2013	2012
Certificates of deposit	\$ 1,613,725	\$ 1,631,669
Money market funds	841,024	920,545
	\$ 2,454,749	\$ 2,552,214

During 2013, the Agency purchased and sold direct obligations of the U.S. government, certificates of deposit, and money market funds with financial institutions approved by the Agency's Board of Directors. The Agency's 2012 investments consisted of certificates of deposits and money market funds. 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 Federal Deposit Insurance Corporation (FDIC) insurance and mature in the next 1 to 5 years.

The Agency, which is a 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).

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 repurchase agreements and other highly rated credit securities and deposits with the Bank of New York. The Agency's cash and cash equivalents are as follows:

	December 31, 2013		
	Agency Fund	Collection Unit Fund	Total
Unrestricted			
Agency	\$ 50,000	\$ -	\$ 50,000
Town (allocated share)	46,879,661	8,568,966	55,448,627
	\$ 46,929,661	\$ 8,568,966	\$ 55,498,627
Restricted, Agency	\$ 8,786,703	\$ 170,000	\$ 8,956,703

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 2 - Cash, Equivalents, and Investments - Continued

b. Cash and Equivalents - Continued

	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
	<u>\$ 42,433,245</u>	<u>\$ 8,072,803</u>	<u>\$ 50,506,048</u>
Restricted, Agency	<u>\$ 10,562,072</u>	<u>\$ 170,000</u>	<u>\$ 10,732,072</u>

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 \$7.3 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, 2013. BONY has a short-term deposit credit rating of P1 from Moody's and A-1+ from S&P at December 31, 2013. The money market fund had a credit rating of AAA from S&P and Moody's as of December 31, 2013 and 2012.

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

	December 31, 2013		
	Unrestricted	Restricted	Total
Cash and equivalents, <i>beginning of year</i>	\$ 50,506,049	10,392,072	\$ 60,898,121
Net increase (decrease)	4,992,578	(1,435,369)	3,557,209
Cash and equivalents, <i>end of year</i>	<u>\$ 55,498,627</u>	<u>\$ 8,956,703</u>	<u>\$ 64,455,330</u>
	December 31, 2012		
	Unrestricted	Restricted	Total
Cash and equivalents, <i>beginning of year</i>	\$ 44,223,733	17,398,132	\$ 61,621,865
Net increase	6,282,315	(6,666,060)	(383,745)
Cash and equivalents, <i>end of year</i>	<u>\$ 50,506,048</u>	<u>\$ 10,732,072</u>	<u>\$ 61,238,120</u>

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 3 - Due From/To Other Governments

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

	December 31,	
	2013	2012
Towns and Villages	\$ 10,411	\$ 21,875

Amounts due to other governments consist of the following:

	December 31, 2013		
	Suffolk County, New York	Towns and Villages	Total
Inter-municipal ash disposal agreement	\$ -	\$ 232,933	\$ 232,933
Leachate collection	2,108	-	2,108
Total due to other governments	\$ 2,108	\$ 232,933	\$ 235,041
	December 31, 2012		
	Suffolk County, New York	Towns and Villages	Total
Inter-municipal ash disposal agreement	\$ -	\$ 240,395	\$ 240,395
Leachate collection	1,302	-	1,302
Total due to other governments	\$ 1,302	\$ 240,395	\$ 241,697

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 4 - Capital Assets

Activity for capital assets is summarized as follows:

	December 31, 2013			December 31, 2013
	December 31, 2012	Additions	Dispositions	
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	3,135,055	96,840	(472,812)	2,759,083
Machinery and equipment	912,183	1,008	(60,709)	852,482
Buildings	1,180,057	-	-	1,180,057
Containers	795,363	53,671	-	849,034
Furniture and fixtures	169,280	910	-	170,190
	<u>94,178,695</u>	<u>152,429</u>	<u>(533,521)</u>	<u>93,797,603</u>
Less accumulated depreciation and amortization	<u>(76,974,772)</u>	<u>(3,563,439)</u>	<u>533,521</u>	<u>(80,004,690)</u>
	<u>17,203,923</u>	<u>(3,411,010)</u>	<u>-</u>	<u>13,792,913</u>
Land	<u>832,821</u>	<u>-</u>	<u>-</u>	<u>832,821</u>
Total	<u>\$ 18,036,744</u>	<u>\$ (3,411,010)</u>	<u>\$ -</u>	<u>\$ 14,625,734</u>
	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	3,070,147	64,908	-	3,135,055
Machinery and equipment	910,569	1,614	-	912,183
Buildings	1,180,057	-	-	1,180,057
Containers	740,586	54,777	-	795,363
Furniture and fixtures	160,358	8,922	-	169,280
	<u>94,048,474</u>	<u>130,221</u>	<u>-</u>	<u>94,178,695</u>
Less accumulated depreciation and amortization	<u>(73,388,394)</u>	<u>(3,586,378)</u>	<u>-</u>	<u>(76,974,772)</u>
	<u>20,660,080</u>	<u>(3,456,157)</u>	<u>-</u>	<u>17,203,923</u>
Land	<u>832,821</u>	<u>-</u>	<u>-</u>	<u>832,821</u>
Total	<u>\$ 21,492,901</u>	<u>\$ (3,456,157)</u>	<u>\$ -</u>	<u>\$ 18,036,744</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012, is \$3,563,439 and \$3,586,378, respectively.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

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, 2012	Principal Repayments	January 1, 2013	Principal Repayments	December 31, 2013
Serial bonds (5.00% to 5.15%, issued April 2004, maturity dates through July 2023)	\$ 13,260,000	\$ (815,000)	\$ 12,445,000	\$ (855,000)	\$ 11,590,000
Serial bonds (5.00%, issued March 2004, maturity dates through July 2013)	8,140,000	(4,000,000)	4,140,000	(4,140,000)	-
Total	<u>\$ 21,400,000</u>	<u>\$ (4,815,000)</u>	<u>\$ 16,585,000</u>	<u>\$ (4,995,000)</u>	<u>\$ 11,590,000</u>

	Years Ended December 31,	
	2013	2012
Outstanding principal	\$ 11,590,000	\$ 16,585,000
Add: Unamortized debt premium	875,596	1,021,462
Deferred loss on early retirement of debt	-	(27,279)
	<u>12,465,596</u>	<u>17,579,183</u>
Less amounts due within one year	<u>(900,000)</u>	<u>(4,995,000)</u>
Long-term debt	<u>\$ 11,565,596</u>	<u>\$ 12,584,183</u>

The Agency's constitutional debt limit at December 31, 2013 and 2012, 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.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 5 - Long-Term Debt

a. Revenue Bonds Payable - Continued

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

	Principal	Interest	Total
For the year ending December 31,			
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	1,110,000	442,750	1,552,750
2019 through 2023	5,120,000	1,094,800	6,214,800
2024	1,470,000	84,525	1,554,525
	\$ 11,590,000	\$ 3,948,545	\$ 15,538,545

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 was charged to operations through 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.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 6 - Net Position - Continued

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,	
	2013	2012
Invested in capital assets, net of related debt		
Capital assets, net	\$ 14,625,734	\$ 18,036,744
Less revenue bonds payable, net	(12,465,596)	(17,579,183)
Invested in capital asset, net of related debt	\$ 2,160,138	\$ 457,561
Restricted net position		
Restricted assets	\$ 11,411,452	\$ 13,284,286
Less liabilities payable from restricted assets	(327,969)	(452,844)
Restricted net position	\$ 11,083,483	\$ 12,831,442
Restricted net position for capital reserves	\$ 50,793	\$ 50,649
Restricted net position for debt service	11,032,690	12,780,793
Total restricted net position	\$ 11,083,483	\$ 12,831,442

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.

Islip Resource Recovery Agency
(A Component Unit of the Town of Islip)

Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 7 - Pension Plans - Continued

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 11.3% to 26% for April 2013 through December 2013, 9.9% to 23.0% for April 2012 through March 2013, and from 12.6% to 19.5% for April 2011 through March 2012.

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

	<u>ERS</u>
2013	\$ 322,507
2012	303,049
2011	238,255

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.

Islip Resource Recovery Agency
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Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 8 - Postemployment Healthcare Plan - Continued

c. Annual Other Postemployment Benefits (OPEB)

For the years ended December 31, 2013 and 2012, the Agency's annual OPEB cost of \$580,884 and \$566,557, 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 2013 and 2012, and the changes in the Agency's net obligation were as follows:

	December 31,	
	2013	2012
Normal cost	\$ 206,200	\$ 232,846
Amortization of unfunded actuarial accrued liability	372,130	327,293
Interest	19,834	19,129
Annual required contribution	598,164	579,268
Interest on net OPEB obligation	83,372	67,262
Adjustment to annual required contribution	(100,652)	(79,973)
Annual OPEB cost	580,884	566,557
Contributions made	(164,970)	(163,801)
Increase in net OPEB obligation	415,914	402,756
Net OPEB obligation at beginning of year	2,084,302	1,681,546
Net OPEB obligation at end of year	\$ 2,500,216	\$ 2,084,302
Percentage of Annual OPEB Cost Contributed	28.4%	28.9%

d. Funded Status and Funding Progress

The funded status of the Plan is as follows:

	December 31,	
	2013	2012
Actuarial Accrued Liability (AAL)	\$ 8,014,310	\$ 7,157,092
Actuarial value of plan assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 8,014,310	\$ 7,157,092
Funded Ratio (Actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (Active plan members)	\$ 1,150,977	\$ 1,097,010
UAAL as a percentage of covered payroll	696.30%	652.42%

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.

Islip Resource Recovery Agency
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Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 8 - Postemployment Healthcare Plan - Continued

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, 2013, 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 9.0% (Pre-65) and 7.0% (Post-65), reduced by decrements to an ultimate rate of 5%. The year the ultimate trend rates are reached is 2017 for Pre-65 and 2015 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, 2013, was 24.60 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.

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 December 2012. The administrative fees expense amounted to \$9,240,798 and \$8,863,078 for the years ended December 31, 2013 and 2012, 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 \$1,191,000 and \$2,359,000 for the years ended December 31, 2013 and 2012, respectively.

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Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 9 - Related Party Transactions - Continued

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

	December 31,	
	2013	2012
Tipping fees	\$ 36,313	\$ 1,097,295
Administrative fees	53,078	295,869
Accrued expenses	160,511	167,516
Other	-	51,513
	\$ 249,902	\$ 1,612,193

Amounts due to the primary government at December 31, 2013 and 2012, consisted of accounts payable and accrued expenses of \$235,041 and \$241,697, respectively.

Note 10 - Commitments and Contingencies

Commitments and contingencies at December 31, 2013, 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.

Islip Resource Recovery Agency
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Notes to Combined Financial Statements
December 31, 2013 and 2012

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 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.

Islip Resource Recovery Agency
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Notes to Combined Financial Statements
December 31, 2013 and 2012

Note 12 - Accounting Standards Issued But Not Yet Implemented - Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, including mergers and acquisitions. This statement requires disclosures to be made that will enable financial statement users to evaluate the nature and financial effect of those transactions. This statement is effective for periods beginning after December 15, 2013, with earlier application encouraged.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. An obligation guaranteed in a nonexchange transaction will need to be reported until it is legally released as an obligor. This statement is effective for periods beginning after June 15, 2013, with earlier application encouraged.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. This statement addresses an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of the statement are to be adopted simultaneously with Statement 68.

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

Islip Resource Recovery Agency
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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)
1/1/2013	\$ -	\$ 8,014,310	\$8,014,310	0%	\$1,489,917	537.90%
1/1/2011	-	6,809,006	6,809,006	0%	1,373,542	495.70%
1/1/2009	-	5,875,575	5,875,575	0%	1,339,549	438.62%

Islip Resource Recovery Agency
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Supplementary Information -
Combining Balance Sheet

	December 31, 2013		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and equivalents	\$ 46,929,661	\$ 8,568,966	\$ 55,498,627
Accounts receivable, net	1,272,569	-	1,272,569
Notes receivable, net	11,714	-	11,714
Due from other governments	10,411	-	10,411
Due from primary government	89,391	-	89,391
Prepaid expenses	117,253	157,446	274,699
Total current assets	48,430,999	8,726,412	57,157,411
RESTRICTED ASSETS			
Cash and equivalents	8,786,703	170,000	8,956,703
Investments	2,454,749	-	2,454,749
Total restricted assets	11,241,452	170,000	11,411,452
OTHER ASSETS			
Capital assets, net	14,139,031	486,703	14,625,734
Note receivable, net	8,566	-	8,566
Total other assets	14,147,597	486,703	14,634,300
Total assets	\$ 73,820,048	\$ 9,383,115	\$ 83,203,163
CURRENT LIABILITIES			
Current portion of long-term debt	\$ 900,000	\$ -	\$ 900,000
Accounts payable and accrued expenses	1,862,020	83,357	1,945,377
Due to other governments	235,041	-	235,041
Due to primary government	297,538	136,259	433,797
Current portion of estimated liability for landfill closure and post-closure costs	880,000	-	880,000
Total current liabilities	4,174,599	219,616	4,394,215
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accrued interest on bonds	327,969	-	327,969
OTHER LIABILITIES			
Estimated liability for landfill closure and post-closure costs, less current portion	33,459,405	-	33,459,405
Long-term debt, less current portion	11,565,596	-	11,565,596
Compensated absences	248,987	213,141	462,128
Other postemployment benefits	992,262	1,507,954	2,500,216
Total other liabilities	46,266,250	1,721,095	47,987,345
Total liabilities	50,768,818	1,940,711	52,709,529
NET POSITION			
Net investment in capital assets	1,673,435	486,703	2,160,138
Restricted	10,913,483	170,000	11,083,483
Unrestricted	10,464,312	6,785,701	17,250,013
Total net position	23,051,230	7,442,404	30,493,634
Total liabilities and net position	\$ 73,820,048	\$ 9,383,115	\$ 83,203,163

See Independent Auditor's Report.

	December 31, 2012		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and equivalents	\$ 42,433,245	\$ 8,072,803	\$ 50,506,048
Accounts receivable, net	1,157,842	54,427	1,212,269
Notes receivable, net	35,996	-	35,996
Due from other governments	21,875	-	21,875
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
Total restricted assets	13,114,286	170,000	13,284,286
OTHER ASSETS			
Capital assets, net	17,469,078	567,666	18,036,744
Note receivable, net	-	-	-
Total assets	\$ 75,952,508	\$ 9,016,443	\$ 84,968,951
CURRENT LIABILITIES			
Current portion of long-term debt	\$ 4,995,000	\$ -	\$ 4,995,000
Accounts payable and accrued expenses	2,531,127	140,086	2,671,213
Due to other governments	241,697	-	241,697
Due to primary government	54,936	137,949	192,885
Current portion of estimated liability for landfill closure and post-closure costs	2,357,000	-	2,357,000
Total current liabilities	10,179,760	278,035	10,457,795
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	1,227,236	2,084,302
Total other liabilities	41,279,086	1,412,138	42,691,224
Total liabilities	51,911,690	1,690,173	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	11,489,481	6,588,604	18,078,085
Total net position	24,040,818	7,326,270	31,367,088
Total liabilities and net position	\$ 75,952,508	\$ 9,016,443	\$ 84,968,951

Islip Resource Recovery Agency
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Supplementary Information -
Combining Statement of Revenue, Expenses and
Changes in Net Position

	Year Ended December 31, 2013		
	Agency	Collection	Total
OPERATING REVENUE			
Tipping fees	\$ 32,345,630	\$ -	\$ 32,345,630
Collections	-	3,086,895	3,086,895
Sale of electricity	3,121,680	-	3,121,680
Recycling	731,787	-	731,787
Other revenue	1,646,060	47,266	1,693,326
Rent revenue	68,000	-	68,000
Ash disposal	279,305	-	279,305
Total operating revenue	<u>38,192,462</u>	<u>3,134,161</u>	<u>41,326,623</u>
OPERATING EXPENSES			
Administrative charges	9,240,798	-	9,240,798
Service fees	11,674,923	-	11,674,923
Ash treatment	2,802,166	-	2,802,166
Intermunicipal tipping fees	114,771	-	114,771
Depreciation and amortization	3,385,624	177,815	3,563,439
Landfill closure and post-closure costs	6,719,142	-	6,719,142
Personal services	601,635	1,086,533	1,688,168
Employee benefits	553,352	1,101,534	1,654,886
Contractual expenses	2,610,208	587,752	3,197,960
Professional fees	118,803	-	118,803
Rent and utilities	112,799	92,664	205,463
Miscellaneous	852,130	-	852,130
Total operating expenses	<u>38,786,351</u>	<u>3,046,298</u>	<u>41,832,649</u>
Operating income (loss)	<u>(593,889)</u>	<u>87,863</u>	<u>(506,026)</u>
NONOPERATING REVENUE (EXPENSE)			
Interest income	266,527	28,271	294,798
Debt service (interest)	(662,226)	-	(662,226)
Total nonoperating revenue (expense)	<u>(395,699)</u>	<u>28,271</u>	<u>(367,428)</u>
CHANGE IN NET POSITION	(989,588)	116,134	(873,454)
NET POSITION, <i>beginning of year</i>	<u>24,040,818</u>	<u>7,326,270</u>	<u>31,367,088</u>
NET POSITION, <i>end of year</i>	<u>\$ 23,051,230</u>	<u>\$ 7,442,404</u>	<u>\$ 30,493,634</u>

See Independent Auditor's Report.

	December 31, 2012		
	Agency	Collection	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	<u>39,043,796</u>	<u>3,095,387</u>	<u>42,139,183</u>
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	99,243	85,656	184,899
Miscellaneous	487,833	-	487,833
Total operating expenses	<u>35,871,598</u>	<u>3,078,899</u>	<u>38,950,497</u>
Operating income	<u>3,172,198</u>	<u>16,488</u>	<u>3,188,686</u>
NONOPERATING REVENUE (EXPENSE)			
Interest income	379,079	33,516	412,595
Debt service (interest)	(881,931)	-	(881,931)
Total nonoperating revenue (expense)	<u>(502,852)</u>	<u>33,516</u>	<u>(469,336)</u>
CHANGE IN NET POSITION	2,669,346	50,004	2,719,350
NET POSITION, <i>beginning of year</i>	<u>21,371,472</u>	<u>7,276,266</u>	<u>28,647,738</u>
NET POSITION, <i>end of year</i>	<u>\$ 24,040,818</u>	<u>\$ 7,326,270</u>	<u>\$ 31,367,088</u>

Islip Resource Recovery Agency
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Supplementary Information -
Combining Statement of Cash Flows

	December 31, 2013		
	Agency	Collection	Total
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash received from customers	\$ 39,627,717	\$ 3,188,588	\$ 42,816,305
Cash payments			
Personal services and employee benefits	(994,622)	(1,879,110)	(2,873,732)
Goods and services	(30,319,774)	(744,734)	(31,064,508)
	8,313,321	564,744	8,878,065
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(55,577)	(96,852)	(152,429)
Principal payments on revenue bonds	(4,995,000)	-	(4,995,000)
Interest payments on revenue bonds	(905,688)	-	(905,688)
	(5,956,265)	(96,852)	(6,053,117)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Proceeds from sale or redemption of investments	29,667,061	-	29,667,061
Purchase of investments	(29,569,596)	-	(29,569,596)
Interest income	266,526	28,271	294,797
	363,991	28,271	392,262
Net increase in cash and equivalents	2,721,047	496,163	3,217,210
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	52,995,317	8,242,803	61,238,120
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 55,716,364	\$ 8,738,966	\$ 64,455,330

See Independent Auditor's Report.

Year Ended December 31, 2013

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (593,889)	\$ 87,863	\$ (506,026)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	3,385,624	177,815	3,563,439
Provision (release) for allowance	(86,850)	-	(86,850)
Changes in			
Accounts receivable	(27,877)	-	(27,877)
Notes receivable	15,716	-	15,716
Due from other governments	11,464	54,427	65,891
Due from primary government	1,522,802	-	1,522,802
Prepaid expenses	(9,259)	(5,899)	(15,158)
Accounts payable and accrued expenses	(669,107)	(56,729)	(725,836)
Due to other governments	(6,656)	-	(6,656)
Due to primary government	242,602	(1,690)	240,912
Estimated liability for landfill closure and post-closure costs	4,368,386	-	4,368,386
Compensated absences	25,169	28,239	53,408
Other postemployment benefits	135,196	280,718	415,914
	<u>8,313,321</u>	<u>564,744</u>	<u>8,878,065</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS, <i>beginning of year</i>			
Current assets, cash and equivalents	42,433,246	8,072,803	50,506,049
Restricted assets, cash and equivalents	10,562,072	170,000	10,732,072
Total	<u>52,995,318</u>	<u>8,242,803</u>	<u>61,238,121</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS, <i>end of year</i>			
Current assets, ash and equivalents	46,929,661	8,568,966	55,498,627
Restricted assets, cash and equivalents	8,786,703	170,000	8,956,703
	<u>\$ 55,716,364</u>	<u>\$ 8,738,966</u>	<u>\$ 64,455,330</u>

Islip Resource Recovery Agency
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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, <i>beginning of year</i>	54,097,236	7,864,629	61,961,865
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 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 and amortization	3,379,770	206,608	3,586,378
Provision (release) for allowance	(67,161)	-	(67,161)
Changes in			
Accounts receivable	58,320	-	58,320
Notes receivable	36,908	-	36,908
Due from other governments	(13,386)	(54,427)	(67,813)
Due from primary government	181,197	-	181,197
Prepaid expenses	(10,499)	143	(10,356)
Accounts payable and accrued expenses	1,182,988	48,530	1,231,518
Due to other governments	10,826	(9,456)	1,370
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
	<u>4,326,559</u>	<u>470,372</u>	<u>4,796,931</u>
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	<u>54,097,236</u>	<u>7,864,629</u>	<u>61,961,865</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS, end of year			
Current assets, cash and equivalents	42,433,245	8,072,803	50,506,048
Restricted assets, cash and equivalents	10,562,072	170,000	10,732,072
	<u>\$ 52,995,317</u>	<u>\$ 8,242,803</u>	<u>\$ 61,238,120</u>