

ISLIP RESOURCE RECOVERY AGENCY
Combined Financial Statements
December 31, 2015 and 2014
(With Independent Auditors' Report thereon)

ISLIP RESOURCE RECOVERY AGENCY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 11
Financial Statements:	
Combined Statements of Net Position	12 - 13
Combined Statements of Revenue, Expenses and Changes in Net Position	14
Combined Statements of Cash Flows	15 - 16
Notes to Combined Financial Statements	17 - 39
Required Supplementary Information:	
Schedule of Funding Progress for Other Postemployment Benefits	40
Schedule of Agency's Proportionate Share of the Net Pension Liability	41
Schedule of Agency's Employer Pension Contributions	42
Supplementary Information:	
Combining Statement of Net Position for the Year Ended December 31, 2015	43 - 44
Combining Statement of Revenue, Expenses and Changes in Net Position for the Year Ended December 31, 2015	45
Combining Statement of Cash Flows for the Year Ended December 31, 2015	46 - 47
Combining Statement of Net Position for the Year Ended December 31, 2014	48 - 49
Combining Statement of Revenue, Expenses and Changes in Net Position for the Year Ended December 31, 2014	50
Combining Statement of Cash Flows for the Year Ended December 31, 2014	51 - 52
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 <u>Government Auditing Standards</u>	53 - 54
Independent Auditors' Report on Investment Compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York	55 - 56

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Islip Resource Recovery Agency:

Report on the Combined 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, as of and for the year ended December 31, 2015, 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, which collectively comprise the Agency's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined 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 combined 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 those 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the combined 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, 2015, 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.

Prior Period Financial Statements

The combined financial statements of the Agency as of December 31, 2014, were audited by other auditors whose report dated March 20, 2015, expressed an unmodified opinion on those statements.

Other Matters

As discussed in note 1(p) to the combined financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended December 31, 2015. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11 and the other required supplementary information as listed in the table of contents, be presented to supplement the basic combined 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 combined financial statements as a whole. The combining statement of net position, combining statement of revenue, expenses, and changes in net position, and combining statement of cash flows for the year ended December 31, 2015 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the combined financial statements as a whole. The combining statement of net position, statement of revenues, expenses and changes in net position, and combining statement of cash flows for the year ended December 31, 2014 on pages 48 through 52 was subjected to the auditing procedures applied in the 2014 audit of the basic financial statements by other auditors, whose report on such information, dated March 20, 2015 stated that it was fairly stated in all material respects in relation to the 2014 combined 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 23, 2016, 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 23, 2016

ISLIP RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis

December 31, 2015 and 2014

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, 2015, and 2014. 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 deferred outflows of resources and liabilities and deferred inflows of resources at the close of each year. They present the financial position of the Agency on an accrual basis utilizing historical costs. The combined statements of revenue, expenses, and changes in net position present the results of the business activities of the Agency over the course of each fiscal year. The combined statements of cash flows are related to the other combined financial statements by the way they analyze changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources and their effect on cash and equivalents over the course of each year. The combined statements of cash flows are 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
Management's Discussion and Analysis, Continued

Condensed Combined Statements of Net Position

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets	\$ 73,952,116	66,621,300
Restricted assets	4,331,210	4,429,467
Capital assets, net	9,759,280	13,001,605
Total assets	<u>88,042,606</u>	<u>84,052,372</u>
Deferred outflows of resources	<u>338,523</u>	<u>-</u>
Liabilities:		
Current liabilities	4,772,495	4,339,971
Long-term liabilities	44,780,998	45,335,089
Total liabilities	<u>49,553,493</u>	<u>49,675,060</u>
Deferred inflows of resources	<u>421,278</u>	<u>504,019</u>
Net position:		
Net investment in capital assets	1,488,323	3,576,605
Restricted	4,231,547	4,317,151
Unrestricted	32,686,488	25,979,537
Total net position	<u>\$ 38,406,358</u>	<u>33,873,293</u>

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

Operating revenue	\$ 39,975,396	39,892,238
Administrative charges	9,521,756	9,100,290
Service fees	11,083,457	12,172,767
Ash treatment	3,136,310	3,123,374
Inter-municipal tipping fees	163,857	124,549
Depreciation and amortization	3,760,967	3,638,393
Landfill closure and post-closure costs	420,226	376,661
Personal services and employee benefits	3,177,536	3,342,230
Contractual expenses	3,025,270	3,159,475
Other administrative and operating expenses	1,108,157	1,419,767
Total operating expenses	<u>35,397,536</u>	<u>36,457,506</u>
Operating income	4,577,860	3,434,732
Nonoperating revenue (expense), net	<u>18,772</u>	<u>(55,073)</u>
Change in net assets	<u>4,596,632</u>	<u>3,379,659</u>
Net position at beginning of year, as originally stated	33,873,293	30,493,634
Cumulative effect of change in accounting principle	<u>(63,567)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>33,809,726</u>	<u>30,493,634</u>
Net position at end of year	<u>\$ 38,406,358</u>	<u>33,873,293</u>

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

Debt Administration

During 2014, the Agency refinanced the 2004 Series E Bonds and issued 2014 G Bonds. This resulted in a \$1.5 million savings over the life of the debt (10 years).

At December 31, 2015 and 2014, the Agency had \$8,340,000 and \$9,425,000, respectively, in bonds, outstanding, a decrease of 11.5%.

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 2016.

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 commenced in 2014 and continues 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

	<u>2015</u>	<u>2014</u>
Collection unit:		
Dwelling units	<u>8,649</u>	<u>8,635</u>
Collection fees	\$ <u>3,070,658</u>	<u>3,146,067</u>
MacArthur Resource Recovery Facility (MRRF) Operations:		
Billable tons	<u>160,098</u>	<u>167,373</u>
Tipping fees	\$ <u>32,069,024</u>	<u>31,912,305</u>

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

	<u>2015</u>	<u>2014</u>
Kilowatt Hours (KWH) produced	54,608,190	51,184,024
Electricity sales	\$ <u>3,071,073</u>	<u>3,083,312</u>
Compost - sales revenue	\$ <u>248,267</u>	<u>221,052</u>
Sayville - recycling fees	\$ <u>621,498</u>	<u>700,493</u>

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 2015 was 54,608,190. This resulted in a surplus of 1,455,344 kWh as compared to the warranty. This excess calculates to \$28,557 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

The total kWh produced for 2014 was 51,184,024. This resulted in a shortfall of 1,968,823 kWh as compared to the warranty. This deficit was waived to the operator according to the electricity sales warranty that alleviated Covanta for the penalty.

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2015, the total of ash generated was 57,378 tons, which was 8,055 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 \$178,942.

During 2014, the total of ash generated was 58,899 tons, which was 7,325 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 \$159,614.

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 2015 and 2014, the Agency's collection unit continued to service seven contract bid areas on behalf of the Town's consolidated refuse and garbage district.

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

Financial Conditions

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:

	<u>2015</u>	<u>2014</u>
Current assets	\$ <u>73,952,116</u>	<u>66,621,300</u>
Capital assets	\$ <u>9,759,280</u>	<u>13,001,605</u>
Net position	\$ <u>38,406,358</u>	<u>33,873,293</u>

Capital Assets

At December 31, 2015, the Agency had \$9,759,280 in net capital assets, including buildings and equipment, as compared to \$13,001,605 at December 31, 2014. The net decrease from 2014 in the amount of \$3,242,325 is due to \$3,760,967 in current year depreciation and amortization expense offset by capital asset additions and disposals totaling \$518,642.

At December 31, 2014, the Agency had \$13,001,605 in net capital assets, including buildings and equipment, as compared to \$14,625,734 at December 31, 2013. The net decrease from 2013 in the amount of \$1,624,129 was due to \$3,638,393 in depreciation and amortization expense offset by capital asset additions of \$2,014,264.

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, other sales, reimbursements, and grants.

	<u>2015</u>	<u>2014</u>
Tipping fees	\$ 32,069,024	31,912,305
Collections	3,070,658	3,146,067
Sale of electricity	3,071,073	3,083,312
Ancillary revenue	<u>1,764,641</u>	<u>1,750,554</u>
Total operating revenue	\$ <u>39,975,396</u>	<u>39,892,238</u>

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

In 2015, the revenue for tipping fees increased slightly by .49% when compared to 2014. This increase offset a reduction of 70% on tipping fees from commercial carriers.

In 2014, the revenue for tipping fees decreased slightly by 1.34% when compared to 2013. This decrease offset an increase of 195% on tipping fees from commercial carriers.

The Agency offset some of the decreased commercial revenue by entering into a supplementary waste operations agreement with Covanta Holding Corporation. The revenue for 2015 and 2014 amounted to \$480,000 and \$325,000, respectively.

The total production of electricity significantly increased in 2015 when compared to 2014. The average price per kWh slightly increased in 2015.

In 2015, the ancillary revenue increased by less than 1% when compared to 2014. This consistency is mainly a result of increases in other revenues of \$93,702 offset by decreases in recycling and ash disposal revenue of \$88,615.

In 2014, the ancillary revenue decreased by 37% when compared to 2013 due to various reimbursements the Agency received during the prior year.

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 2015, there was a decrease in total expenses mostly because of decreases in service fees and miscellaneous expenses. This increase was partially offset by increases in administrative charges and other operating expenses.

In 2014, there was a decrease in total expenses mostly because of a reduction of the adjustment in the estimated landfill closure and post-closure obligation. This increase was partially offset by increases in services fees, ash treatment, and other administrative and operating expenses.

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

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. Amounts restricted under the Agency's bond indenture were invested in cash, certificates of deposits, money market funds, and government securities.

In 2014, the seventh Supplemental Indenture Trust eliminated the requirement for the Agency to fund the Debt Service Reserve for the Resource Recovery System Refunding Revenue Bonds (1985 Facility - Series G 2014).

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, 2015 and 2014, is \$51,024 and \$50,921, respectively.

Cash Flows Activity

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

	<u>2015</u>	<u>2014</u>
Total operating revenue	\$ <u>39,975,396</u>	\$ <u>39,892,238</u>
Net cash provided by operating activities	\$ <u>8,652,248</u>	\$ <u>7,283,486</u>

Capital Assets and Long-Term Debt

The investment in capital assets to date approximates \$95,500,000, 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.

ISLIP RESOURCE RECOVERY AGENCY
Management's Discussion and Analysis, Continued

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
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and equivalents	\$72,003,874	64,942,532
Accounts receivable, net of allowance	1,510,135	1,185,698
Notes receivable, net	2,898	11,337
Due from other governments	8,686	9,040
Due from primary government	217,592	203,774
Prepaid expenses	<u>208,931</u>	<u>268,919</u>
Total current assets	<u>73,952,116</u>	<u>66,621,300</u>
Restricted assets:		
Cash and equivalents	254,592	252,340
Investments	<u>4,076,618</u>	<u>4,177,127</u>
Total restricted assets	<u>4,331,210</u>	<u>4,429,467</u>
Capital assets, net	<u>9,759,280</u>	<u>13,001,605</u>
Total assets	<u>88,042,606</u>	<u>84,052,372</u>
Deferred outflows of resources - pensions	<u>338,523</u>	<u>-</u>

(Continued)

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
(A Component Unit of the Town of Islip)
Combined Statements of Net Position, Continued

	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,643,238	1,682,183
Due to other governments	288,626	275,668
Due to primary government	960,968	514,804
Current portion of long-term debt	1,110,000	1,085,000
Current portion of estimated liability for landfill closure and post-closure costs	<u>670,000</u>	<u>670,000</u>
Total current liabilities	<u>4,672,832</u>	<u>4,227,655</u>
Current liabilities payable from restricted assets - accrued interest on bonds	<u>99,663</u>	<u>112,316</u>
Other liabilities:		
Estimated liability for landfill closure and post-closure costs, less current portion	33,521,778	33,546,349
Long-term debt, less current portion	7,230,000	8,340,000
Compensated absences	405,374	516,932
Other postemployment benefits	3,401,180	2,931,808
Net pension liability - proportionate share	<u>222,666</u>	<u>-</u>
Total other liabilities	<u>44,780,998</u>	<u>45,335,089</u>
Total liabilities	<u>49,553,493</u>	<u>49,675,060</u>
Deferred inflows of resources:		
Gain on refunding of bonds payable	412,379	504,019
Pensions	<u>8,899</u>	<u>-</u>
Total deferred inflows of resources	<u>421,278</u>	<u>504,019</u>
Net position:		
Net investment in capital assets	1,488,323	3,576,605
Restricted	4,231,547	4,317,151
Unrestricted	<u>32,686,488</u>	<u>25,979,537</u>
Total net position	<u>\$38,406,358</u>	<u>33,873,293</u>

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
 Combined Statements of Revenue, Expenses
 and Changes in Net Assets
 Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Tipping fees	\$32,069,024	31,912,305
Collections	3,070,658	3,146,067
Sale of electricity	3,071,073	3,083,312
Recycling	621,498	700,493
Other revenue	760,620	666,918
Rent revenue	78,000	69,000
Ash disposal	304,523	314,143
Total operating revenue	<u>39,975,396</u>	<u>39,892,238</u>
Operating expenses:		
Administrative charges	9,521,756	9,100,290
Service fees	11,083,457	12,172,767
Ash treatment	3,136,310	3,123,374
Intermunicipal tipping fees	163,857	124,549
Depreciation and amortization	3,760,967	3,638,393
Landfill closure and post-closure costs	420,226	376,661
Personal services	1,610,013	1,751,452
Employee benefits	1,567,523	1,590,778
Contractual expenses	3,025,270	3,159,475
Professional fees	68,391	67,046
Rent and utilities	774,419	812,994
Miscellaneous	265,347	539,727
Total operating expenses	<u>35,397,536</u>	<u>36,457,506</u>
Operating income	<u>4,577,860</u>	<u>3,434,732</u>
Nonoperating revenue (expense):		
Interest income	139,111	171,446
Debt service (interest)	<u>(120,339)</u>	<u>(226,519)</u>
Total nonoperating revenue (expense)	<u>18,772</u>	<u>(55,073)</u>
Change in net assets	<u>4,596,632</u>	<u>3,379,659</u>
Net position at beginning of year, as originally stated	33,873,293	30,493,634
Cumulative effect of change in accounting principle	<u>(63,567)</u>	<u>-</u>
Net position at beginning of year, as restated	<u>33,809,726</u>	<u>30,493,634</u>
Net position at end of year	<u>\$38,406,358</u>	<u>33,873,293</u>

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
 Combined Statements of Cash Flows
 Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$39,659,398	39,988,051
Cash payments:		
Personal services and employee benefits	(3,016,429)	(2,855,834)
Goods and services	<u>(27,990,721)</u>	<u>(29,848,731)</u>
Net cash provided by operating activities	<u>8,652,248</u>	<u>7,283,486</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	(518,642)	(2,014,264)
Principal payments on revenue bonds	(1,085,000)	(900,000)
Refunding of revenue bonds	-	(10,690,000)
Proceeds from revenue bonds	-	9,425,000
Interest payments on revenue bonds payable	<u>(224,632)</u>	<u>(813,748)</u>
Net cash used in capital and related financing activities	<u>(1,828,274)</u>	<u>(4,993,012)</u>
Cash flows from investing activities:		
Proceeds from sale or redemption of investments	26,602,042	34,174,529
Purchase of investments	(26,501,533)	(35,896,907)
Interest income	<u>139,111</u>	<u>171,446</u>
Net cash provided by (used in) investing activities	<u>239,620</u>	<u>(1,550,932)</u>
Net increase in cash and equivalents	7,063,594	739,542
Cash and equivalents at beginning of year	<u>65,194,872</u>	<u>64,455,330</u>
Cash and equivalents at end of year	<u>\$72,258,466</u>	<u>65,194,872</u>

(Continued)

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
Combined Statements of Cash Flows, Continued

	<u>2015</u>	<u>2014</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,577,860	3,434,732
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,760,967	3,638,393
Provision (release) for allowance	24,557	(15,373)
Cumulative effect of change in accounting principle	(63,567)	-
Changes in:		
Accounts receivable	(348,994)	102,244
Notes receivable	8,439	8,943
Due from other governments	354	1,371
Due from primary government	(13,818)	(114,383)
Prepaid expenses	59,988	5,779
Deferred outflows of resources - pensions	(338,523)	-
Accounts payable and accrued expenses	(38,945)	(263,194)
Due to other governments	12,958	40,627
Due to primary government	446,164	81,007
Estimated liability for landfill closure and post-closure costs	(24,571)	(123,056)
Compensated absences	(111,558)	54,804
Other postemployment benefits	469,372	431,592
Net pension liability, proportionate share	222,666	-
Deferred inflows of resources - pensions	8,899	-
Net cash provided by operating activities	<u>\$ 8,652,248</u>	<u>7,283,486</u>
Reconciliation of cash and equivalents at beginning of year:		
Current assets - cash and equivalents	64,942,532	55,498,627
Restricted assets - cash and equivalents	<u>252,340</u>	<u>8,956,703</u>
Total	<u>\$65,194,872</u>	<u>64,455,330</u>
Reconciliation of cash and equivalents at end of year:		
Current assets - cash and equivalents	72,003,874	64,942,532
Restricted assets - cash and equivalents	<u>254,592</u>	<u>252,340</u>
Total	<u>\$72,258,466</u>	<u>65,194,872</u>

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY

Notes to Combined Financial Statements

December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Description

The Islip Resource Recovery Agency (the 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 (the 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 (the 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.

(b) 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.

(c) Basis of Accounting and Presentation

The accompanying combined 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.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Basis of Accounting and Presentation, Continued

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.

(d) 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.

(e) Use of Estimates

The preparation of combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

(f) Cash and Equivalents

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

(g) 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 \$105,481 and \$80,924 at December 31, 2015 and 2014, respectively.

(h) 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, 2015 and 2014. Related amortization and interest are included in interest income as earned. Money market funds are recorded at fair value.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) 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:

	<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

(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. 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 \$34,191,778 and \$34,216,349 as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Landfill Closure and Post-Closure Costs, Continued

The amount recognized for the cleanfill landfill, Phase I, is based upon the usage of 93.33% and 93.04% of capacity for 2015 and 2014, respectively. The amount recognized for the cleanfill landfill, Phase II, is based on the usage of 97.67% and 95.77% of the capacity for 2015 and 2014, respectively. It is estimated that an additional \$1,132,722 will be recognized as closure and post-closure care expenses between January 1, 2015 and 2016, 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.

(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) 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 2015 and 2014, \$180,296 and \$175,613, respectively, was paid on behalf of eleven retirees. See note 8 for further disclosure of postemployment benefits.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Deferred Outflows and Inflows of Resources, Continued

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has one item that qualifies for reporting in this category. This item is related to pensions and represents the effect of the net change in the Agency's proportion of the collective net pension asset or liability and difference during the measurement period between the Agency's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included in this item are the Agency contributions to the pension system (ERS System) subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has two items that qualify for reporting in this category. The first are deferred amounts on debt refunding. These amounts are deferred and amortized over the shorter of the life refunded or refunding debt. The second item is related to pensions and represents the effect of the net change in the Agency's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the Agency's contributions and its proportion share of total contributions to the pension system not included in pension expense.

(o) Subsequent Events

The Agency has evaluated subsequent events through the date of the report which is the date the combined financial statements were available to be issued.

(p) Adoption of New Accounting Standards

For the fiscal year ended December, 2015, the Agency implemented GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB No. 68." The implementation of these Statements resulted in the reporting of deferred outflows of resources, a liability, and deferred inflow of resources related to the Agency's participation in the New York State Employees' retirement systems. The effect of the new pronouncement on the Agency's net position as follows:

GASB Statement No. 68 and No. 71 implementation	
Beginning System liability - Employees' Retirement System	\$ (297,845)
Contributions included as of the measurement date - Employees' Retirement System	<u>234,278</u>
Cumulative effect of new pronouncement	\$ <u>(63,567)</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments

(a) 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:

	2015		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	57,728,745	8,184,361	65,913,106
Short-term investments	<u>6,040,768</u>	<u>-</u>	<u>6,040,768</u>
	<u>\$ 63,819,513</u>	<u>8,184,361</u>	<u>72,003,874</u>
Restricted - Agency	<u>\$ 84,592</u>	<u>170,000</u>	<u>254,592</u>
	2014		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	51,391,957	8,179,911	59,571,868
Short-term investments	<u>5,320,664</u>	<u>-</u>	<u>5,320,664</u>
	<u>\$ 56,762,621</u>	<u>8,179,911</u>	<u>64,942,532</u>
Restricted - Agency	<u>\$ 82,340</u>	<u>170,000</u>	<u>252,340</u>

The unrestricted Agency balance of \$50,000 was covered by FDIC insurance. 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. All of the Agency's deposits were either insured by the FDIC or collateralized by securities held in the Agency's name. The Agency's money market fund had a credit rating of AAA from S&P and Moody's as of December 31, 2015.

Restricted cash and cash equivalents are included as a component of total cash and cash equivalents for cash flow purposes.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments, Continued

(b) Investments

Following are the components of the Agency's restricted investments at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
U.S. Government securities	\$ 3,854,566	597,920
Money market funds	<u>222,052</u>	<u>3,579,207</u>
	<u>\$ 4,076,618</u>	<u>4,177,127</u>

During 2015 and 2014, the Agency purchased and sold direct obligations of the U.S. government and money market funds with financial institutions approved by the Agency's Board of Directors.

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).

(3) Due from/to Other Governments

Amounts due from other governments at December 31, 2015 and 2014 consist of tipping fees receivable and are as follows:

	<u>2015</u>	<u>2014</u>
Towns and Villages	\$ <u>8,686</u>	<u>9,040</u>

Amounts due to other governments at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>		
	<u>Suffolk County New York</u>	<u>Towns and Villages</u>	<u>Total</u>
Intermunicipal ash disposal agreement	\$ -	287,634	287,634
Leachate collection	<u>992</u>	<u>-</u>	<u>992</u>
Total due to other governments	<u>\$ 992</u>	<u>287,634</u>	<u>288,626</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(3) Due from/to Other Governments. Continued

	<u>2014</u>		
	<u>Suffolk County New York</u>	<u>Towns and Villages</u>	<u>Total</u>
Intermunicipal ash disposal agreement	\$ -	275,172	275,172
Leachate collection	<u>496</u>	<u>-</u>	<u>496</u>
Total due to other governments	<u>\$ 496</u>	<u>275,172</u>	<u>275,668</u>

(4) Capital Assets

Activity for capital assets for the years ended December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>			
	<u>December 31, 2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>December 31, 2015</u>
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	3,787,783	405,084	(43,138)	4,149,729
Machinery and equipment	1,018,732	1,846	-	1,020,578
Buildings	1,180,057	-	-	1,180,057
Containers	880,709	107,953	-	988,662
Furniture and fixtures	<u>176,781</u>	<u>3,759</u>	<u>-</u>	<u>180,540</u>
	95,030,819	518,642	(43,138)	95,506,323
Less accumulated depreciation and amortization	<u>(83,627,035)</u>	<u>(3,760,967)</u>	<u>43,138</u>	<u>(87,344,864)</u>
	11,403,784	(3,242,325)	-	8,161,459
Land	<u>1,597,821</u>	<u>-</u>	<u>-</u>	<u>1,597,821</u>
Total	<u>\$ 13,001,605</u>	<u>(3,242,325)</u>	<u>-</u>	<u>9,759,280</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(4) Capital Assets, Continued

	2014			December 31, 2014
	December 31, 2013	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	2,759,083	1,044,619	(15,919)	3,787,783
Machinery and equipment	852,482	166,250	-	1,018,732
Buildings	1,180,057	-	-	1,180,057
Containers	849,034	31,675	-	880,709
Furniture and fixtures	<u>170,190</u>	<u>6,720</u>	<u>(129)</u>	<u>176,781</u>
	93,797,603	1,249,264	(16,048)	95,030,819
Less accumulated depreciation and amortization	<u>(80,004,690)</u>	<u>(3,638,393)</u>	<u>16,048</u>	<u>(83,627,035)</u>
	13,792,913	(2,389,129)	-	11,403,784
Land	<u>832,821</u>	<u>765,000</u>	<u>-</u>	<u>1,597,821</u>
Total	\$ <u>14,625,734</u>	<u>(1,624,129)</u>	<u>-</u>	<u>13,001,605</u>

(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 to 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. On July 2, 2014, the Series E bonds were refunded through the issuance of Series G bonds which were issued in the amount of \$9,425,000 at a rate of 2.39%.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(5) Long-Term Debt, Continued

(a) Revenue Bonds Payable

The following is a summary of changes in bonds payable for the years ended December 31, 2015 and 2014:

	January 1, <u>2014</u>	Principal <u>Repayments</u>	Principal <u>Issuance</u>	January 1, <u>2015</u>	Principal <u>Repayments</u>	December 31, <u>2015</u>
Serial bonds (5.00% to 5.15% issued April 2004, maturity dates through July 2023)	\$ 11,590,000	(11,590,000)	-	-	-	-
Serial G bonds (2.39% issued July 2014, maturity dates through July 2022)	-	-	9,425,000	9,425,000	(1,085,000)	8,340,000
Total	<u>\$ 11,590,000</u>	<u>(11,590,000)</u>	<u>9,425,000</u>	<u>9,425,000</u>	<u>(1,085,000)</u>	<u>8,340,000</u>

	<u>2015</u>	<u>2014</u>
Outstanding principal	\$ 8,340,000	9,425,000
Less amounts due within one year	(1,110,000)	(1,085,000)
Long-term debt	<u>\$ 7,230,000</u>	<u>8,340,000</u>

The Agency's constitutional debt limit at December 31, 2015 and 2014, 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 at December 31, 2015 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,110,000	199,326	1,309,326
2017	1,135,000	172,797	1,307,797
2018	1,160,000	145,670	1,305,670
2019	1,190,000	117,947	1,307,947
2020	1,215,000	89,506	1,304,506
2021 - 2022	<u>2,530,000</u>	<u>91,059</u>	<u>2,621,059</u>
	<u>\$ 8,340,000</u>	<u>816,305</u>	<u>9,156,305</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(5) Long-Term Debt, Continued

(b) Gain on Advance Refunding of Bonds

On July 2, 2014, the Agency issued \$9,425,000 in Series G 2014 Revenue Refunding Bonds at an interest rate of 2.390% to refund \$10,690,000 in Series E bonds, which included the release from debt service reserve account moneys of \$1,554,525. This resulted in an estimated gain of \$1,584,395 in future cash flows that had estimated present value of \$1,426,683.

The 2014 refunding resulted in a deferred gain of \$549,839, which is being amortized against interest expense through 2020. Amortization of the deferred gain is as follows:

	<u>January 1,</u> <u>2015</u>	<u>Amortization/</u> <u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2015</u>
Deferred inflows of resources - gain on refunding	\$ <u>504,019</u>	<u> -</u>	<u>(91,640)</u>	<u>412,379</u>
	<u>January 1,</u> <u>2014</u>	<u>Amortization/</u> <u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2014</u>
Deferred inflows of resources - gain on refunding	\$ <u> -</u>	<u>549,839</u>	<u>(45,820)</u>	<u>504,019</u>

(6) Net Assets

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:

	<u>2015</u>	<u>2014</u>
Net investment in capital assets:		
Capital assets, net	\$ 9,759,280	13,001,605
Less revenue bonds payable, net	<u>(8,340,000)</u>	<u>(9,425,000)</u>
Excess of related debt over net capital assets	1,419,280	3,576,605
Reported as unrestricted in Agency fund	<u>69,043</u>	<u> -</u>
Net investment in capital assets	\$ <u>1,488,323</u>	<u>3,576,605</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(6) Net Assets, Continued

	<u>2015</u>	<u>2014</u>
Restricted assets:		
Restricted assets	\$ 4,331,210	4,429,467
Less debt service reserve requirements	<u>(99,663)</u>	<u>(112,316)</u>
Total restricted net assets	\$ <u>4,231,547</u>	<u>4,317,151</u>
Restricted net position for capital reserve	51,024	50,921
Restricted net position for debt service	<u>4,180,523</u>	<u>4,266,230</u>
Total restricted net position	\$ <u>4,231,547</u>	<u>4,317,151</u>

(7) Pension Plans

(a) Plan Descriptions and Benefits Provided

Employees' Retirement System (ERS)

The Agency participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provision of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Agency also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/inex.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(a) Plan Descriptions and Benefits Provided, Continued

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>Contributions</u>
2015	\$ 292,721
2014	311,371
2013	322,507

(b) Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Agency reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in reports provided to the Agency.

Measurement date	3/31/2015
Actuarial valuation date	4/1/2014
Net pension liability	\$ 222,666
Agency's proportion of the Plan's net pension liability	0.0065912%

For the year ended December 31, 2015, the Agency's recognized pension expense of \$199,289.

At December 31, 2015 the Agency's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,128	-
Net difference between projected and actual earnings on pension plan investments	38,674	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	-	<u>8,899</u>
	45,802	8,899
Agency's contributions subsequent to the measurement date	<u>292,721</u>	-
Total	<u>\$ 338,523</u>	<u>8,899</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(b) Pension Asset/(Liability), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year ended	
2016	\$ 9,226
2017	9,226
2018	9,226
2019	<u>9,225</u>
	\$ <u>36,903</u>

The following is a summary of activity related to the pensions:

	<u>Prior period activity</u>	<u>Current year activity</u>	<u>Total activity</u>
Change in accounting principle	\$ 63,567	-	63,567
Deferred outflows of resources	311,371	27,152	338,523
Net pension liability	(297,845)	75,179	(222,666)
Deferred inflows of resources	-	(8,899)	(8,899)
Decrease in expenditures	(77,093)	(93,432)	(170,525)

(c) Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2015
Actuarial valuation date	April 1, 2014
Interest rate	7.5%%
Salary scale	4.9% Average
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience
Inflation rate	2.7%

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(c) Actuarial Assumptions, Continued

The annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

Measurement date	March 31, 2015
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(e) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension (asset)/liability	\$ <u>1,484,160</u>	<u>222,666</u>	<u>(842,349)</u>

(f) Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of the respective valuation dates, were as follows:

	(Dollars in Millions)
Valuation date	3/31/2015
Employers' total pension liability	\$ 164,592
Plan net position	<u>(161,213)</u>
Employers' net pension liability	\$ <u>3,379</u>
Ration of plan net position to the Employers' total pension liability	97.9%

(8) Other Postemployment Benefits (OPEB)

(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.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(8) Other Postemployment Benefits (OPEB), Continued

(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. 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 OPEB Cost

	<u>2015</u>	<u>2014</u>
Normal cost	\$ 217,234	211,355
Amortization of unfunded actuarial accrued liability	439,974	399,121
Interest	<u>22,683</u>	<u>20,907</u>
Annual required contribution	679,891	631,383
Interest on net OPEB obligation	117,287	100,009
Adjustment to annual required contribution	<u>(147,870)</u>	<u>(123,827)</u>
Annual OPEB cost	649,308	607,565
Contributions made	<u>(180,296)</u>	<u>(175,613)</u>
Increase in net OPEB obligation	469,012	431,952
Net OPEB obligation at beginning of year	<u>2,932,168</u>	<u>2,500,216</u>
Net OPEB obligation at end of year	\$ <u>3,401,180</u>	<u>2,932,168</u>
Percentage of Annual OPEB Cost Contributed	<u>27.7%</u>	<u>28.9%</u>

(d) Funded Status and Funding Progress

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
Notes to Combined Financial Statements, Continued

(8) Other Postemployment Benefits (OPEB), 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, 2015, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 8.5% (Pre-65) and 5.0% (Post-65), reduced by decrements to an ultimate rate of 5%. The year the ultimate trend rates are reached is 2022 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, 2015, was 23.3 years.

(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 \$9,521,756 and \$9,100,290 for the years ended December 31, 2015 and 2014, respectively.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(9) Related Party Transactions, Continued

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 \$2,370,000 and \$1,348,000 for the years ended December 31, 2015 and 2014, respectively

Amounts due from the primary government (Town of Islip) at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Tipping fees	\$ 61,927	44,878
Accrued expenses	<u>155,665</u>	<u>158,896</u>
	<u>\$ 217,952</u>	<u>203,774</u>

Amounts due to the primary government at December 31, 2015 and 2014 consisted of accounts payable and accrued expenses of \$960,968 and \$514,804, respectively.

(10) Commitments and Contingencies

Commitments and contingencies at December 31, 2015 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

Certain facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures or financial condition of the Agency. The Agency believes that its current practices and procedures for control and disposition of regulated wastes comply with applicable federal, state, and local requirements.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(10) Commitments and Contingencies, Continued

(c) Operation of MacArthur Resource Recovery Facility

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.

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.

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

(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 insurance coverage to protect itself against such losses.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(12) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 72 - "Fair Value Measurement and Application." This Statement issued in February 2015, provides guidance regarding accounting and financial reporting related to fair value measures of certain investments. The requirements of this Statement are effective for periods beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016 for the Agency. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement, issued in June 2015, establishes requirements for defined benefit pension plans and defined contribution pension plans that are not within the scope of Statement No. 68 - "Accounting and Financial Reporting for Pensions," as well as requirements for the assets accumulated for purposes of providing those pensions. The requirements of this Statement for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Agency. Requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions as well as the requirements for pension plans within the scope of Statements 67 and 68 are effective for fiscal years beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for post employment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Agency. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(12) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement, issued in June 2015, supersedes Statement No. 55 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements for this Statement are effective for financial statements for periods beginning after June 15, 2015, which is the fiscal year beginning January 1, 2016 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.

GASB Statement No. 77 - "Tax Abatement Disclosures." This Statement requires disclosure of the tax abatement information about (1) a reporting government's own tax abatement agreements and (2) these that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015, which is the fiscal year beginning January 1, 2016 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.

GASB Statement No. 78 - "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement, issued in December 2015, amends GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2015, which is the fiscal year beginning January 1, 2016 for the Agency. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(12) Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants." This Statement, issued in December 2015, addresses the accounting and financial reporting for certain external investment pools and pool participants. It establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. For the Agency, this Statement becomes effective for the fiscal year beginning January 1, 2016. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends blending requirements established in paragraph 53 of GASB Statement No. 14 - "The Financial Reporting Entity, as Amended" for the financial statement presentation of component units of all state and local governments. An additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39 - "Determining Whether Certain Organizations are Component Units." The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Agency. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

REQUIRED SUPPLEMENTAL INFORMATION

ISLIP RESOURCE RECOVERY AGENCY
 Required Supplementary Information
 Schedule of Funding Progress for
 Other Postemployment Benefits

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)
1/1/2015	\$ -	9,073,406	9,073,406	0%	1,404,233	646.10%
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%

ISLIP RESOURCE RECOVERY AGENCY
Required Supplementary Information
Schedule of Agency's Proportionate Share of the Net Position Asset/Liability
For the year ended December 31, 2015

ERS System - Liability

The Agency's proportion of the net pension liability	0.6591200%
The Agency's proportionate share of the net pension liability	\$ 222,666
The Agency's covered employee payroll	\$ 1,687,646
The Agency's proportionate share of the net pension liability as a percentage of covered employee payroll	13.19%
Plan fiduciary net position as a percentage of the total pension liability	97.90%

ISLIP RESOURCE RECOVERY AGENCY
 Required Supplementary Information
 Schedule of Employer's Pension Contributions
 For the year ended December 31, 2015

<u>ERS System</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 292,721	311,371	322,507	303,049	238,255	163,713	124,122	105,442	161,601	180,251
Contribution in relation to the contractually required contribution	<u>292,721</u>	<u>311,371</u>	<u>322,507</u>	<u>303,049</u>	<u>238,255</u>	<u>163,713</u>	<u>124,122</u>	<u>105,442</u>	<u>161,601</u>	<u>180,251</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>								
Per ERS salary listing	<u>\$1,687,646</u>	<u>1,730,543</u>	<u>1,611,363</u>	<u>1,621,591</u>	<u>1,551,878</u>	<u>1,518,335</u>	<u>1,570,096</u>	<u>1,498,107</u>	<u>1,776,263</u>	<u>1,806,056</u>
Contribution as a percentage of covered employee payroll	17.3%	18.0%	20.0%	18.7%	15.4%	10.8%	7.9%	7.0%	9.1%	10.0%

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statements of Net Position
December 31, 2015

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$63,819,513	8,184,361	72,003,874
Accounts receivable, net of allowance	1,510,135	-	1,510,135
Notes receivable, net	2,898	-	2,898
Due from other governments	8,686	-	8,686
Due from primary government	217,592	-	217,592
Prepaid expenses	<u>99,730</u>	<u>109,201</u>	<u>208,931</u>
Total current assets	<u>65,658,554</u>	<u>8,293,562</u>	<u>73,952,116</u>
Restricted assets:			
Cash and equivalents	84,592	170,000	254,592
Investments	<u>4,076,618</u>	<u>-</u>	<u>4,076,618</u>
Total restricted assets	<u>4,161,210</u>	<u>170,000</u>	<u>4,331,210</u>
Capital assets, net	<u>8,270,957</u>	<u>1,488,323</u>	<u>9,759,280</u>
Total assets	<u>78,090,721</u>	<u>9,951,885</u>	<u>88,042,606</u>
Deferred outflows of resources - pensions	<u>115,098</u>	<u>223,425</u>	<u>338,523</u>

(Continued)

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statements of Net Position, Continued

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,606,969	36,269	1,643,238
Due to other governments	288,626	-	288,626
Due to primary government	778,255	182,713	960,968
Current portion of long-term debt	1,110,000	-	1,110,000
Current portion of estimated liability for landfill closure and post-closure costs	<u>670,000</u>	<u>-</u>	<u>670,000</u>
Total current liabilities	<u>4,453,850</u>	<u>218,982</u>	<u>4,672,832</u>
Current liabilities payable from restricted assets - accrued interest on bonds	<u>99,663</u>	<u>-</u>	<u>99,663</u>
Other liabilities:			
Estimated liability for landfill closure and post-closure costs, less current portion	33,521,778	-	33,521,778
Long-term debt, less current portion	7,230,000	-	7,230,000
Compensated absences	180,913	224,461	405,374
Other postemployment benefits	1,237,586	2,163,594	3,401,180
Net pension liability - proportionate share	<u>75,706</u>	<u>146,960</u>	<u>222,666</u>
Total other liabilities	<u>42,245,983</u>	<u>2,535,015</u>	<u>44,780,998</u>
Total liabilities	<u>46,799,496</u>	<u>2,753,997</u>	<u>49,553,493</u>
Deferred inflows of resources:			
Gain on refunding of bonds payable	412,379	-	412,379
Pensions	<u>3,026</u>	<u>5,873</u>	<u>8,899</u>
Total deferred inflows of resources	<u>415,405</u>	<u>5,873</u>	<u>421,278</u>
Net position:			
Net investment in capital assets	-	1,488,323	1,488,323
Restricted	4,061,547	170,000	4,231,547
Unrestricted	<u>26,929,371</u>	<u>5,757,117</u>	<u>32,686,488</u>
Total net position	<u>\$30,990,918</u>	<u>7,415,440</u>	<u>38,406,358</u>

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statement of Revenue, Expenses and
Changes in Net Position
Year ended December 31, 2015

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Operating revenue:			
Tipping fees	\$ 32,069,024	-	32,069,024
Collections	-	3,070,658	3,070,658
Sale of electricity	3,071,073	-	3,071,073
Recycling	621,498	-	621,498
Other revenue	750,620	10,000	760,620
Rent revenue	78,000	-	78,000
Ash disposal	<u>304,523</u>	-	<u>304,523</u>
Total operating revenue	<u>36,894,738</u>	<u>3,080,658</u>	<u>39,975,396</u>
Operating expenses:			
Administrative charges	9,521,756	-	9,521,756
Service fees	11,083,457	-	11,083,457
Ash treatment	3,136,310	-	3,136,310
Intermunicipal tipping fees	163,857	-	163,857
Depreciation and amortization	3,407,632	353,335	3,760,967
Landfill closure and post-closure costs	420,226	-	420,226
Personal services	497,618	1,112,395	1,610,013
Employee benefits	473,217	1,094,306	1,567,523
Contractual expenses	2,519,701	505,569	3,025,270
Professional fees	68,391	-	68,391
Rent and utilities	680,285	94,134	774,419
Miscellaneous	<u>265,347</u>	-	<u>265,347</u>
Total operating expenses	<u>32,237,797</u>	<u>3,159,739</u>	<u>35,397,536</u>
Operating income (loss)	<u>4,656,941</u>	<u>(79,081)</u>	<u>4,577,860</u>
Nonoperating revenue (expense):			
Interest income	120,346	18,765	139,111
Debt service (interest)	<u>(120,339)</u>	-	<u>(120,339)</u>
Total nonoperating revenue	<u>7</u>	<u>18,765</u>	<u>18,772</u>
Change in net position	<u>4,656,948</u>	<u>(60,316)</u>	<u>4,596,632</u>
Net position at beginning of year, as originally stated	26,355,838	7,517,455	33,873,293
Cumulative effect of change in accounting principle	<u>(21,868)</u>	<u>(41,699)</u>	<u>(63,567)</u>
Net position at beginning of year, as restated	<u>26,333,970</u>	<u>7,475,756</u>	<u>33,809,726</u>
Net position at end of year	<u>\$ 30,990,918</u>	<u>7,415,440</u>	<u>38,406,358</u>

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statement of Cash Flows
Year ended December 31, 2015

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$36,578,248	3,081,150	39,659,398
Cash payments:			
Personal services and employee benefits	(1,024,230)	(1,992,199)	(3,016,429)
Goods and services	(27,401,974)	(588,747)	(27,990,721)
Net cash provided by operating activities	<u>8,152,044</u>	<u>500,204</u>	<u>8,652,248</u>
Cash flows from capital and related financing activities:			
Additions to capital assets	(4,123)	(514,519)	(518,642)
Principal payments on revenue bonds	(1,085,000)	-	(1,085,000)
Interest payments on revenue bonds	(224,632)	-	(224,632)
Net cash used in capital and related financing activities	<u>(1,313,755)</u>	<u>(514,519)</u>	<u>(1,828,274)</u>
Cash flows from investing activities:			
Proceeds from sale or redemption of investment	26,602,042	-	26,602,042
Purchase of investments	(26,501,533)	-	(26,501,533)
Interest income	120,346	18,765	139,111
Net cash provided by investing activities	<u>220,855</u>	<u>18,765</u>	<u>239,620</u>
Net increase in cash and equivalents	7,059,144	4,450	7,063,594
Cash and equivalents at beginning of year	<u>56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>
Cash and equivalents at end of year	<u>\$63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>

(Continued)

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statement of Cash Flows, Continued

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 4,656,941	(79,081)	4,577,860
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,407,632	353,335	3,760,967
Provision for allowance	24,557	-	24,557
Cumulative effect of change in accounting principle	(21,868)	(41,699)	(63,567)
Changes in:			
Accounts receivable	(349,486)	492	(348,994)
Notes receivable	8,439	-	8,439
Due from other governments	354	-	354
Due from primary government	(13,818)	-	(13,818)
Prepaid expenses	19,691	40,297	59,988
Deferred outflows of resources - pensions	(115,098)	(223,425)	(338,523)
Accounts payable and accrued expenses	18,544	(57,489)	(38,945)
Due to other governments	12,958	-	12,958
Due to primary government	433,409	12,755	446,164
Estimated liability for landfill closure and post-closure costs	(24,571)	-	(24,571)
Compensated absences	(92,613)	(18,945)	(111,558)
Other postemployment benefits	108,241	361,131	469,372
Net pension liability, proportionate share	75,706	146,960	222,666
Deferred inflows of resources - pensions	3,026	5,873	8,899
Net cash provided by operating activities	<u>\$ 8,152,044</u>	<u>500,204</u>	<u>8,652,248</u>
Reconciliation of cash and equivalents, beginning of year:			
Current assets - cash and equivalents	56,762,621	8,179,911	64,942,532
Restricted assets - cash and equivalents	82,340	170,000	252,340
Total	<u>\$56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>
Reconciliation of cash and equivalents, end of year:			
Current assets - cash and equivalents	63,819,513	8,184,361	72,003,874
Restricted assets - cash and equivalents	84,592	170,000	254,592
Total	<u>\$63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statements of Net Position
December 31, 2014

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$56,762,621	8,179,911	64,942,532
Accounts receivable, net of allowance	1,185,206	492	1,185,698
Notes receivable, net	11,337	-	11,337
Due from other governments	9,040	-	9,040
Due from primary government	203,774	-	203,774
Prepaid expenses	<u>119,421</u>	<u>149,498</u>	<u>268,919</u>
Total current assets	<u>58,291,399</u>	<u>8,329,901</u>	<u>66,621,300</u>
Restricted assets:			
Cash and equivalents	82,340	170,000	252,340
Investments	<u>4,177,127</u>	<u>-</u>	<u>4,177,127</u>
Total restricted assets	<u>4,259,467</u>	<u>170,000</u>	<u>4,429,467</u>
Capital assets, net	<u>11,674,466</u>	<u>1,327,139</u>	<u>13,001,605</u>
Total assets	<u>74,225,332</u>	<u>9,827,040</u>	<u>84,052,372</u>

(Continued)

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statements of Net Position, Continued

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,588,425	93,758	1,682,183
Due to other governments	275,668	-	275,668
Due to primary government	344,846	169,958	514,804
Current portion of long-term debt	1,085,000	-	1,085,000
Current portion of estimated liability for landfill closure and post-closure costs	<u>670,000</u>	<u>-</u>	<u>670,000</u>
Total current liabilities	<u>3,963,939</u>	<u>263,716</u>	<u>4,227,655</u>
Current liabilities payable from restricted assets - accrued interest on bonds	<u>112,316</u>	<u>-</u>	<u>112,316</u>
Other liabilities:			
Estimated liability for landfill closure and post-closure costs, less current portion	33,546,349	-	33,546,349
Long-term debt, less current portion	8,340,000	-	8,340,000
Compensated absences	273,526	243,406	516,932
Other postemployment benefits	<u>1,129,345</u>	<u>1,802,463</u>	<u>2,931,808</u>
Total other liabilities	<u>43,289,220</u>	<u>2,045,869</u>	<u>45,335,089</u>
Total liabilities	<u>47,365,475</u>	<u>2,309,585</u>	<u>49,675,060</u>
Deferred inflows of resources - gain on refunding of bonds payable	<u>504,019</u>	<u>-</u>	<u>504,019</u>
Net position:			
Net investment in capital assets	2,249,466	1,327,139	3,576,605
Restricted	4,147,151	170,000	4,317,151
Unrestricted	<u>19,959,221</u>	<u>6,020,316</u>	<u>25,979,537</u>
Total net position	<u>\$26,355,838</u>	<u>7,517,455</u>	<u>33,873,293</u>

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statement of Revenue, Expenses and
Changes in Net Position
Year ended December 31, 2014

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Operating revenue:			
Tipping fees	\$31,912,305	-	31,912,305
Collections	-	3,146,067	3,146,067
Sale of electricity	3,083,312	-	3,083,312
Recycling	700,493	-	700,493
Other revenue	645,285	21,633	666,918
Rent revenue	69,000	-	69,000
Ash disposal	314,143	-	314,143
	<u>36,724,538</u>	<u>3,167,700</u>	<u>39,892,238</u>
Total operating revenue			
Operating expenses:			
Administrative charges	9,100,290	-	9,100,290
Service fees	12,172,767	-	12,172,767
Ash treatment	3,123,374	-	3,123,374
Intermunicipal tipping fees	124,549	-	124,549
Depreciation and amortization	3,398,704	239,689	3,638,393
Landfill closure and post-closure costs	376,661	-	376,661
Personal services	610,441	1,141,011	1,751,452
Employee benefits	539,594	1,051,184	1,590,778
Contractual expenses	2,571,060	588,415	3,159,475
Professional fees	67,046	-	67,046
Rent and utilities	718,856	94,138	812,994
Miscellaneous	539,727	-	539,727
	<u>33,343,069</u>	<u>3,114,437</u>	<u>36,457,506</u>
Total operating expenses			
Operating income	<u>3,381,469</u>	<u>53,263</u>	<u>3,434,732</u>
Nonoperating revenue (expense):			
Interest income	149,658	21,788	171,446
Debt service (interest)	<u>(226,519)</u>	<u>-</u>	<u>(226,519)</u>
Total nonoperating revenue (expense)	<u>(76,861)</u>	<u>21,788</u>	<u>(55,073)</u>
Change in net position	3,304,608	75,051	3,379,659
Net position at beginning of year	<u>23,051,230</u>	<u>7,442,404</u>	<u>30,493,634</u>
Net position at end of year	<u>\$26,355,838</u>	<u>7,517,455</u>	<u>33,873,293</u>

ISLIP RESOURCE RECOVERY AGENCY
Supplementary Information
Combining Statement of Cash Flows
Year ended December 31, 2014

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$36,820,844	3,167,207	39,988,051
Cash payments:			
Personal services and employee benefits	(988,413)	(1,867,421)	(2,855,834)
Goods and services	<u>(29,218,227)</u>	<u>(630,504)</u>	<u>(29,848,731)</u>
Net cash provided by operating activities	<u>6,614,204</u>	<u>669,282</u>	<u>7,283,486</u>
Cash flows from capital and related financing activities:			
Additions to capital assets	(934,139)	(1,080,125)	(2,014,264)
Principal payments on revenue bonds	(900,000)	-	(900,000)
Refunding of revenue bonds	(10,690,000)	-	(10,690,000)
Proceeds from revenue bonds	9,425,000	-	9,425,000
Interest payments on revenue bonds	<u>(813,748)</u>	<u>-</u>	<u>(813,748)</u>
Net cash used in capital and related financing activities	<u>(3,912,887)</u>	<u>(1,080,125)</u>	<u>(4,993,012)</u>
Cash flows from investing activities:			
Proceeds from sale or redemption of investment	34,174,529	-	34,174,529
Purchase of investments	(35,896,907)	-	(35,896,907)
Interest income	<u>149,658</u>	<u>21,788</u>	<u>171,446</u>
Net cash provided by (used in) investing activities	<u>(1,572,720)</u>	<u>21,788</u>	<u>(1,550,932)</u>
Net increase (decrease) in cash and equivalents	1,128,597	(389,055)	739,542
Cash and equivalents at beginning of year	<u>55,716,364</u>	<u>8,738,966</u>	<u>64,455,330</u>
Cash and equivalents at end of year	<u>\$56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>

(Continued)

ISLIP RESOURCE RECOVERY AGENCY
 Supplementary Information
 Combining Statement of Cash Flows, Continued

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,381,469	53,263	3,434,732
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	3,398,704	239,689	3,638,393
Provision for allowance	(15,373)	-	(15,373)
Changes in:			
Accounts receivable	102,736	(492)	102,244
Notes receivable	8,943	-	8,943
Due from other governments	1,371	-	1,371
Due from primary government	(114,383)	-	(114,383)
Prepaid expenses	(2,169)	7,948	5,779
Accounts payable and accrued expenses	(273,595)	10,401	(263,194)
Due to other governments	40,627	-	40,627
Due to primary government	47,308	33,699	81,007
Estimated liability for landfill closure and post-closure costs	(123,056)	-	(123,056)
Compensated absences	24,539	30,265	54,804
Other postemployment benefits	137,083	294,509	431,592
Net cash provided by operating activities	<u>\$ 6,614,204</u>	<u>669,282</u>	<u>7,283,486</u>
Reconciliation of cash and equivalents, beginning of year:			
Current assets - cash and equivalents	46,929,661	8,568,966	55,498,627
Restricted assets - cash and equivalents	<u>8,786,703</u>	<u>170,000</u>	<u>8,956,703</u>
Total	<u>\$55,716,364</u>	<u>8,738,966</u>	<u>64,455,330</u>
Reconciliation of cash and equivalents, end of year:			
Current assets - cash and equivalents	56,762,621	8,179,911	64,942,532
Restricted assets - cash and equivalents	<u>82,340</u>	<u>170,000</u>	<u>252,340</u>
Total	<u>\$56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>

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:

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, 2015, 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 combined financial statements, and have issued our report thereon dated March 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's combined 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 combined 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 combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York
March 23, 2016

INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE
WITH SECTION 201.3 OF TITLE TWO OF THE OFFICIAL COMPILATION
OF CODES, RULES AND REGULATIONS OF THE STATE OF NEW YORK

Board of Directors
Islip Resource Recovery Agency
Islip, New York

We have examined the Islip Resource Recovery Agency's (Agency), a component unit of the Town of Islip, New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York during the year ended December 31, 2015. Management is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on the Agency's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

In our opinion, the Agency complied in all material respects with the aforementioned requirements during the year ended December 31, 2015.

In accordance with Government Auditing Standards, we are required to report significant deficiencies in internal control, violations of contracts, or grant agreements, and abuse that are material to the Agency's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York and any fraud or illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain views of management on those matters. We performed our examination to express an opinion on whether the Agency complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Agency management, the Board of Directors, the New York State Office of the State Comptroller, and the New York State Authority Budget Office and is not intended and should not be used by anyone other than those specified parties.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 23, 2016