

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Financial Report

December 31, 2018 and 2017

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(A Component Unit of the Town of Islip)

Financial Report

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Independent Auditor's Report

Board of Directors
Islip Resource Recovery Agency
Islip, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Islip Resource Recovery Agency (Agency), a component unit of the Town of Islip, as of for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Prior Year Financial Statements

The financial statements of the Agency, as of and for the year ended December 31, 2017, were audited by other auditors, whose report, dated March 22, 2018, expressed an unmodified opinion on those financial statements.

Adoption of New Accounting Standard

As discussed in Note 1p to the financial statements, in 2018, the Agency adopted the new accounting guidance in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 9 and the Required Supplementary Information on pages 32 to 34 as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements as of and for the year ended December 31, 2018. The combining fund statements of net position, combining fund statements of revenue, expenses, and changes in net position, and combining fund statements of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information - Continued

The combining fund statements of net position, combining fund statements of revenue, expenses, and changes in net position, and combining fund statements of cash flows were the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information as of and for the year ended December 31, 2018, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statement of net position, combining fund statement of revenue, expenses, and changes in net position, and combining fund statement of cash flows as of and for the year ended December 31, 2018, are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplementary information as of and for the year ended December 31, 2017, was audited by other auditors, whose report, dated March 22, 2018, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, 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 solely 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 the effectiveness of the Agency's 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.

BST & CO. CPAs, LLP

Albany, New York
March 27, 2019



Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Management's Discussion and Analysis December 31, 2018 and 2017

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, 2018, 2017, and 2016. Please read this discussion and analysis along with the basic financial statements and the accompanying notes to the financial statements.

Overview of the Financial Statements

The financial report consists of management's discussion and analysis, the statements of net position, statements of revenue, expenses, and changes in net position, statements of cash flows, and the notes to the financial statements. The statements of net position provide a record or snapshot of the assets, deferred outflows of resources, 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 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 statements of cash flows are related to the other financial statements by the way they analyze changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources and their effect on cash and equivalents over the course of each year. The statements of cash flows are divided into four categories: operating, investing, non-capital and related financing and capital and related financing. The accompanying notes to the 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 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

(A Component Unit of the Town of Islip)

Management's Discussion and Analysis December 31, 2018 and 2017

Summary of Organization and Business - Continued

Condensed Statements of Net Position

	December 31,		
	2018	2017	2016
ASSETS			
Current assets	\$ 93,537,385	\$ 87,604,848	\$ 83,138,624
Capital assets, net	3,127,113	3,641,383	6,653,328
Long-term receivables	-	24,966	45,466
Total assets	<u>96,664,498</u>	<u>91,271,197</u>	<u>89,837,418</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>746,628</u>	<u>597,049</u>	<u>1,143,053</u>
Total assets and deferred outflows of resources	<u>97,411,126</u>	<u>91,868,246</u>	<u>90,980,471</u>
LIABILITIES			
Current liabilities	4,619,001	4,363,191	4,480,375
Long-term liabilities	51,988,103	54,618,245	46,717,919
Total liabilities	<u>56,607,104</u>	<u>58,981,436</u>	<u>51,198,294</u>
DEFERRED INFLOW OF RESOURCES	<u>1,917,536</u>	<u>335,631</u>	<u>453,316</u>
NET POSITION	<u>\$ 38,886,486</u>	<u>\$ 32,551,179</u>	<u>\$ 39,328,861</u>

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

	December 31,		
	2018	2017	2016
Operating revenue	\$ 40,822,943	\$ 39,563,675	\$ 39,230,922
Operating expenses	35,619,311	37,457,972	38,419,474
Operating income	5,203,632	2,105,703	811,448
Nonoperating revenue, net	1,131,675	384,162	111,055
Change in net position	6,335,307	2,489,865	922,503
Net position, beginning of year	<u>32,551,179</u>	<u>39,328,861</u>	<u>38,406,358</u>
Net position, end of year, as originally stated	38,886,486	41,818,726	39,328,861
Adoption of GASB 75	-	(9,267,547)	-
Net position, end of year, as restated	<u>\$ 38,886,486</u>	<u>\$ 32,551,179</u>	<u>\$ 39,328,861</u>

Debt Administration

At December 31, 2018 and 2017, the Agency had \$4,935,000 and \$6,095,000, respectively, in bonds, outstanding, a decrease of 19.00%. Total interest payments on the Agency's bonds were \$145,671 and \$172,797 for the years ended December 31, 2018 and 2017, respectively.

Islip Resource Recovery Agency

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Management's Discussion and Analysis December 31, 2018 and 2017

Summary of Organization and Business - Continued

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 2021.

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

	December 31,		
	2018	2017	2016
Collection unit			
Dwelling units	8,663	8,665	8,657
Collection fees	<u>\$ 2,995,743</u>	<u>\$ 2,991,528</u>	<u>\$ 3,075,097</u>
MacArthur Resource Recovery Facility (MRRF) Operations			
Billable tons	171,410	161,998	165,346
Tipping fees	<u>\$ 32,633,317</u>	<u>\$ 31,101,366</u>	<u>\$ 31,288,723</u>
Kilowatt Hours (kWh) produced	55,733,950	55,855,619	57,390,994
Electricity sales	<u>\$ 3,131,267</u>	<u>\$ 3,466,132</u>	<u>\$ 3,322,231</u>
Compost, sales revenue	<u>\$ 200,997</u>	<u>\$ 293,793</u>	<u>\$ 327,967</u>
Sayville, recycling fees	<u>\$ 575,385</u>	<u>\$ 647,701</u>	<u>\$ 583,018</u>

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Management's Discussion and Analysis December 31, 2018 and 2017

Summary of Organization and Business - Continued

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 2018 was 55,733,950. This resulted in a surplus of 2,581,103 kWh as compared to the warranty. This excess calculates to \$49,095 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

The total kWh produced for 2017 was 55,855,619. This generated a surplus of 2,702,772 kWh. This excess calculates to \$56,824 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2018, the total of ash generated was 57,604 tons, which was 8,973 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 \$202,506.

During 2017, the total of ash generated was 55,041 tons, which was 9,786 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 \$220,684.

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 2018, 2017 and 2016, the Agency's collection unit continues to service seven contract bid areas on behalf of the Town's consolidated refuse and garbage district.

Financial Condition

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

	December 31,		
	2018	2017	2016
Current assets	<u>\$ 93,537,385</u>	<u>\$ 87,604,848</u>	<u>\$ 83,138,624</u>
Capital assets	<u>\$ 3,127,113</u>	<u>\$ 3,641,383</u>	<u>\$ 6,653,328</u>
Net position	<u>\$ 38,886,486</u>	<u>\$ 32,551,179</u>	<u>\$ 39,328,861</u>

Islip Resource Recovery Agency

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Management's Discussion and Analysis December 31, 2018 and 2017

Summary of Organization and Business - Continued

Capital Assets

At December 31, 2018, the Agency had net investment in capital assets of \$1,606,060 in net capital, as compared to \$1,352,053 at December 31, 2017. The net increase from 2017 in the amount of \$254,007 is attributed to the repayment of long-term liabilities used to acquire capital assets offset by the current year depreciation expense.

Results of Operations

Revenue

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

	Years Ended December 31,		
	2018	2017	2016
Tipping fees	\$ 32,633,317	\$ 31,101,366	\$ 31,288,723
Collections	2,995,743	2,991,528	3,075,097
Sale of electricity	3,131,267	3,466,132	3,322,231
Ancillary revenue	1,461,361	1,424,594	1,544,871
Total operating revenue	<u>\$ 40,221,688</u>	<u>\$ 38,983,620</u>	<u>\$ 39,230,922</u>

Total operating revenues for the year ended December 31, 2018 increased by approximately \$1.2 million, or 3% from 2017. The primary driver for the increase was increased tipping fees of approximately \$1.5 million, offset by declines in electricity sales of \$335 thousand. Total billable tons increased in 2018 by 9,412 or 6% from the prior year.

Total operating revenues for the year ended December 31, 2017, remained consistent with the prior year. Improvements in electricity sales and ancillary revenues were partially offset by modest declines in tipping fees and collections.

Expenses

The majority of the Agency's expenses 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 2018, there was a decrease in total expenses mostly because of a reduction in depreciation expense. During 2017, the MRRF became fully depreciated.

In 2017, operating expenses decreased by approximately \$962 thousand, or 2.5% when compared to 2016. The primary drive for the decrease in operating expenses was the reduction in landfill closure and post-closure costs by approximately \$1.5 million, offset by increases in service fees, contractual expenses and employee benefits.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Management's Discussion and Analysis December 31, 2018 and 2017

Cash Flows Activity

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

	Years Ended December 31,		
	2018	2017	2016
Total operating revenue	<u>\$ 40,822,943</u>	<u>\$ 39,563,675</u>	<u>\$ 39,230,922</u>
Net cash provided by operating activities	<u>\$ 6,210,176</u>	<u>\$ 5,925,467</u>	<u>\$ 6,831,106</u>

Capital Assets and Long-Term Debt

The investment in capital assets to date approximates \$95,727,000, and the Agency maintains a constant review of the capital expenditure needs necessary to provide maintenance and capital upgrades. This investment was initially funded by the issuance of long-term debt. Annual cash flows are utilized for current upgrades and maintenance.

Final Comments

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

Request for Information

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

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Statements of Net Position

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 81,318,972	\$ 84,866,407
Investments	10,611,033	1,091,877
Accounts receivable, net	1,071,186	1,184,355
Due from the Town of Islip	246,090	198,099
Due from other governments	14,141	9,512
Prepaid expenses	275,963	254,598
Total current assets	<u>93,537,385</u>	<u>87,604,848</u>
Non-current assets		
Accounts receivable, less current portion	-	24,966
Capital assets, net	3,127,113	3,641,383
Total noncurrent assets	<u>3,127,113</u>	<u>3,666,349</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferrals	<u>746,628</u>	<u>597,049</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	1,878,735	1,837,323
Accrued interest on bonds	58,973	72,835
Due to the Town of Islip	828,040	677,734
Due to other governments	269,253	255,299
Current portion of non-current liabilities	1,584,000	1,520,000
Total current liabilities	<u>4,619,001</u>	<u>4,363,191</u>
Non-current liabilities		
Landfill closure and post-closure obligation, less current portion	34,816,428	34,963,030
Long-term debt, less current portion	3,745,000	4,935,000
Compensated absences	302,946	398,566
Net pension liability	190,354	560,495
Other postemployment benefits liability	12,933,375	13,761,154
Total non-current liabilities	<u>51,988,103</u>	<u>54,618,245</u>
Total liabilities	<u>56,607,104</u>	<u>58,981,436</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferrals	619,463	106,531
OPEB related deferrals	1,160,613	-
Deferred gain on refinancing	137,460	229,100
Total deferred inflows of resources	<u>1,917,536</u>	<u>335,631</u>
NET POSITION		
Net investment in capital assets	1,606,060	1,616,786
Restricted	3,810,592	4,269,898
Unrestricted	33,469,834	26,664,495
Total net position	<u>\$ 38,886,486</u>	<u>\$ 32,551,179</u>

See accompanying Notes to Financial Statements.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Statements of Revenue, Expenses, and Changes In Net Position

	Years Ended December 31,	
	2018	2017
OPERATING REVENUE		
Tipping fees	\$ 32,633,317	\$ 31,101,366
Collections	2,995,743	2,991,528
Sale of electricity	3,131,267	3,466,132
Recycling	575,385	647,701
Compost sales	200,997	293,793
Rent revenue	84,500	83,100
Operating grants	600,479	400,000
Ash disposal	322,817	331,279
Other revenue	278,438	248,776
Total operating revenue	40,822,943	39,563,675
OPERATING EXPENSES		
Administrative fees	9,600,039	9,606,440
Service fees	12,839,408	12,260,974
Ash treatment	3,280,251	3,096,689
Intermunicipal tipping fees	172,744	203,301
Depreciation	618,898	3,409,071
Landfill closure and post-closure costs	341,399	234,011
Personal services	1,714,652	1,725,529
Employee benefits	1,733,252	1,943,017
Contractual expenses	3,443,410	3,477,128
Professional fees	75,987	72,989
Rent and utilities	784,240	772,815
Miscellaneous	1,015,031	656,008
Total operating expenses	35,619,311	37,457,972
Operating income	5,203,632	2,105,703
NONOPERATING REVENUE (EXPENSE)		
Investment income	1,171,844	451,756
Interest expense	(40,169)	(67,594)
Total nonoperating revenue	1,131,675	384,162
CHANGE IN NET POSITION	6,335,307	2,489,865
NET POSITION, <i>beginning of year</i>	32,551,179	39,328,861
NET POSITION, <i>end of year, as originally stated</i>	38,886,486	41,818,726
Adoption of GASB 75	-	(9,267,547)
NET POSITION, <i>end of year, as restated</i>	\$ 38,886,486	\$ 32,551,179

See accompanying Notes to Financial Statements.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	\$ 40,908,458	\$ 39,815,676
Cash payments		
Personal services and employee benefits	(3,183,478)	(3,059,153)
Goods and services	(31,514,804)	(30,831,056)
	<u>6,210,176</u>	<u>5,925,467</u>
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(104,628)	(397,126)
Principal payments on revenue bonds payable	(1,160,000)	(1,135,000)
Interest payments on revenue bonds payable	(145,671)	(172,797)
	<u>(1,410,299)</u>	<u>(1,704,923)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sale or redemption of investments	30,997,404	14,955,801
Purchase of investments	(40,516,560)	(14,853,511)
Investment income	1,171,844	451,756
	<u>(8,347,312)</u>	<u>554,046</u>
Net (decrease) increase in cash and cash equivalents	(3,547,435)	4,774,590
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>84,866,407</u>	<u>80,091,817</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$ 81,318,972</u>	<u>\$ 84,866,407</u>

See accompanying Notes to Financial Statements.

	Years Ended December 31,	
	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$ 5,203,632	\$ 2,105,703
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	618,898	3,409,071
Provision for allowance	-	(10,710)
Changes in		
Accounts receivable	138,135	219,368
Notes receivable	-	-
Due from other governments	(4,629)	(2,819)
Due from the Town of Islip	(47,991)	46,162
Prepaid expenses	(21,365)	(25,425)
Deferred outflows of resources, pensions	(149,579)	546,004
Accounts payable and accrued expenses	41,412	(50,245)
Due to other governments	(7,834)	(30,146)
Due to the Town of Islip	172,094	(48,229)
Landfill closure and post-closure obligation	(146,602)	(306,329)
Compensated absences	(61,620)	(53,324)
Net pension liability	(370,141)	616,536
Deferred inflows of resources, pensions	512,932	(464,104)
Other postemployment benefits liability	(827,779)	(26,046)
Deferred inflows of resources, OPEB	1,160,613	-
	<u>\$ 6,210,176</u>	<u>\$ 5,925,467</u>

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 1 - Organization and Summary of Significant Accounting Policies

a. Organization

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

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

The Agency is authorized by the Act to finance, acquire, construct, operate, and maintain a solid waste management-resource recovery system (which consists of two closed landfills; 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. Basis of Accounting and Presentation of Financial Statements

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

The Agency's financial statements consist of two enterprise funds, the Agency Fund and the Collection Unit Fund. These are proprietary funds used to account for activities that are similar to those often found in the private sector. The Agency Fund is used to account for the activities of the solid waste management-resource recovery system described in Note 1a. The Collection Unit Fund is used to account for the activities of automated garbage-collection services provided for ten Town garbage districts.

The accounting and financial reporting treatment applied to the Agency is determined by its measurement focus. The transactions of the Agency are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets, liabilities, and deferred outflows and inflows of resources associated with the operations are included on the statements of net position.

Net position is segregated into restricted and unrestricted components, as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net position* has external constraints placed on use.
- *Unrestricted net position* consists of assets, liabilities, and deferred outflows and inflows of resources that do not meet the definition of "net investment in capital assets" or "restricted net position."

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

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

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

Revenues are recognized when earned (generally as services are provided), and expenses are recognized when incurred. The Agency distinguishes operating revenue and expenses from nonoperating items. 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.

c. Budgetary Accounting

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

d. Estimates

The preparation of financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

e. Fair Value Measurements

The Agency reports certain assets at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants on the measurement date.

f. Cash, Cash Equivalents and Investments

Cash and cash equivalents consist of cash deposits in banks and other short-term investments whether unrestricted or restricted, with a maturity of three months or less from the date of purchase. Short-term investments consist of money market funds with underlying investments in obligations of the U.S. government and repurchase agreements.

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 Federal Deposit Insurance Corporation (FDIC) insurance, or by the delivery of authorized investments (collateralized).

Cash deposits with financial institutions are either covered by the FDIC or collateralized by securities held by the pledging bank's trust department in the Authority's name, or U.S. Government and/or federal agency securities held by the Trustee. Cash equivalents in money market funds and investments are held in the Authority's name by their custodian and, therefore, not subject to custodial risk.

The Agency reports investments at fair value.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

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

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 \$74,698 and \$69,967 for the years ended December 31, 2018 and 2017, respectively.

h. Capital Assets

Capital assets are stated at cost, net of accumulated depreciation. Major expenditures for capital assets 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 cost and related accumulated depreciation are removed from the accounts, and resulting gains and losses are included in income. The assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Machinery and equipment; and furniture and fixtures	4 - 10 years
Buildings and site improvements	5 - 40 years
MacArthur Resource Recovery Facility	25 years

Long-lived assets held and used in operations are reviewed for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over its fair value. No impairment occurred for the years ended December 31, 2018 and 2017.

i. Landfill Closure and Post-Closure Costs

New York State and Federal laws and regulations require the Agency to place a final cover on its landfill sites when the sites are filled to capacity and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

Although closure and post-closure care costs will be paid after the sites cease to accept waste, the Agency is required to report the costs as an operating expense in each period based on landfill capacity used as of each statement of net position date.

The Agency currently has three sites that are required by law to incur these costs. Two landfills have been capped and closed, and one landfill, a cleanfill landfill - Phase I and Phase II, is currently active.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

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

i. Landfill Closure and Post-Closure Costs - Continued

The estimated liability for landfill closure and post-closure care costs amounted to \$35,176,428 and \$35,323,000 as of December 31, 2018 and 2017, 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, 2018 and 2017, respectively. However, the actual costs of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The amount recognized for the cleanfill landfill, Phase I, is based upon the usage of 95.21% and 95.35% of capacity for 2018 and 2017, respectively. The amount recognized for the cleanfill landfill, Phase II, is based on the usage of 98.84% and 95.73% of the capacity for 2018 and 2017, respectively. It is estimated that an additional \$788,072 will be recognized as closure and post-closure care expenses between January 1, 2019 and 2021, when the site is expected to be filled to capacity.

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

j. Insurance

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

k. Compensated Absences

Pursuant to Agency policy, its employees are granted vacation and sick leave in varying amounts. 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 the prior year-end plus accrued time for the current year less any time used. The cost of accumulated vacation and sick leave is recorded as a liability when incurred.

l. Pension Benefits

The Agency is a participating employer in the New York State and Local Retirement System (System), which is a cost sharing, multiple employer, public employee defined benefit retirement system. Employees of the Agency have the option to enroll in the System. The Agency's proportionate share of its net pension liability, along with deferred outflows and inflows of resources are reported in the statement of net position. The impact on the Agency's financial position and results of operations due to its participation in the System is more fully disclosed in Note 7.

m. Postemployment Benefits

In addition to providing pension benefits, the Agency provides health care 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. The cost of providing these benefits is reported on the accrual basis of accounting. See Note 8 for further disclosure of postemployment benefits.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

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

n. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows and deferred inflows of resources are reported in separate sections following assets and liabilities, respectively.

During 2014, the Agency refunded bonds that resulted in a gain of \$549,839, which is being reported as a deferred inflow of resources in the financial statements. This deferred inflow is being amortized into interest expense on the straight-line basis through 2020. Amortization was \$45,820 for each of the years ended December 31, 2018 and 2017. The unamortized balance at December 31, 2018 and 2017 was \$137,460 and \$229,100, respectively.

The Agency also reports pension related deferred outflows of resources and deferred inflows of resources as described in Note 7; and other postemployment benefits (OPEB) related deferred outflows of resources as described in Note 8.

o. Required Reserves

The following required reserves are reported within restricted net position in the statement of net position:

Debt Service Reserve

The bond indenture requires the Agency to maintain a reserve to fund future bond principal and interest payments. This requirement is equal to the maximum aggregate debt service on all series of bonds issued and outstanding under the indenture for a particular project in the current or any succeeding bond year. At December 31, 2018 and 2017, the minimum amount required was \$1,310,592. In accordance with the terms of this agreement, the Agency has restricted fund balance based on the minimum required amount.

Capital Reserve

In accordance with the 2014 refunding bonds agreement, a capital reserve fund of \$2,500,000 was created to be used for the payment of the cost of capital improvements to the land, structure, and facilities of the Agency. In accordance with the agreement, the Agency has restricted fund balance for the purposes of the capital reserve.

Additionally, the Agency had an incremental \$459,406 restricted for capital related improvements for the period ended December 31, 2017.

p. Subsequent Events

The Agency has evaluated subsequent events for potential recognition or disclosure through March 27, 2019, the date the financial statements were available to be issued.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

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

q. Adoption of New Accounting Standards

Effective January 1, 2018, the Agency implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. GASB 75 establishes financial reporting standards for OPEB plans for state and local governments. This standard replaces the requirements of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. The statement establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments and discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB 75 lays out requirements for additional note disclosures and required supplementary information.

As a result of the adoption of GASB 75, the Agency measured and recognized OPEB amounts in accordance with the standard, included additional disclosures in Note 8, presented a schedule of other postemployment benefits liability as required supplementary information, and restated the postemployment benefits liability and net position as of December 31, 2017 as detailed in the table below.

	December 31, 2017		
	As Originally Stated	Adoption of GASB 75	As Restated
Other postemployment benefits liability	\$ 4,493,607	\$ 9,267,547	\$ 13,761,154
Net position	\$ 41,818,726	\$ (9,267,547)	\$ 32,551,179

Note 2 - Cash, Equivalents, and Investments

a. Cash and Cash Equivalents and Investments

The Town maintains a consolidated account and temporary investments with a financial institution on behalf of the Agency. The amount held by the Town on behalf of the Agency was \$81,250,372 and \$76,241,472 as of December 31, 2018 and 2017, respectively. The Agency's other cash and cash equivalents consist of deposit accounts.

b. Investments

Following are the components of the Agency's investments:

	December 31,	
	2018	2017
U.S. Treasury Bills	\$ 8,669,357	\$ -
Money market funds	1,941,676	1,091,877
	\$ 10,611,033	\$ 1,091,877

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 2 - Cash, Equivalents, and Investments - Continued

b. Investments - Continued

The Agency's investment in U.S. Treasury Bills will mature in June 2019. The Agency manages interest rate risk by holding U.S. Treasury Bills to maturity.

The Agency's money market fund is a mutual fund subject to the maturity, quality, liquidity and diversification requirements of Rule 2a-7 under the Investment Company Act of 1940, as amended, and seeks to maintain a stable share price of \$1.00. It normally invests at least 99.5% of its total assets in securities issued or guaranteed as to principal and interest by the U.S. government or its agencies or instrumentalities, repurchase agreements collateralized solely by cash and/or government securities, and cash. The money market fund had a AAA rating by S&P and Moody's as of December 31, 2018.

c. Fair Value Measurements

The framework for measuring fair value includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Agency has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 Inputs to the valuation methodology are unobservable inputs and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2018 and 2017:

U.S. Treasury Bills: Valued based on observable prices for the particular security, or when prices are not observable, the valuation is based on prices of comparable securities or the present value of expected future cash flows.

Money Market Funds: Valued based on quoted market prices in active markets.

The Agency considered investments in U.S. Treasury Bills to be Level 2, and investments in money market funds to be Level 1.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 2 - Cash, Equivalents, and Investments - Continued

c. Fair Value Measurements

The methods described above may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3 - Accounts Receivable, Due From/To Town of Islip and Other Governments

Accounts receivable and amounts due from other governments in the Agency are as follows:

	December 31,	
	2018	2017
Due from the Town of Islip		
Tipping fees	\$ 143,301	\$ 56,141
Clean air act reimbursement	102,789	141,958
	\$ 246,090	\$ 198,099
Due from towns and villages - tipping fees	\$ 14,141	\$ 9,512
Accounts receivable, net		
Tipping fees	\$ 269,256	\$ 260,147
Recyclable sales	126,000	165,000
Electricity sales	710,001	796,432
Other	40,627	32,743
	1,145,884	1,254,322
Less allowance for doubtful accounts	(74,698)	(69,967)
	\$ 1,071,186	\$ 1,184,355
Accounts receivable, less current portion		
Tipping fees	\$ -	\$ 24,966

Amounts due to other governments consist of the following:

	December 31, 2018		
	Agency Fund	Collection Unit Fund	Total
Due to the Town of Islip			
Fuel reimbursement	\$ 4,915	\$ 11,425	\$ 16,340
General liability insurance	10,000	50,800	60,800
Workers compensation	37,110	78,355	115,465
Administrative overhead	635,435	-	635,435
Total	\$ 687,460	\$ 140,580	\$ 828,040
Due to other governments			
Town of Riverhead - ash disposal	\$ 269,253	\$ -	\$ 269,253

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 3 - Accounts Receivable, Due From/To Town of Islip and Other Governments - Continued

	December 31, 2017		
	Agency Fund	Collection Unit Fund	Total
Due to the Town of Islip			
Fuel reimbursement	\$ 6,989	\$ 21,788	\$ 28,777
Administrative overhead	648,957	-	648,957
Total	\$ 655,946	\$ 21,788	\$ 677,734
Due to other governments			
Town of Riverhead - ash disposal	\$ 255,299	\$ -	\$ 255,299

Note 4 - Capital Assets

Activity for capital assets is summarized as follows:

	December 31, 2017	Additions	Dispositions	December 31, 2018
Depreciable assets				
MacArthur Resource Recovery Facility	\$ 83,501,046	\$ -	\$ -	\$ 83,501,046
Buildings and site improvements	3,382,572	-	-	3,382,572
Machinery and equipment	8,569,941	101,513	-	8,671,454
Furniture and fixtures	168,660	3,115	(345)	171,430
	95,622,219	104,628	(345)	95,726,502
Accumulated depreciation	(93,578,657)	(618,898)	345	(94,197,210)
Total depreciable assets, net	2,043,562	(514,270)	-	1,529,292
Non-depreciable assets				
Land	1,597,821	-	-	1,597,821
Total	\$ 3,641,383	\$ (514,270)	\$ -	\$ 3,127,113
	December 31, 2016	Additions	Dispositions	December 31, 2017
Depreciable assets				
MacArthur Resource Recovery Facility	\$ 83,501,046	\$ -	\$ -	\$ 83,501,046
Buildings and site improvements	3,382,572	-	-	3,382,572
Machinery and equipment	8,519,421	388,832	(338,312)	8,569,941
Furniture and fixtures	181,368	8,294	(21,002)	168,660
	95,584,407	397,126	(359,314)	95,622,219
Accumulated depreciation	(90,528,900)	(3,409,071)	359,314	(93,578,657)
Total depreciable assets, net	5,055,507	(3,011,945)	-	2,043,562
Non-depreciable assets				
Land	1,597,821	-	-	1,597,821
Total	\$ 6,653,328	\$ (3,011,945)	\$ -	\$ 3,641,383

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 5 - Long-Term Liabilities

The following tables summarize the Agency's long-term liabilities for the years ended December 31, 2018 and 2017.

	January 1, 2018	Additions	Deletions	December 31 2018	Due Within One Year
Bonds payable	\$ 6,095,000	\$ -	\$ (1,160,000)	\$ 4,935,000	\$ 1,190,000
Compensated absences	398,566	22,730	(84,350)	336,946	34,000
Net pension liability	560,495	233,548	(603,689)	190,354	-
Other postemployment benefits	13,761,154	862,454	(1,690,233)	12,933,375	-
Landfill closure and post-closure costs	35,323,030	341,399	(488,001)	35,176,428	360,000
Total	\$ 56,138,245	\$ 1,460,131	\$ (4,026,273)	\$ 53,572,103	\$ 1,584,000
	January 1, 2017	Additions (Restated)	Deletions (Restated)	December 31 2017 (Restated)	Due Within One Year
Bonds payable	\$ 7,230,000	\$ -	\$ (1,135,000)	\$ 6,095,000	\$ 1,160,000
Compensated absences	451,890	-	(53,324)	398,566	-
Net pension liability	1,024,599	365,731	(829,835)	560,495	-
Other postemployment benefits	4,493,607	9,555,011	(287,464)	13,761,154	-
Landfill closure and post-closure costs	35,989,359	234,011	(900,340)	35,323,030	360,000
Total	\$ 49,189,455	\$ 10,154,753	\$ (3,205,963)	\$ 56,138,245	\$ 1,520,000

Note 6 - Revenue Bonds Payable

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 2004 bonds. Annual principal payments are required through 2022.

The Agency's constitutional debt limit at December 31, 2018 and 2017, was \$50,000,000. The bond indenture limits indebtedness to the amounts issued under that agreement. The Agency also covenants and agrees not to sell, convey, transfer, mortgage, or encumber its interest in the project, except as specifically allowed, so long as the bonds are outstanding.

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

	Principal	Interest	Total
For the year ending December 31,			
2019	\$ 1,190,000	\$ 117,947	\$ 1,307,947
2020	1,215,000	89,505	1,304,505
2021	1,250,000	60,466	1,310,466
2022	1,280,000	30,592	1,310,592
	\$ 4,935,000	\$ 298,510	\$ 5,233,510

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Notes to Financial Statements December 31, 2018 and 2017

Note 7 - New York State Retirement System

Plan Description and Benefits Provided

The Agency participates in the New York State and Local Employees' Retirement System (System), 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 (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 provisions 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 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/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Contributions

Employees in Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, Tier V employees who contribute 3% of their salary, and Tier VI employees who contribute between 3% and 6% of their salary. Under the authority of the System, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. The Agency's contributions for the current year and two preceding years were equal to 100 percent of the required contributions, and were as follows:

2018	\$	263,217
2017		244,650
2016		292,721

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At December 31, 2018 and 2017, the Agency reported liabilities of \$190,354 and \$560,495 for its proportionate share of the net pension liability, respectively. The net pension liabilities were measured as of March 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2018 and 2017, the Agency's proportion was 0.0058980% and 0.0059651%, respectively.

For the years ended December 31, 2018 and 2017, the Agency recognized pension expense of \$233,547 and \$319,071, respectively.

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 7 - New York State Retirement System - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - Continued

At December 31, 2018 and 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 67,893	\$ 56,104	\$ 14,045	\$ 85,114
Changes of assumptions	126,221	-	191,486	-
Net differences between projected and actual investment earnings on pension plan investments	276,474	545,733	111,954	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	35,704	17,626	16,347	21,417
Agency contributions subsequent to the measurement date	240,336	-	263,217	-
Total	<u>\$ 746,628</u>	<u>\$ 619,463</u>	<u>\$ 597,049</u>	<u>\$ 106,531</u>

Authority contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31,	
2019	\$ 44,167
2020	36,146
2021	(134,747)
2022	(58,737)
Total	<u>\$ (113,171)</u>

Actuarial Assumptions

The total pension liability at March 31, 2018 and 2017 was determined by using actuarial valuations as of April 1, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to March 31, 2018 and 2017. The actuarial valuations used the following actuarial assumptions:

	March 31,	
	2018	2017
Investment rate of return (net of investment expense, including inflation)	7.00%	7.00%
Salary scale	3.80%	3.80%
Cost of living adjustments	1.30%	1.30%
Inflation	2.50%	2.50%

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 7 - New York State Retirement System - Continued

Actuarial Assumptions - Continued

The long-term expected 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 to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 are summarized below:

Asset Type	Target Allocation	Long-Term Expected Real Rate
Domestic equity	36.00%	4.55%
International equity	14.00%	6.35%
Private equity	10.00%	7.50%
Real estate	10.00%	5.55%
Absolute return strategies	2.00%	3.75%
Opportunistic portfolio	3.00%	5.69%
Real assets	3.00%	5.29%
Bonds and mortgages	17.00%	1.31%
Cash	1.00%	-0.25%
Inflation-Indexed bonds	4.00%	1.25%
	100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 7.00%. 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

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Notes to Financial Statements December 31, 2018 and 2017

Note 7 - New York State Retirement System - Continued

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 at December 31, 2018 calculated using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	March 31, 2018		
	1% Decrease (6.0%)	Discount (7.0%)	1% Increase (8.0%)
Agency's proportionate share of the net pension liability (asset)	\$ 1,440,271	\$ 190,354	\$ (867,025)
	March 31, 2017		
	1% Decrease (6.0%)	Discount (7.0%)	1% Increase (8.0%)
Agency's proportionate share of the net pension liability (asset)	\$ 1,790,109	\$ 560,495	\$ (479,142)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the Employee's Retirement System as of March 31, were as follows (dollars in thousands):

	2018	2017
Employers' total pension liability	\$ 183,400,590	\$ 177,400,586
Plan net position	(180,173,145)	(168,004,363)
Employers' net pension liability	\$ 3,227,445	\$ 9,396,223
Ratio of plan net position to the employers' total pension liability	98.2%	94.7%

Note 8 - Other Postemployment Benefits (OPEB)

The Agency provides health care benefits for eligible retired employees comprised of a 50% monthly premium contribution toward their health insurance costs. Eligible retirees may also have a spouse and dependents covered at the retired employees' expense. Healthcare benefits are provided through insurance companies whose premiums are based on the benefits provided.

The benefit plan is administered and accounted for as a single-employer defined benefit plan. A summary of active employees and retired employees covered under this benefit plan as of December 31, 2018 is as follows:

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 8 - Other Postemployment Benefits (OPEB) - Continued

	Actives	Inactives Not Receiving Benefits	Inactives Receiving Benefits	Total Census
Female	20	-	12	32
Male	7	-	3	10
Total	27	-	15	42

The contribution requirements of benefit plan members and the Agency are established pursuant to applicable collective bargaining and employment agreements. The required rates of the employer and the members may vary depending on the applicable agreement. The Authority is not required to fund the benefit plan other than the pay-as-you-go amount necessary to provide current benefits to retirees. For the years ended December 31, 2018 and 2017, the Authority paid \$328,020 and \$287,464, respectively, on behalf of the plan members. The benefit plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the benefit plan.

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to OPEB

At December 31, 2018 and 2017, the Agency reported a liability of \$12,933,375 and \$13,761,154 for its OPEB liability, respectively. The OPEB liability was measured as of January 1, 2018 by an actuarial valuation as of that date. For the years ended December 31, 2018 and 2017, the Agency recognized OPEB expense of \$660,854 and \$904,000, respectively. The OPEB expense for the year ended December 31, 2017 was determined prior to the adoption of GASB 75. At December 31, 2018, the Authority reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resource
Change in assumptions and other inputs	\$ 1,160,613

Amounts reported as deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ending December 31,	
2019	\$ (201,590)
2020	(201,590)
2021	(201,590)
2022	(201,590)
2023	(201,590)
Thereafter	(152,663)
	\$ (1,160,613)

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 8 - Other Postemployment Benefits (OPEB) - Continued

Actuarial Assumptions. The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

<u>Assumptions</u>	<u>Factor</u>
Discount Rate	3.44% - January 1st; 4.10% December 31st
Measurement Date	January 1, 2018
Payroll Growth	2.50%
Mortality	Utilized rates developed in the report, "New York State/SUNY GASB 45 Valuation Development of Recommended Actuarial Assumptions - Participating Agency Version" prepared in September 2016. Based on the experienced under the New York State and Local Retirement System and the New York State Teachers' Retirement System projected generationally using the MP-2016 Projection Scale.
Termination Rates	Crocker-Sarason T-6 withdrawal table
Participation Rate	100% of current active employees, assumed 75% of male and 50% of female employee will elect spousal coverage.
Actuarial Cost Method	Entry Age Actuarial

Healthcare trend rates for Medicare and Non-Medicare coverage are as follows:

<u>Year</u>	<u>Non Medicare</u>	<u>Medicare Part B</u>
2019	8.00%	5.00%
2020	7.50%	5.00%
2021	7.00%	5.00%
2022	6.50%	5.00%
2023	6.00%	5.00%
2024	5.50%	5.00%
2025+	5.00%	5.00%

The discount rate used to measure the liability was 3.44% based on the Bond Buyer 20-year general obligation bond index.

Schedule of Changes in Net OPEB Liability

Balance at January 1, 2018, as restated	<u>\$ 13,761,154</u>
<i>Changes for the year</i>	
Service cost	381,530
Interest	480,914
Changes in assumptions and other inputs	(1,362,203)
Benefit payments	<u>(328,020)</u>
Net changes	<u>(827,779)</u>
Balance at December 31, 2018	<u>\$ 12,933,375</u>

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 8 - Other Postemployment Benefits (OPEB) - Continued

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Trend Rate and Discount Rate

The following presents the OPEB Liability of the plan as of December 31, 2018 using current health care cost trend rates as well as what the OPEB liability would be if it were calculated using health care cost trend rates that are 1% lower and 1% higher than the current rate:

	1% Decrease	Current Healthcare Trend Rates	1% Increase
Total OPEB Liability	\$ 10,933,475	\$ 12,933,375	\$ 15,471,516

The following presents the OPEB liability of the plan as of December 31, 2018, calculated using the discount rate of 4.1%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.1%) or 1-percentage-point higher (5.1%) than the current rate:

	1% Decrease 3.1%	Current Discount Rate 4.1%	1% Increase 5.1%
Total OPEB Liability	\$ 15,081,345	\$ 12,933,375	\$ 11,212,878

Note 9 - Related Party Transactions

On December 1, 1985, the Agency entered into a solid waste management agreement with the Town, as amended, that expires on December 1, 2023. Under the terms of the agreement, the Agency took title to the Town's solid waste disposal facilities for use in operations. 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.

On an annual basis, the Agency and Town enter into a management services agreement, which defines the charges to the Agency for services provided by the Town. The administrative fees expense amounted to \$9,600,039 and \$9,606,440 for the years ended December 31, 2018 and 2017, respectively.

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

Tipping fees revenue earned from the disposal of Town waste was approximately \$1,029,006 and \$979,320 for the years ended December 31, 2018 and 2017, respectively.

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Notes to Financial Statements December 31, 2018 and 2017

Note 10 - Commitments and Contingencies

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 Risks

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.

c. Operation of MacArthur Resource Recovery Facility

The MacArthur Resource Recovery Facility (Facility) is operated by Convanta Holding Corporation (Company) under an agreement that expires on March 10, 2030. The agreement may be extended for a period up to five (5) years. 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 (\$2 per ton of municipal solid waste transferred through the station in any calendar year above 25,000 tons), 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 (53,152,847 kWh in 2018 and 2017). The Company also receives 50% of the revenue from the sale of any additional electricity sold each year.

The Agency reimburses the 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.

Service fees incurred by the Agency under this agreement are reported under operating expenses as service fees in the statements of revenues, expenses and changes in net position. The Company retains their portion of electricity sales and remits the Agency’s proportionate share on a monthly basis.

Note 11 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Islip Resource Recovery Agency

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Notes to Financial Statements December 31, 2018 and 2017

Note 11 - Accounting Standards Issued But Not Yet Implemented - Continued

GASB Statement No. 87, *Leases* (GASB 87). GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. The requirements are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90, *Majority Equity Interests*. This statement clarifies the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. Under the statement, a government entity should report its majority equity interest in a legally separate organization as an investment if that equity interest meets the GASB's definition of an investment. For a majority equity interest in a legally separate entity that does not meet the definition of an investment, the statement requires a government to report the legally separate entity as a component unit. The statement also establishes guidance for remeasuring assets and liabilities of wholly acquired governmental organizations that remain legally separate. That guidance brings the reporting of those acquisitions in line now with existing standards that apply to acquisitions that do not remain legally separate. The requirements for this statement are effective for reporting periods beginning after December 15, 2018.

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

Islip Resource Recovery Agency

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Required Supplementary Information - Schedule of Proportionate Share of Net Pension Liability

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.0058980%	0.0059651%	0.0063837%	0.0065912%
Agency's proportionate share of the net pension liability	\$ 190,354	\$ 560,495	\$ 1,024,599	\$ 222,666
Agency's covered employee payroll	\$ 1,763,743	\$ 1,640,246	\$ 1,687,646	\$ 1,730,543
Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	10.79%	34.17%	60.71%	12.87%
ERS Plan fiduciary net position as a percentage of the total pension liability (March 31, ERS fiscal year end)	98.2%	94.70%	90.7%	97.9%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Islip Resource Recovery Agency

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Required Supplementary Information - Schedule of Pension Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 263,217	\$ 244,650	\$ 292,721	\$ 311,371	\$ 322,507	\$ 303,049	\$ 238,255	\$ 162,713	\$ 124,122	\$ 105,442
Contributions in relation to the contractually required contribution	263,217	244,650	292,721	311,371	322,507	303,049	238,255	162,713	124,122	105,442
Contribution deficiency or (excess)	-	-	-	-	-	-	-	-	-	-
Agency's covered employee payroll	1,763,743	1,640,246	1,687,646	1,730,543	1,611,363	1,621,591	1,551,878	1,518,335	1,570,096	1,498,107
Contributions as a percentage of covered employee payroll	14.92%	14.92%	17.34%	17.99%	20.01%	18.69%	15.35%	10.72%	7.91%	7.04%

Islip Resource Recovery Agency

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Required Supplementary Information - Schedule of Other Postemployment Benefits Liability

	December 31, 2018
Total OPEB liability, <i>beginning of year</i>	<u>\$ 13,761,154</u>
<i>Changes for the year</i>	
Service cost	381,530
Interest	480,914
Changes in assumptions and other inputs	(1,362,203)
Benefit payments	<u>(328,020)</u>
Net changes	<u>(827,779)</u>
Total OPEB liability, <i>end of year</i>	<u>12,933,375</u>
Plan fiduciary net position	
Contributions, employer	328,020
Benefit payments	<u>(328,020)</u>
Net changes in plan fiduciary net position	-
Plan fiduciary net position, <i>beginning of year</i>	<u>-</u>
Plan fiduciary net position, <i>end of year</i>	<u>-</u>
Net OPEB liability	<u><u>\$ 12,933,375</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	733.29%
Covered payroll	\$ 1,763,743
Net OPEB liability as a percentage of covered employee payroll	631.84%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Islip Resource Recovery Agency

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Supplementary Information - Combining Fund Statements of Net Position

	December 31, 2018		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 73,013,712	\$ 8,305,260	\$ 81,318,972
Investments	10,611,033	-	10,611,033
Accounts receivable, net	1,071,186	-	1,071,186
Due from the Town of Islip	246,090	-	246,090
Due from other governments	14,141	-	14,141
Prepaid expenses	103,839	172,124	275,963
Total current assets	<u>85,060,001</u>	<u>8,477,384</u>	<u>93,537,385</u>
NON-CURRENT ASSETS			
Capital assets, net	1,966,336	1,160,777	3,127,113
Total assets	<u>87,026,337</u>	<u>9,638,161</u>	<u>96,664,498</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferrals	252,088	494,540	746,628
Total assets and deferred outflows of resources	<u>\$ 87,278,425</u>	<u>\$ 10,132,701</u>	<u>\$ 97,411,126</u>
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 1,826,863	\$ 51,872	\$ 1,878,735
Accrued interest on bonds	58,973	-	58,973
Due to the Town of Islip	687,460	140,580	828,040
Due to other governments	269,253	-	269,253
Current portion of non-current liabilities	1,568,396	15,604	1,584,000
Total current liabilities	<u>4,410,945</u>	<u>208,056</u>	<u>4,619,001</u>
NON-CURRENT LIABILITIES			
Landfill closure and post-closure obligation, less current portion	34,816,428	-	34,816,428
Long-term debt, less current portion	3,745,000	-	3,745,000
Compensated absences	163,908	139,038	302,946
Net pension liability	64,720	125,634	190,354
Other postemployment benefits liability	4,453,604	8,479,771	12,933,375
Total non-current liabilities	<u>43,243,660</u>	<u>8,744,443</u>	<u>51,988,103</u>
Total liabilities	<u>47,654,605</u>	<u>8,952,499</u>	<u>56,607,104</u>
DEFERRED INFLOW OF RESOURCES			
Pension related deferrals	210,618	408,845	619,463
OPEB related deferrals	399,656	760,957	1,160,613
Deferred gain on refinancing	137,460	-	137,460
Total deferred inflows of resources	<u>747,734</u>	<u>1,169,802</u>	<u>1,917,536</u>
NET POSITION			
Net investment in capital assets	460,887	1,145,173	1,606,060
Restricted	3,810,592	-	3,810,592
Unrestricted	34,604,607	(1,134,773)	33,469,834
Total net position	<u>38,876,086</u>	<u>10,400</u>	<u>38,886,486</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 87,278,425</u>	<u>\$ 10,132,701</u>	<u>\$ 97,411,126</u>

See Independent Auditor's Report.

	December 31, 2017		
	Agency	Collection	Total
CURRENT ASSETS			
Cash and equivalents	\$ 76,931,314	\$ 7,935,093	\$ 84,866,407
Investments	1,091,877	-	1,091,877
Accounts receivable, net	1,184,355	-	1,184,355
Due from the Town of Islip	198,099	-	198,099
Due from other governments	9,512	-	9,512
Prepaid expenses	92,935	161,663	254,598
Total current assets	<u>79,508,092</u>	<u>8,096,756</u>	<u>87,604,848</u>
NON-CURRENT ASSETS			
Capital assets, net	2,024,597	1,616,786	3,641,383
Accounts receivable, net of current portion	24,966	-	24,966
Total non-current assets	<u>2,049,563</u>	<u>1,616,786</u>	<u>3,666,349</u>
Total assets	81,557,655	9,713,542	91,271,197
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferrals	201,232	395,817	597,049
Total assets and deferred outflows of resources	<u>\$ 81,758,887</u>	<u>\$ 10,109,359</u>	<u>\$ 91,868,246</u>
CURRENT LIABILITIES			
Accounts payable and accrued expenses	1,775,227	62,096	1,837,323
Accrued interest on bonds	72,835	-	72,835
Due to other governments	255,299	-	255,299
Due to the Town of Islip	655,946	21,788	677,734
Current portion of non-current liabilities	1,520,000	-	1,520,000
Total current liabilities	<u>4,279,307</u>	<u>83,884</u>	<u>4,363,191</u>
NON-CURRENT LIABILITIES			
Landfill closure and post-closure obligation, less current portion	34,963,030	-	34,963,030
Long-term debt, less current portion	4,935,000	-	4,935,000
Compensated absences	226,290	172,276	398,566
Other postemployment benefits liability	4,739,444	9,021,710	13,761,154
Net pension liability	190,568	369,927	560,495
Total non-current liabilities	<u>45,054,332</u>	<u>9,563,913</u>	<u>54,618,245</u>
Total liabilities	<u>49,333,639</u>	<u>9,647,797</u>	<u>58,981,436</u>
DEFERRED INFLOW OF RESOURCES			
Pension related deferrals	36,221	70,310	106,531
Deferred gain on refunding	229,100	-	229,100
Total deferred inflows of resources	<u>265,321</u>	<u>70,310</u>	<u>335,631</u>
	49,598,960	9,718,107	59,317,067
NET POSITION			
Net investment in capital assets	-	1,616,786	1,616,786
Restricted	4,099,898	170,000	4,269,898
Unrestricted	28,060,029	(1,395,534)	26,664,495
Total net position	<u>32,159,927</u>	<u>391,252</u>	<u>32,551,179</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 81,758,887</u>	<u>\$ 10,109,359</u>	<u>\$ 91,868,246</u>

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Supplementary Information - Combining Fund Statements of Revenue, Expenses and Changes in Net Position

	Year Ended December 31, 2018		
	Agency	Collection	Total
OPERATING REVENUE			
Tipping fees	\$ 32,633,317	\$ -	\$ 32,633,317
Collections	-	2,995,743	2,995,743
Sale of electricity	3,131,267	-	3,131,267
Recycling	575,385	-	575,385
Compost sales	200,997	-	200,997
Rent revenue	84,500	-	84,500
Operating grants	602,962	(2,483)	600,479
Ash disposal	322,817	-	322,817
Other revenue	222,105	56,333	278,438
Total operating revenue	<u>37,773,350</u>	<u>3,049,593</u>	<u>40,822,943</u>
OPERATING EXPENSES			
Administrative fees	9,600,039	-	9,600,039
Service fees	12,839,408	-	12,839,408
Ash treatment	3,280,251	-	3,280,251
Intermunicipal tipping fees	172,744	-	172,744
Depreciation	61,377	557,521	618,898
Landfill closure and post-closure costs	341,399	-	341,399
Personal services	567,504	1,147,148	1,714,652
Employee benefits	484,238	1,249,014	1,733,252
Contractual expenses	2,960,745	482,665	3,443,410
Professional fees	75,987	-	75,987
Rent and utilities	685,344	98,896	784,240
Miscellaneous	1,015,031	-	1,015,031
Total operating expenses	<u>32,084,067</u>	<u>3,535,244</u>	<u>35,619,311</u>
Operating income (loss)	<u>5,689,283</u>	<u>(485,651)</u>	<u>5,203,632</u>
NONOPERATING REVENUE (EXPENSE)			
Investment income	1,067,045	104,799	1,171,844
Interest expense	(40,169)	-	(40,169)
Total nonoperating revenue	<u>1,026,876</u>	<u>104,799</u>	<u>1,131,675</u>
CHANGE IN NET POSITION	6,716,159	(380,852)	6,335,307
NET POSITION, beginning of year	<u>32,159,927</u>	<u>391,252</u>	<u>32,551,179</u>
NET POSITION, end of year	<u>\$ 38,876,086</u>	<u>\$ 10,400</u>	<u>\$ 38,886,486</u>

See Independent Auditor's Report.

	Year Ended December 31, 2017		
	Agency	Collection	Total
OPERATING REVENUE			
Tipping fees	\$ 31,101,366	\$ -	\$ 31,101,366
Collections	-	2,991,528	2,991,528
Sale of electricity	3,466,132	-	3,466,132
Recycling	647,701	-	647,701
Compost sales	293,793	-	293,793
Rent revenue	83,100	-	83,100
Operating grants	400,000	-	400,000
Ash disposal	331,279	-	331,279
Other revenue	226,800	21,976	248,776
Total operating revenue	<u>36,550,171</u>	<u>3,013,504</u>	<u>39,563,675</u>
OPERATING EXPENSES			
Administrative fees	9,606,440	-	9,606,440
Service fees	12,260,974	-	12,260,974
Ash treatment	3,096,689	-	3,096,689
Intermunicipal tipping fees	203,301	-	203,301
Depreciation	2,869,027	540,044	3,409,071
Landfill closure and post-closure costs	234,011	-	234,011
Personal services	580,118	1,145,411	1,725,529
Employee benefits	595,367	1,347,650	1,943,017
Contractual expenses	2,940,438	536,690	3,477,128
Professional fees	72,989	-	72,989
Rent and utilities	680,871	91,944	772,815
Miscellaneous	656,008	-	656,008
Total operating expenses	<u>33,796,233</u>	<u>3,661,739</u>	<u>37,457,972</u>
Operating income (loss)	<u>2,753,938</u>	<u>(648,235)</u>	<u>2,105,703</u>
NONOPERATING REVENUE (EXPENSE)			
Investment income	412,526	39,230	451,756
Interest expense	(67,594)	-	(67,594)
Total nonoperating revenue	<u>344,932</u>	<u>39,230</u>	<u>384,162</u>
CHANGE IN NET POSITION	3,098,870	(609,005)	2,489,865
NET POSITION, beginning of year	<u>32,229,295</u>	<u>7,099,566</u>	<u>39,328,861</u>
NET POSITION, end of year, as originally stated	35,328,165	6,490,561	41,818,726
Adoption of GASB 75	<u>(3,168,238)</u>	<u>(6,099,309)</u>	<u>(9,267,547)</u>
NET POSITION, end of year, as restated	<u>\$ 32,159,927</u>	<u>\$ 391,252</u>	<u>\$ 32,551,179</u>

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Supplementary Information - Combining Fund Statements of Cash Flows

	Year Ended December 31, 2018		
	Agency	Collection	Total
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash received from customers	\$ 37,858,865	\$ 3,049,593	\$ 40,908,458
Cash payments			
Personal services and employee benefits	(984,219)	(2,199,259)	(3,183,478)
Goods and services	(31,031,350)	(483,454)	(31,514,804)
	5,843,296	366,880	6,210,176
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,116)	(101,512)	(104,628)
Principal payments on revenue bonds	(1,160,000)	-	(1,160,000)
Interest payments on revenue bonds	(145,671)	-	(145,671)
	(1,308,787)	(101,512)	(1,410,299)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Proceeds from sale or redemption of investments	30,997,404	-	30,997,404
Purchase of investments	(40,516,560)	-	(40,516,560)
Interest income	1,067,045	104,799	1,171,844
	(8,452,111)	104,799	(8,347,312)
Net increase (decrease) in cash and cash equivalents	(3,917,602)	370,167	(3,547,435)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	76,931,314	7,935,093	84,866,407
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 73,013,712	\$ 8,305,260	\$ 81,318,972
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 5,689,283	\$ (485,651)	\$ 5,203,632
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	61,377	557,521	618,898
Changes in			
Accounts receivable	138,135	-	138,135
Due from other governments	(4,629)	-	(4,629)
Due from the Town of Islip	(47,991)	-	(47,991)
Prepaid expenses	(10,904)	(10,461)	(21,365)
Deferred outflows of resources, pensions	(50,856)	(98,723)	(149,579)
Accounts payable and accrued expenses	51,636	(10,224)	41,412
Due to other governments	13,954	(21,788)	(7,834)
Due to the Town of Islip	31,514	140,580	172,094
Landfill closure and post-closure obligation	(146,602)	-	(146,602)
Compensated absences	(43,986)	(17,634)	(61,620)
Net pension liability	(125,848)	(244,293)	(370,141)
Deferred inflows of resources, pensions	174,397	338,535	512,932
Other postemployment benefits liability	(285,840)	(541,939)	(827,779)
Deferred inflows of resources, OPEB	399,656	760,957	1,160,613
	\$ 5,843,296	\$ 366,880	\$ 6,210,176

See Independent Auditor's Report.

Islip Resource Recovery Agency

(A Component Unit of the Town of Islip)

Supplementary Information - Combining Fund Statements of Cash Flows

	Year Ended December 31, 2017		
	Agency	Collection	Total
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES			
Cash received from customers	\$ 36,802,172	\$ 3,013,504	\$ 39,815,676
Cash payments			
Personal services and employee benefits	(951,048)	(2,108,105)	(3,059,153)
Goods and services	(30,143,140)	(687,916)	(30,831,056)
	5,707,984	217,483	5,925,467
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,824)	(394,302)	(397,126)
Principal payments on revenue bonds	(1,135,000)	-	(1,135,000)
Interest payments on revenue bonds	(172,797)	-	(172,797)
	(1,310,621)	(394,302)	(1,704,923)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES			
Proceeds from sale or redemption of investments	14,955,801	-	14,955,801
Purchase of investments	(14,853,511)	-	(14,853,511)
Interest income	412,526	39,230	451,756
	514,816	39,230	554,046
Net increase in cash and cash equivalents	4,912,179	(137,589)	4,774,590
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	72,019,135	8,072,682	80,091,817
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 76,931,314	\$ 7,935,093	\$ 84,866,407
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,753,938	\$ (648,235)	\$ 2,105,703
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation and amortization	2,869,027	540,044	3,409,071
Provision for allowance	(10,710)	-	(10,710)
Changes in			
Accounts receivable	195,368	-	195,368
Notes receivable	24,000	-	24,000
Due from other governments	(2,819)	-	(2,819)
Due from Town of Islip	46,162	-	46,162
Prepaid expenses	10,382	(35,807)	(25,425)
Deferred outflows of resources - pensions	187,405	358,599	546,004
Accounts payable and accrued expenses	(18,255)	(31,990)	(50,245)
Due to other governments	(30,146)	-	(30,146)
Due to Town of Islip	(46,751)	(1,478)	(48,229)
Landfill closure and post-closure obligation	(306,329)	-	(306,329)
Compensated absences	15,448	(68,772)	(53,324)
Net pension liability	(157,796)	(306,308)	(464,104)
Deferred inflows of resources - pensions	(8,856)	(17,190)	(26,046)
Other postemployment benefits liability	187,916	428,620	616,536
	\$ 5,707,984	\$ 217,483	\$ 5,925,467

See Independent Auditor's Report.



**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**

Board of Directors
Islip Resource Recovery Agency
Islip, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the 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, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BST & CO. CPAs, LLP

Albany, New York
March 27, 2019