

ISLIP RESOURCE RECOVERY AGENCY  
Combined Financial Statements  
December 31, 2016 and 2015  
(With Independent Auditors' Report thereon)

ISLIP RESOURCE RECOVERY AGENCY

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Islip Resource Recovery Agency:

### Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the Islip Resource Recovery Agency (Agency), a component unit of the Town of Islip, as of and for the years ended December 31, 2016 and 2015, and the related combined statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic combined financial statements as listed in the table of contents.

### Management's Responsibility for the Combined Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on those combined financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2016 and 2015, 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.

### Other Matters

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

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11 and the other required supplementary information as listed in the table of contents, be presented to supplement the basic combined financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of net position, combining statements of revenue, expenses, and changes in net position, and combining statements of cash flows as of and for the years ended December 31, 2016 and 2015, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York  
March 22, 2017

# ISLIP RESOURCE RECOVERY AGENCY

## Management's Discussion and Analysis

December 31, 2016 and 2015

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, 2016 and 2015. Please read this discussion and analysis along with the basic combined financial statements and the accompanying notes to the combined financial statements.

### Overview of the Combined Financial Statements

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

### Summary of Organization and Business

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

The Agency is authorized by the Act to finance, acquire, construct, operate, and maintain a solid waste management-resource recovery system (which consists of two (2) closed landfills, one (1) cleanfill landfill, one (1) multi-purpose recycling facility, one (1) waste to energy facility, and one (1) yard waste compost facility) in the Town and to contract with the Town for the purpose of receiving, treating, and disposing of municipal solid waste generated in the Town.

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

Condensed Combined Statements of Net Position

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 78,750,795	73,952,116
Restricted assets	4,387,829	4,331,210
Long-term notes receivables	45,466	-
Capital assets, net	<u>6,653,328</u>	<u>9,759,280</u>
Total assets	<u>89,837,418</u>	<u>88,042,606</u>
Deferred outflows of resources	<u>1,143,053</u>	<u>338,523</u>
Liabilities:		
Current liabilities	4,480,375	4,772,495
Long-term liabilities	<u>46,717,919</u>	<u>44,780,998</u>
Total liabilities	<u>51,198,294</u>	<u>49,553,493</u>
Deferred inflow of resources:	<u>453,316</u>	<u>421,278</u>
Net position:		
Investment in capital assets, net of related debt	1,762,528	1,488,323
Restricted	4,301,430	4,231,547
Unrestricted	<u>33,264,903</u>	<u>32,686,488</u>
Total net position	<u>\$ 39,328,861</u>	<u>38,406,358</u>

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

Operating revenue	<u>\$ 39,230,922</u>	<u>39,975,396</u>
Operating expenses:		
Administrative charges	9,823,833	9,521,756
Service fees	11,939,903	11,083,457
Ash treatment	3,297,186	3,136,310
Intermunicipal tipping fees	235,962	163,857
Depreciation and amortization	3,882,309	3,760,967
Landfill closure and post-closure costs	1,772,919	420,226
Personal services and employee benefits	3,473,571	3,177,536
Contractual expenses	2,779,423	3,025,270
Other administrative and operating expenses	<u>1,214,368</u>	<u>1,108,157</u>
Total operating expenses	<u>38,419,474</u>	<u>35,397,536</u>
Operating income	811,448	4,577,860
Nonoperating revenue, net	<u>111,055</u>	<u>18,772</u>
Change in net assets	<u>922,503</u>	<u>4,596,632</u>
Net position at beginning of year, as originally stated	38,406,358	33,873,293
Cumulative effect of change in accounting principle	-	(63,567)
Net position at beginning of year, as restated	<u>38,406,358</u>	<u>33,809,726</u>
Net position at end of year	<u>\$ 39,328,861</u>	<u>38,406,358</u>

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

Debt Administration

At December 31, 2016 and 2015, the Agency had \$7,230,000 and \$8,340,000, respectively, in bonds, outstanding, a decrease of 13.3%.

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 2020.

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

Sayville Landfill

The capping of the Lincoln Avenue Landfill (Sayville Landfill) started in 2012, and it was completed in May 2013. Post-closure Groundwater, Gas, and Site Monitoring commenced in 2014 and continues for 30 years.

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

Other Selected Information

	<u>2016</u>	<u>2015</u>
Collection unit:		
Dwelling units	<u>8,657</u>	<u>8,649</u>
Collection fees	\$ <u>3,075,097</u>	<u>3,070,658</u>
MacArthur Resource Recovery Facility (MRRF) Operations:		
Billable tons	<u>165,346</u>	<u>160,098</u>
Tipping fees	\$ <u>31,288,723</u>	<u>32,069,024</u>



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

	<u>2016</u>	<u>2015</u>
Kilowatt Hours (KWH) produced	57,390,994	54,608,190
Electricity sales	\$ <u>3,322,231</u>	<u>3,071,073</u>
Compost - sales revenue	\$ <u>327,967</u>	<u>248,267</u>
Sayville - recycling fees	\$ <u>583,018</u>	<u>621,498</u>

MacArthur Resource Recovery Facility (MRRF) Electricity Warranty

The electric export warranty agreement calls for the generation of 53,152,847 kWh per year. The total kWh produced for 2016 was 57,390,994. This resulted in a surplus of 4,238,147 kWh as compared to the warranty. This excess calculates to \$80,940 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

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

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2016, the total of ash generated was 59,132 tons, which was 7,758 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 \$172,732.

During 2015, the total of ash generated was 57,378 tons, which was 8,055 tons less than the contractual limit of 38% of billable tons. This savings resulted in an ash warranty payment to the operator in the amount of \$178,942.

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 2016 and 2015, the Agency's collection unit continued to service seven contract bid areas on behalf of the Town's consolidated refuse and garbage district.

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

Financial Conditions

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

	<u>2016</u>	<u>2015</u>
Current assets	\$ <u>78,750,795</u>	<u>73,952,116</u>
Capital assets	\$ <u>6,653,328</u>	<u>9,759,280</u>
Net position	\$ <u>39,328,861</u>	<u>38,406,358</u>

Capital Assets

At December 31, 2016, the Agency had \$6,653,328 in net capital assets, including buildings and equipment, as compared to \$9,759,280 at December 31, 2015. The net decrease from 2015 in the amount of \$3,105,952 is due to \$3,882,309 in current year depreciation and amortization expense offset by capital asset additions and disposals totaling \$776,357.

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

Results of Operations

Revenue

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

	<u>2016</u>	<u>2015</u>
Tipping fees	\$ 31,288,723	32,069,024
Collections	3,075,097	3,070,658
Sale of electricity	3,322,231	3,071,073
Ancillary revenue	<u>1,544,871</u>	<u>1,764,641</u>
Total operating revenue	\$ <u>39,230,922</u>	<u>39,975,396</u>

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

In 2016, the revenue for tipping fees decreased slightly by 2.4% when compared to 2015, because of a reduction of revenues from the Blydenburgh Cleanfill facility which is approaching its volume capacity. Tipping fees from commercial carriers also decreased 28.4% in 2016 when compared to 2015.

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

The Agency offset some of the decreased commercial revenue by entering into a supplementary waste operations agreement with Covanta Holding Corporation. The revenue for 2016 and 2015 amounted to \$492,000 and \$480,000, respectively.

The total production of electricity increased 5.1% in 2016 when compared to 2015. The average price per kWh decreased 2.7% in 2016 when compared to 2015.

In 2016, the ancillary revenue decreased by 12.5% when compared to 2015. This consistency is mainly a result of decreases in recycling and other revenue of \$238,322 offset by increases in ash disposal and rent revenue of \$18,552.

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

Expenses

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

During 2016, there was an increase in total expenses mostly because of an increase in landfill closure and post-closure costs since the liability for the landfill closure was increased since anticipated NYSDEC Landfill Closure Grants cannot be deducted in the closure cost estimated.

Also there was an increase in services fees. The entire increase was partially offset by a decrease in contractual expenses.

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

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

The bond indenture requires the Agency to maintain a reserve to fund future bond principal and interest payments. This requirement is equal to the maximum aggregate debt service on all series of bonds issued and outstanding under the indenture for a particular project in the current or any succeeding bond year. Amounts restricted under the Agency's bond indenture were invested in cash, certificates of deposits, money market funds, and government securities.

Capital Reserve

In 2010, a capital reserve fund of \$2,500,000 was created to be used for the payment of the cost of capital improvements to the lands, structure, and facilities of the Agency. As of December 31, 2011, the balance of the capital reserve account was \$7,021,507, which included an additional \$4,500,000 payment plus interest earned during 2011. In 2012, the Agency used \$7,000,000 from the capital reserve account for capping the Sayville Landfill, leaving a balance at December 31, 2012 of \$50,649, which represents the interest earned on this account during 2012. The balance at December 31, 2016 and 2015, is \$51,158 and \$51,024, respectively.

Cash Flows Activity

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

	<u>2016</u>	<u>2015</u>
Total operating revenue	\$ <u>39,230,922</u>	<u>39,975,396</u>
Net cash provided by operating activities	\$ <u>6,831,106</u>	<u>8,652,248</u>

Capital Assets and Long-Term Debt

The investment in capital assets to date is approximately \$95,600,000, and the Agency maintains a constant review of the capital expenditure needs necessary to provide maintenance and capital upgrades. This investment was initially funded by the issuance of long-term debt. Annual cash flows are utilized for current upgrades and maintenance.

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

Final Comments

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

Request for Information

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

ISLIP RESOURCE RECOVERY AGENCY  
(A Component Unit of the Town of Islip)  
Combined Statements of Net Position  
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and equivalents	\$ 76,898,155	72,003,874
Accounts receivable, net of allowance	1,327,013	1,510,135
Current portion of notes receivable, net	45,500	2,898
Due from other governments	6,693	8,686
Due from primary government	244,261	217,592
Prepaid expenses	<u>229,173</u>	<u>208,931</u>
Total current assets	<u>78,750,795</u>	<u>73,952,116</u>
Restricted assets:		
Cash and equivalents	3,193,662	254,592
Investments	<u>1,194,167</u>	<u>4,076,618</u>
Total restricted assets	<u>4,387,829</u>	<u>4,331,210</u>
Long-term notes receivable, net, less current portion	45,466	-
Capital assets, net	<u>6,653,328</u>	<u>9,759,280</u>
Total assets	<u>89,837,418</u>	<u>88,042,606</u>
Deferred outflows of resources - pensions	<u>1,143,053</u>	<u>338,523</u>

(Continued)

See accompanying notes to combined financial statements.

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

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,887,568	1,643,238
Due to other governments	285,445	288,626
Due to primary government	725,963	960,968
Current portion of long-term debt	1,135,000	1,110,000
Current portion of estimated liability for landfill closure and post-closure costs	<u>360,000</u>	<u>670,000</u>
Total current liabilities	<u>4,393,976</u>	<u>4,672,832</u>
Current liabilities payable from restricted assets:		
Accrued interest on bonds	<u>86,399</u>	<u>99,663</u>
Other liabilities:		
Estimated liability for landfill closure and post-closure costs, less current portion	35,269,359	33,521,778
Long-term debt, less current portion	6,095,000	7,230,000
Compensated absences	451,890	405,374
Other postemployment benefits	3,877,071	3,401,180
Net pension liability, proportionate share	<u>1,024,599</u>	<u>222,666</u>
Total other liabilities	<u>46,717,919</u>	<u>44,780,998</u>
Total liabilities	<u>51,198,294</u>	<u>49,553,493</u>
Deferred inflows of resources:		
Gain on refunding of bonds payable	320,739	412,379
Pensions	<u>132,577</u>	<u>8,899</u>
Total deferred inflows of resources	<u>453,316</u>	<u>421,278</u>
Net position:		
Net investment in capital assets	1,762,528	1,488,323
Restricted	4,301,430	4,231,547
Unrestricted	<u>33,264,903</u>	<u>32,686,488</u>
Total net position	<u>\$ 39,328,861</u>	<u>38,406,358</u>

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY  
 Combined Statements of Revenue, Expenses  
 and Changes in Net Assets  
 Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Tipping fees	\$ 31,288,723	32,069,024
Collections	3,075,097	3,070,658
Sale of electricity	3,322,231	3,071,073
Recycling	583,018	621,498
Other revenue	560,778	760,620
Rent revenue	83,220	78,000
Ash disposal	<u>317,855</u>	<u>304,523</u>
Total operating revenue	<u>39,230,922</u>	<u>39,975,396</u>
Operating expenses:		
Administrative charges	9,823,833	9,521,756
Service fees	11,939,903	11,083,457
Ash treatment	3,297,186	3,136,310
Intermunicipal tipping fees	235,962	163,857
Depreciation and amortization	3,882,309	3,760,967
Landfill closure and post-closure costs	1,772,919	420,226
Personal services	1,730,254	1,610,013
Employee benefits	1,743,317	1,567,523
Contractual expenses	2,779,423	3,025,270
Professional fees	92,843	68,391
Rent and utilities	757,044	774,419
Miscellaneous	<u>364,481</u>	<u>265,347</u>
Total operating expenses	<u>38,419,474</u>	<u>35,397,536</u>
Operating income	<u>811,448</u>	<u>4,577,860</u>
Nonoperating revenue (expense):		
Interest income	205,477	139,111
Debt service - interest	<u>(94,422)</u>	<u>(120,339)</u>
Total nonoperating revenue	<u>111,055</u>	<u>18,772</u>
Change in net assets	<u>922,503</u>	<u>4,596,632</u>
Net position at beginning of year, as originally stated	38,406,358	33,873,293
Cumulative effect of change in accounting principle	<u>-</u>	<u>(63,567)</u>
Net position at beginning of year, as restated	<u>38,406,358</u>	<u>33,809,726</u>
Net position at end of year	<u>\$ 39,328,861</u>	<u>38,406,358</u>

See accompanying notes to combined financial statements.



ISLIP RESOURCE RECOVERY AGENCY  
 Combined Statements of Cash Flows  
 Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 39,301,300	39,659,398
Cash payments:		
Personal services and employee benefits	(2,811,994)	(3,016,429)
Goods and services	<u>(29,658,200)</u>	<u>(27,990,721)</u>
Net cash provided by operating activities	<u>6,831,106</u>	<u>8,652,248</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	(776,357)	(518,642)
Principal payments on revenue bonds	(1,110,000)	(1,085,000)
Interest payments on revenue bonds payable	<u>(199,326)</u>	<u>(224,632)</u>
Net cash used in capital and related financing activities	<u>(2,085,683)</u>	<u>(1,828,274)</u>
Cash flows from investing activities:		
Proceeds from sale or redemption of investments	31,157,383	26,602,042
Purchase of investments	(28,274,932)	(26,501,533)
Interest income	<u>205,477</u>	<u>139,111</u>
Net cash provided by investing activities	<u>3,087,928</u>	<u>239,620</u>
Net increase in cash and equivalents	7,833,351	7,063,594
Cash and equivalents at beginning of year	<u>72,258,466</u>	<u>65,194,872</u>
Cash and equivalents at end of year	<u>\$ 80,091,817</u>	<u>72,258,466</u>
Reconciliation of cash and equivalents at beginning of year:		
Current assets - cash and equivalents	72,003,874	64,942,532
Restricted assets - cash and equivalents	<u>254,592</u>	<u>252,340</u>
Total	<u>\$ 72,258,466</u>	<u>65,194,872</u>
Reconciliation of cash and equivalents at end of year:		
Current assets - cash and equivalents	76,898,155	72,003,874
Restricted assets - cash and equivalents	<u>3,193,662</u>	<u>254,592</u>
Total	<u>\$ 80,091,817</u>	<u>72,258,466</u>

(Continued)

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY  
Combined Statements of Cash Flows, Continued

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 811,448	4,577,860
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,882,309	3,760,967
Provision (release) for allowance	(24,804)	24,557
Cumulative effect of change in accounting principle	-	(63,567)
Changes in:		
Accounts receivable	207,926	(348,994)
Notes receivable	(88,068)	8,439
Due from other governments	1,993	354
Due from primary government	(26,669)	(13,818)
Prepaid expenses	(20,242)	59,988
Deferred outflows of resources - pensions	(804,530)	(338,523)
Accounts payable and accrued expenses	244,330	(38,945)
Due to other governments	(3,181)	12,958
Due to primary government	(235,005)	446,164
Estimated liability for landfill closure and post-closure costs	1,437,581	(24,571)
Compensated absences	46,516	(111,558)
Other postemployment benefits	475,891	469,372
Net pension liability, proportionate share	801,933	222,666
Deferred inflows of resources - pensions	<u>123,678</u>	<u>8,899</u>
Net cash provided by operating activities	<u>\$ 6,831,106</u>	<u>8,652,248</u>

See accompanying notes to combined financial statements.

## ISLIP RESOURCE RECOVERY AGENCY

### Notes to Combined Financial Statements

December 31, 2016 and 2015

#### (1) Summary of Significant Accounting Policies

##### (a) Description

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

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

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

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

##### (b) Reporting Entity

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

##### (c) Basis of Accounting and Presentation

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

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

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

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Basis of Accounting and Presentation, Continued

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

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

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

(d) Budgetary Accounting

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

(e) Use of Estimates

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

(f) Cash and Equivalents

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

(g) Investments

Treasury obligations and certificates of deposit will be held to maturity as the Agency has the positive intent and ability to hold the securities. Investments are recorded at fair value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(h) 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 \$80,677 and \$105,481 at December 31, 2016 and 2015, respectively.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Capital Assets

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

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

(j) Landfill Closure and Post-Closure Costs

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

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

The New York State Environmental Conservation Law provides for State assistance payments of 50%, or \$2 million, whichever is less, of the approved costs of municipal landfill closures. For the years ended December 31, 2015 and earlier, the Agency had reduced its liability by a total of \$2 million for the remaining site that is not yet closed. Correspondence received from the New York State Department of Environmental Conservation during 2016 stated that the Agency should not include this amount in its estimated liability. Accordingly, the Agency has not included this amount in the estimated liability for the year ended December 31, 2016.

The estimated liability for landfill closure and post-closure care costs amounted to \$35,629,359 and \$34,191,778 as of December 31, 2016 and 2015, 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, 2016 and 2015, respectively. However, the actual costs of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

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

The amount recognized for the cleanfill landfill, Phase I, is based upon the usage of 94.33% and 93.33% of capacity for 2016 and 2015, respectively. The amount recognized for the cleanfill landfill, Phase II, is based on the usage of 97.94% and 97.67% of the capacity for 2016 and 2015, respectively. It is estimated that an additional \$1,055,141 will be recognized as closure and post-closure care expenses between January 1, 2017 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.

(k) Insurance

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

(l) Compensated Absences

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

(m) Postemployment Benefits

In addition to providing pension benefits, the Agency provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Agency's employees may become eligible for these benefits if they reach normal retirement age while working for the Agency. Health care benefits and survivors' benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. During 2016 and 2015, \$202,003 and \$180,296, respectively, was paid on behalf of eleven retirees. See note 8 for further disclosure of postemployment benefits.

(n) Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has one item that qualifies for reporting in this category. This item is related to pensions and represents the effect of the net change in

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Deferred Outflows and Inflows of Resources, Continued

the Agency's proportion of the collective net pension asset or liability and difference during the measurement period between the Agency's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included in this item are the Agency contributions to the pension system (ERS System) subsequent to the measurement date.

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

(o) Subsequent Events

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

(p) Adoption of New Accounting Standards

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

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

Effective January 1, 2016, the Agency adopted GASB Statement No. 72 - "Fair Value Measurement and Application. This Statement provides guidance for determining fair value measurement for financial reporting purposes, guidance for applying fair value to certain investments, and disclosures related to all fair value measurements.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments

(a) Cash and Equivalents

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

	2016		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	62,884,859	7,902,682	70,787,541
Short-term investments	6,060,614	-	6,060,614
	\$ 68,995,473	7,902,682	76,898,155
Restricted - Agency	\$ 3,023,662	170,000	3,193,662
	2015		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	57,728,745	8,184,361	65,913,106
Short-term investments	6,040,768	-	6,040,768
	\$ 63,819,513	8,184,361	72,003,874
Restricted - Agency	\$ 84,592	170,000	254,592

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

Restricted cash accounts are maintained in accordance with the terms of the bond indentures of the Agency. All of the Agency's deposits were either insured by the FDIC or collateralized by securities held in the Agency's name. The Agency's money market fund had a credit rating of AAA from S&P and Moody's as of December 31, 2016.

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



ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments, Continued

(b) Investments

Following are the components of the Agency's restricted investments at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
U.S. Government securities	\$ -	3,854,566
Money market funds	<u>1,194,167</u>	<u>222,052</u>
	<u>\$ 1,194,167</u>	<u>4,076,618</u>

During 2016 and 2015, the Agency purchased and sold direct obligations of the U.S. government and money market funds with financial institutions approved by the Agency's Board of Directors.

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

(c) Fair Value Measurements

The Authority's investments at December 31, 2016 and 2015 were valued using quoted market prices (Level 1).

(3) Due from/to Other Governments

Amounts due from other governments at December 31, 2016 and 2015 consist of tipping fees receivable and are as follows:

	<u>2016</u>	<u>2015</u>
Towns and Villages	\$ <u>6,693</u>	<u>8,686</u>

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(3) Due from/to Other Governments, Continued

Amounts due to other governments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>		
Intermunicipal ash disposal agreement - Town of Brookhaven	\$ <u>285,445</u>		
	<u>2015</u>		
	<u>Suffolk County</u>	<u>Towns and</u>	<u>Total</u>
	<u>New York</u>	<u>Villages</u>	
Intermunicipal ash disposal agreement	\$ -	287,634	287,634
Leachate collection	<u>992</u>	<u>-</u>	<u>992</u>
Total due to other governments	\$ <u>992</u>	<u>287,634</u>	<u>288,626</u>

(4) Capital Assets

Activity for capital assets for the years ended December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>			
	<u>December 31,</u>			<u>December 31,</u>
	<u>2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2016</u>
MacArthur Resource				
Recovery Facility	\$ 83,501,046	-	-	83,501,046
Landfill monitoring equipment	2,283,196	-	-	2,283,196
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	4,149,729	730,717	(698,273)	4,182,173
Machinery and equipment	1,020,578	-	-	1,020,578
Buildings	1,180,057	-	-	1,180,057
Containers	988,662	44,812	-	1,033,474
Furniture and fixtures	<u>180,540</u>	<u>828</u>	<u>-</u>	<u>181,368</u>
	95,506,323	776,357	(698,273)	95,584,407
Less accumulated depreciation and amortization	<u>(87,344,864)</u>	<u>(3,882,309)</u>	<u>698,273</u>	<u>(90,528,900)</u>
	8,161,459	(3,105,952)	-	5,055,507
Land	<u>1,597,821</u>	<u>-</u>	<u>-</u>	<u>1,597,821</u>
Total	\$ <u>9,759,280</u>	<u>(3,105,952)</u>	<u>-</u>	<u>6,653,328</u>

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(4) Capital Assets, Continued

	2015			December 31, <u>2015</u>
	December 31, <u>2014</u>	<u>Additions</u>	<u>Dispositions</u>	
MacArthur Resource Recovery Facility	\$ 83,501,046	-	-	83,501,046
Landfill monitoring equipment	2,283,196	-	-	2,283,196
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	3,787,783	405,084	(43,138)	4,149,729
Machinery and equipment	1,018,732	1,846	-	1,020,578
Buildings	1,180,057	-	-	1,180,057
Containers	880,709	107,953	-	988,662
Furniture and fixtures	<u>176,781</u>	<u>3,759</u>	<u>-</u>	<u>180,540</u>
	95,030,819	518,642	(43,138)	95,506,323
Less accumulated depreciation and amortization	<u>(83,627,035)</u>	<u>(3,760,967)</u>	<u>43,138</u>	<u>(87,344,864)</u>
	11,403,784	(3,242,325)	-	8,161,459
Land	<u>1,597,821</u>	<u>-</u>	<u>-</u>	<u>1,597,821</u>
Total	\$ <u>13,001,605</u>	<u>(3,242,325)</u>	<u>-</u>	<u>9,759,280</u>

(5) Long-Term Debt

(a) Revenue Bonds Payable

The following is a summary of changes in bonds payable for the years ended December 31, 2016 and 2015:

	January 1, <u>2015</u>	Principal <u>Repayments</u>	January 1, <u>2016</u>	Principal <u>Repayments</u>	December 31, <u>2016</u>
Serial G bonds (2.39%, issued July 2014, maturity dates through July 2022)	\$ 9,425,000	(1,085,000)	8,340,000	(1,110,000)	7,230,000
			<u>2016</u>	<u>2015</u>	
Outstanding principal			\$ 7,230,000	8,340,000	
Less amounts due within one year			(1,135,000)	(1,110,000)	
Long-term debt			\$ <u>6,095,000</u>	<u>7,230,000</u>	

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(5) Long-Term Debt, Continued

(a) Revenue Bonds Payable, Continued

The Agency's constitutional debt limit at December 31, 2016 and 2015, was \$50,000,000. The bond indenture limits indebtedness to the amounts issued under that agreement. The Agency also covenants and agrees not to sell, convey, transfer, mortgage, or encumber its interest in the project, except as specifically allowed, so long as the bonds are outstanding.

A summary of the Agency's debt service requirements for bonds payable at December 31, 2016 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,135,000	172,797	1,307,797
2018	1,160,000	145,670	1,305,670
2019	1,190,000	117,947	1,307,947
2020	1,215,000	89,506	1,304,506
2021	1,250,000	60,467	1,310,467
2022	<u>1,280,000</u>	<u>30,592</u>	<u>1,310,592</u>
	<u>\$ 7,230,000</u>	<u>616,979</u>	<u>7,846,979</u>

(b) Gain on Advance Refunding of Bonds

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

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

	<u>January 1, 2016</u>	<u>Amortization/ Additions</u>	<u>Deletions</u>	<u>December 31, 2016</u>
Deferred inflows of resources - gain on refunding	\$ <u>412,379</u>	<u>-</u>	<u>(91,640)</u>	<u>320,739</u>
	<u>January 1, 2015</u>	<u>Amortization/ Additions</u>	<u>Deletions</u>	<u>December 31, 2015</u>
Deferred inflows of resources - gain on refunding	\$ <u>504,019</u>	<u>-</u>	<u>(91,640)</u>	<u>412,379</u>

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(6) Net Position

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

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

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

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

The restricted net position amounts are calculated as follows:

	<u>2016</u>	<u>2015</u>
Net investment in capital assets:		
Capital assets, net	\$ 6,653,328	9,759,280
Less revenue bonds payable, net	<u>(7,550,739)</u>	<u>(8,340,000)</u>
Excess (deficiency) of net capital assets over related debt	(897,411)	1,419,280
Reclassification from unrestricted net assets in Agency fund	<u>2,659,939</u>	<u>69,043</u>
Net investment in capital assets	\$ <u>1,762,528</u>	<u>1,488,323</u>
	<u>2016</u>	<u>2015</u>
Restricted assets:		
Restricted assets	\$ 4,387,829	4,331,210
Less debt service reserve requirements	<u>(86,399)</u>	<u>(99,663)</u>
Total restricted net assets	\$ <u>4,301,430</u>	<u>4,231,547</u>
Restricted net position for capital reserve	51,156	51,024
Restricted net position for debt service	<u>4,250,274</u>	<u>4,180,523</u>
Total restricted net position	\$ <u>4,301,430</u>	<u>4,231,547</u>

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(7) Pension Plans

(a) Plan Descriptions and Benefits Provided

Employees' Retirement System (ERS)

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

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

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

	<u>Contributions</u>
2016	\$ 244,650
2015	292,721
2014	311,371

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

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

At December 31, 2016 and 2015, the Agency reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2016 and 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in reports provided to the Agency.

	<u>2016</u>	<u>2015</u>
Measurement date	3/31/2016	3/31/2015
Actuarial valuation date	4/1/2015	4/1/2014
Net pension liability	\$ 1,024,599	\$ 222,666
Authority's portion of the Plan's total net pension liability	.0063837%	.0065912%

The Agency recognized pension expense of \$365,731 and \$199,289 for the years ended December 31, 2016 and 2015, respectively.

The Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,178	121,449	7,128	-
Changes in assumptions	273,230	-	-	-
Net difference between projected and actual earnings on pension plan investments	607,848	-	38,674	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	12,147	11,128	-	8,899
	898,403	132,577	45,802	8,899
Agency's contributions subsequent to the measurement date	244,650	-	292,721	-
Total	\$ 1,143,053	132,577	338,523	8,899

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

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

Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year ended	
2017	\$ 193,673
2018	193,673
2019	193,673
2020	<u>184,807</u>
	<u>\$ 765,826</u>

(c) Actuarial Assumptions

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

Significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.0% %
Salary scale	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

The annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

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



ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(c) Actuarial Assumptions, Continued

Measurement date	March 31, 2016
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real property assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(d) Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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 determined. Based upon these 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.

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

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension (asset)/liability	\$ <u>2,310,397</u>	<u>1,024,599</u>	<u>(61,845)</u>

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

(f) Pension Plan Fiduciary Net Position

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

	(Dollars in Millions)	
	<u>2016</u>	<u>2015</u>
Valuation date	3/31/2016	3/31/2015
Employers' total pension liability	\$ 172,303	164,592
Plan net position	(156,253)	(161,213)
Employers' net pension liability	\$ <u>16,050</u>	<u>3,379</u>
Ration of plan net position to the employers' total pension liability	90.7%	97.9%

(8) Other Postemployment Benefits (OPEB)

(a) Plan Description

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

(b) Funding Policy

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

The annual required contribution (ARC) is an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(8) Other Postemployment Benefits (OPEB), Continued

(c) Annual OPEB Cost

	<u>2016</u>	<u>2015</u>
Normal cost	\$ 222,665	217,234
Amortization of unfunded actuarial accrued liability	471,371	439,974
Interest	<u>23,721</u>	<u>22,683</u>
Annual required contribution	717,757	679,891
Interest on net OPEB obligation	136,047	117,287
Adjustment to annual required contribution	<u>(175,910)</u>	<u>(147,870)</u>
Annual OPEB cost	677,894	649,308
Contributions made	<u>(202,003)</u>	<u>(180,296)</u>
Increase in net OPEB obligation	475,891	469,012
Net OPEB obligation at beginning of year	<u>3,401,180</u>	<u>2,932,168</u>
Net OPEB obligation at end of year	\$ <u>3,877,071</u>	<u>3,401,180</u>
Percentage of Annual OPEB Cost Contributed	<u>29.8%</u>	<u>27.7%</u>

(d) Funded Status and Funding Progress

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

(e) Actuarial Methods and Assumption

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

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(8) Other Postemployment Benefits (OPEB), Continued

(e) Actuarial Methods and Assumption, Continued

In the January 1, 2015, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 8.5% (Pre-65) and 5.0% (Post-65), reduced by decrements to an ultimate rate of 5%. The year the ultimate trend rates are reached is 2022 for Pre-65 and 2015 for Post-65. Both rates include a 2.5% inflation assumption. The actuarial value of the Plan's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded actuarial accrued liability is being amortized over a thirty- year period. The remaining amortization period at December 31, 2016, was 22.3 years.

(9) Related Party Transactions

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

In July 1992, the Agency entered into a management service agreement which defines the charges to the Agency for services provided by the Town. This agreement is generally amended on an annual basis. The most recent amendment is dated December 2012. The administrative fees expense amounted to \$9,823,833 and \$9,521,756 for the years ended December 31, 2016 and 2015, 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 \$1,073,000 and \$2,370,000 for the years ended December 31, 2016 and 2015, respectively.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(9) Related Party Transactions, Continued

Amounts due from the primary government (Town of Islip) at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Tipping fees	\$ 92,873	61,927
Accrued expenses	<u>151,388</u>	<u>155,665</u>
	<u>\$ 244,261</u>	<u>217,592</u>

Amounts due to the primary government at December 31, 2016 and 2015 consisted of accounts payable and accrued expenses of \$725,963 and \$960,968, respectively.

(10) Commitments and Contingencies

Commitments and contingencies at December 31, 2016 consist of the following:

(a) Litigation

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

(b) Environmental Issues

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

(c) Operation of MacArthur Resource Recovery Facility

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

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

(10) Commitments and Contingencies, Continued

(c) Operation of MacArthur Resource Recovery Facility, Continued

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

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

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

(11) Risk Management

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

(12) Accounting Standards Issued But Not Yet Implemented

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

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

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

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

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

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

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016. For the Agency, this Statement becomes effective for the fiscal year beginning January 1, 2017. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

ISLIP RESOURCE RECOVERY AGENCY  
Notes to Combined Financial Statements, Continued

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

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning January 1, 2017 for the Agency, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning January 1, 2018 for the Agency. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the Agency.

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain 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, which is the fiscal year beginning January 1, 2019 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning January 1, 2019 for the Agency. This Statement is not expected to have a material effect on the financial statements of the Agency.



REQUIRED SUPPLEMENTAL INFORMATION

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

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

Actuarial valuation date	Actuarial value of assets (a)	Accrued liability (b)	Unfunded accrued liability (UAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAL as a percentage of covered payroll ((b-a)/c)
1/1/2015	\$ -	9,073,406	9,073,406	0%	1,404,233	646.10%
1/1/2013	-	8,014,310	8,014,310	0%	1,489,917	537.90%
1/1/2011	-	6,809,006	6,809,006	0%	1,373,542	495.70%

ISLIP RESOURCE RECOVERY AGENCY  
 Required Supplementary Information  
 Schedule of Agency's Proportionate Share of the Net Pension Liability  
 Year ended December 31, 2016

NYSERS Pension Plan

	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.0063837%	0.0065912%
Agency's proportionate share of the net pension liability	\$ 1,024,599	\$ 222,666
Agency's covered payroll	\$ 1,640,246	\$ 1,687,646
Agency's proportionate share of the net pension liability as a percentage of covered employee payroll	62.47%	13.19%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%

ISLIP RESOURCE RECOVERY AGENCY  
 Required Supplementary Information  
 Schedule of Employer's Pension Contributions  
 Year ended December 31, 2016

NYSERS Pension Plan

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 244,650	292,721	311,371	322,507	303,049	238,255	162,713	124,122	105,442	161,601
Contributions in relation to the contractually required contribution	<u>244,650</u>	<u>292,721</u>	<u>311,371</u>	<u>322,507</u>	<u>303,049</u>	<u>238,255</u>	<u>162,713</u>	<u>124,122</u>	<u>105,442</u>	<u>161,601</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Agency's covered employee payroll	\$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	1,776,263
Contributions as a percentage of covered employee payroll	14.9%	17.3%	18.0%	20.0%	18.7%	15.4%	10.7%	7.9%	7.0%	9.1%

ISLIP RESOURCE RECOVERY AGENCY  
Supplementary Information  
Combining Statements of Net Position  
December 31, 2016

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$ 68,995,473	7,902,682	76,898,155
Accounts receivable, net of allowance	1,327,013	-	1,327,013
Current portion of notes receivable, net	45,500	-	45,500
Due from other governments	6,693	-	6,693
Due from primary government	244,261	-	244,261
Prepaid expenses	<u>103,317</u>	<u>125,856</u>	<u>229,173</u>
Total current assets	<u>70,722,257</u>	<u>8,028,538</u>	<u>78,750,795</u>
Restricted assets:			
Cash and equivalents	3,023,662	170,000	3,193,662
Investments	<u>1,194,167</u>	<u>-</u>	<u>1,194,167</u>
Total restricted assets	<u>4,217,829</u>	<u>170,000</u>	<u>4,387,829</u>
Long-term notes receivable, net, less current portion	45,466	-	45,466
Capital assets, net	<u>4,890,800</u>	<u>1,762,528</u>	<u>6,653,328</u>
Total assets	<u>79,876,352</u>	<u>9,961,066</u>	<u>89,837,418</u>
Deferred outflows of resources - pensions	<u>388,637</u>	<u>754,416</u>	<u>1,143,053</u>

(Continued)

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

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,793,482	94,086	1,887,568
Due to other governments	285,445	-	285,445
Due to primary government	702,697	23,266	725,963
Current portion of long-term debt	1,135,000	-	1,135,000
Current portion of estimated liability for landfill closure and post-closure costs	<u>360,000</u>	<u>-</u>	<u>360,000</u>
Total current liabilities	<u>4,276,624</u>	<u>117,352</u>	<u>4,393,976</u>
Current liabilities payable from restricted assets - accrued interest on bonds			
	<u>86,399</u>	<u>-</u>	<u>86,399</u>
Other liabilities:			
Estimated liability for landfill closure and post-closure costs, less current portion	35,269,359	-	35,269,359
Long-term debt, less current portion	6,095,000	-	6,095,000
Compensated absences	210,842	241,048	451,890
Other postemployment benefits	1,383,290	2,493,781	3,877,071
Net pension liability, proportionate share	<u>348,364</u>	<u>676,235</u>	<u>1,024,599</u>
Total other liabilities	<u>43,306,855</u>	<u>3,411,064</u>	<u>46,717,919</u>
Total liabilities	<u>47,669,878</u>	<u>3,528,416</u>	<u>51,198,294</u>
Deferred inflows of resources:			
Gain on refunding of bonds payable	320,739	-	320,739
Pensions	<u>45,077</u>	<u>87,500</u>	<u>132,577</u>
Total deferred inflows of resources	<u>365,816</u>	<u>87,500</u>	<u>453,316</u>
Net position:			
Net investment in capital assets	-	1,762,528	1,762,528
Restricted	4,131,430	170,000	4,301,430
Unrestricted	<u>28,097,865</u>	<u>5,167,038</u>	<u>33,264,903</u>
Total net position	<u>\$ 32,229,295</u>	<u>7,099,566</u>	<u>39,328,861</u>

ISLIP RESOURCE RECOVERY AGENCY  
Supplementary Information  
Combining Statement of Revenue, Expenses and  
Changes in Net Position  
Year ended December 31, 2016

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Operating revenue:			
Tipping fees	\$ 31,288,723	-	31,288,723
Collections	-	3,075,097	3,075,097
Sale of electricity	3,322,231	-	3,322,231
Recycling	583,018	-	583,018
Other revenue	547,448	13,330	560,778
Rent revenue	83,220	-	83,220
Ash disposal	317,855	-	317,855
	<u>36,142,495</u>	<u>3,088,427</u>	<u>39,230,922</u>
Total operating revenue			
Operating expenses:			
Administrative charges	9,823,833	-	9,823,833
Service fees	11,939,903	-	11,939,903
Ash treatment	3,297,186	-	3,297,186
Intermunicipal tipping fees	235,962	-	235,962
Depreciation and amortization	3,410,956	471,353	3,882,309
Landfill closure and post-closure costs	1,772,919	-	1,772,919
Personal services	572,030	1,158,224	1,730,254
Employee benefits	560,459	1,182,858	1,743,317
Contractual expenses	2,255,520	523,903	2,779,423
Professional fees	92,843	-	92,843
Rent and utilities	667,449	89,595	757,044
Miscellaneous	364,481	-	364,481
	<u>34,993,541</u>	<u>3,425,933</u>	<u>38,419,474</u>
Total operating expenses			
	<u>1,148,954</u>	<u>(337,506)</u>	<u>811,448</u>
Operating income (loss)			
Nonoperating revenue (expense):			
Interest income	183,845	21,632	205,477
Debt service - interest	(94,422)	-	(94,422)
	<u>89,423</u>	<u>21,632</u>	<u>111,055</u>
Total nonoperating revenue			
	1,238,377	(315,874)	922,503
Change in net position			
Net position at beginning of year	<u>30,990,918</u>	<u>7,415,440</u>	<u>38,406,358</u>
Net position at end of year	<u>\$ 32,229,295</u>	<u>7,099,566</u>	<u>39,328,861</u>

ISLIP RESOURCE RECOVERY AGENCY  
Supplementary Information  
Combining Statement of Cash Flows  
Year ended December 31, 2016

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 36,212,873	3,088,427	39,301,300
Cash payments:			
Personal services and employee benefits	(912,628)	(1,899,366)	(2,811,994)
Goods and services	<u>(28,911,386)</u>	<u>(746,814)</u>	<u>(29,658,200)</u>
Net cash provided by operating activities	<u>6,388,859</u>	<u>442,247</u>	<u>6,831,106</u>
Cash flows from capital and related financing activities:			
Additions to capital assets	(30,799)	(745,558)	(776,357)
Principal payments on revenue bonds	(1,110,000)	-	(1,110,000)
Interest payments on revenue bonds	<u>(199,326)</u>	<u>-</u>	<u>(199,326)</u>
Net cash used in capital and related financing activities	<u>(1,340,125)</u>	<u>(745,558)</u>	<u>(2,085,683)</u>
Cash flows from investing activities:			
Proceeds from sale or redemption of investments	31,157,383	-	31,157,383
Purchase of investments	(28,274,932)	-	(28,274,932)
Interest income	<u>183,845</u>	<u>21,632</u>	<u>205,477</u>
Net cash provided by investing activities	<u>3,066,296</u>	<u>21,632</u>	<u>3,087,928</u>
Net increase (decrease) in cash and equivalents	8,115,030	(281,679)	7,833,351
Cash and equivalents at beginning of year	<u>63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>
Cash and equivalents at end of year	<u>\$ 72,019,135</u>	<u>8,072,682</u>	<u>80,091,817</u>
Reconciliation of cash and equivalents at beginning of year:			
Current assets - cash and equivalents	63,819,513	8,184,361	72,003,874
Restricted assets - cash and equivalents	<u>84,592</u>	<u>170,000</u>	<u>254,592</u>
Total	<u>\$ 63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>
Reconciliation of cash and equivalents at end of year:			
Current assets - cash and equivalents	68,995,473	7,902,682	76,898,155
Restricted assets - cash and equivalents	<u>3,023,662</u>	<u>170,000</u>	<u>3,193,662</u>
Total	<u>\$ 72,019,135</u>	<u>8,072,682</u>	<u>80,091,817</u>

(Continued)



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

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 1,148,954	(337,506)	811,448
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	3,410,956	471,353	3,882,309
Provision (release) for allowance	(24,804)	-	(24,804)
Changes in:			
Accounts receivable	207,926	-	207,926
Notes receivable	(88,068)	-	(88,068)
Due from other governments	1,993	-	1,993
Due from primary government	(26,669)	-	(26,669)
Prepaid expenses	(3,587)	(16,655)	(20,242)
Deferred outflows of resources - pensions	(273,539)	(530,991)	(804,530)
Accounts payable and accrued expenses	186,513	57,817	244,330
Due to other governments	(3,181)	-	(3,181)
Due to primary government	(75,558)	(159,447)	(235,005)
Estimated liability for landfill closure and post-closure costs	1,437,581	-	1,437,581
Compensated absences	29,929	16,587	46,516
Other postemployment benefits	145,704	330,187	475,891
Net pension liability, proportionate share	272,658	529,275	801,933
Deferred inflows of resources - pensions	42,051	81,627	123,678
	<u>42,051</u>	<u>81,627</u>	<u>123,678</u>
Net cash provided by operating activities	<u>\$ 6,388,859</u>	<u>442,247</u>	<u>6,831,106</u>

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

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

(Continued)

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

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

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

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

ISLIP RESOURCE RECOVERY AGENCY

Supplementary Information

Combining Statement of Cash Flows

Year ended December 31, 2015

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 36,578,248	3,081,150	39,659,398
Cash payments:			
Personal services and employee benefits	(1,024,230)	(1,992,199)	(3,016,429)
Goods and services	<u>(27,401,974)</u>	<u>(588,747)</u>	<u>(27,990,721)</u>
Net cash provided by operating activities	<u>8,152,044</u>	<u>500,204</u>	<u>8,652,248</u>
Cash flows from capital and related financing activities:			
Additions to capital assets	(4,123)	(514,519)	(518,642)
Principal payments on revenue bonds	(1,085,000)	-	(1,085,000)
Interest payments on revenue bonds	<u>(224,632)</u>	<u>-</u>	<u>(224,632)</u>
Net cash used in capital and related financing activities	<u>(1,313,755)</u>	<u>(514,519)</u>	<u>(1,828,274)</u>
Cash flows from investing activities:			
Proceeds from sale or redemption of investments	26,602,042	-	26,602,042
Purchase of investments	(26,501,533)	-	(26,501,533)
Interest income	<u>120,346</u>	<u>18,765</u>	<u>139,111</u>
Net cash provided by investing activities	<u>220,855</u>	<u>18,765</u>	<u>239,620</u>
Net increase in cash and equivalents	7,059,144	4,450	7,063,594
Cash and equivalents at beginning of year	<u>56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>
Cash and equivalents at end of year	<u>\$ 63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>
Reconciliation of cash and equivalents at beginning of year:			
Current assets - cash and equivalents	56,762,621	8,179,911	64,942,532
Restricted assets - cash and equivalents	<u>82,340</u>	<u>170,000</u>	<u>252,340</u>
Total	<u>\$ 56,844,961</u>	<u>8,349,911</u>	<u>65,194,872</u>
Reconciliation of cash and equivalents at end of year:			
Current assets - cash and equivalents	63,819,513	8,184,361	72,003,874
Restricted assets - cash and equivalents	<u>84,592</u>	<u>170,000</u>	<u>254,592</u>
Total	<u>\$ 63,904,105</u>	<u>8,354,361</u>	<u>72,258,466</u>

(Continued)

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

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Islip Resource Recovery Agency:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the combined statement of net position of the Islip Resource Recovery Agency (Agency) as of December 31, 2016, and the related combined statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated March 22, 2017.

Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York  
March 22, 2017



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

The Board of Directors  
Islip Resource Recovery Agency:

We have examined the Islip Resource Recovery Agency's (Agency), a component unit of the Town of Islip, New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules and Regulations of the State of New York during the year ended December 31, 2016. Management is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on the Agency's compliance based on our examination.

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

In our opinion, the Agency complied in all material respects with the aforementioned requirements during the year ended December 31, 2016.

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

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

EFPR Group, CPAs, PLLC

Williamsville, New York  
March 22, 2017