

ISLIP RESOURCE RECOVERY AGENCY
Combined Financial Statements
December 31, 2011 and 2010
(With Independent Auditors' Report thereon)

ISLIP RESOURCE RECOVERY AGENCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Islip Resource Recovery Agency:

We have audited the accompanying combined financial statements of Islip Resource Recovery Agency (the Agency), a component unit of the Town of Islip, New York, as of and for the years ended December 31, 2011 and 2010 as listed in the accompanying table of contents. These combined financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Agency at December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 23, 2012, 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress for other postemployment benefit plan on page 32, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements of the Agency. The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 23, 2012

ISLIP RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis

December 31, 2011 and 2010

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

Overview of the Combined Financial Statements

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

Summary of Organization and Business

The Islip Resource Recovery Agency is a public authority as 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 shall consist of a five (5) member Board of Directors comprised, exofficio, of the members of the Islip Town Board. Furthermore, the Agency 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 one (1) closed landfill; one (1) inactive landfill, one (1) cleanfill landfill, one (1) multi-purpose recycling facility, one (1) waste to energy facility and one (1) yard waste compost facility); in the Town and to contract with the Town for the purpose of receiving, treating and disposing of municipal solid waste generated in the Town.

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

Condensed Combined Balance Sheets

	<u>2011</u>	<u>2010</u>
Assets:		
Current assets	\$ 47,424,067	46,416,322
Restricted assets	20,448,733	17,579,108
Capital assets, net	21,492,901	24,585,502
Long-term receivables	17,698	69,299
Other assets - deferred charges, net	<u>624,934</u>	<u>627,175</u>
Total assets	<u>\$ 90,008,333</u>	<u>89,277,406</u>
Liabilities:		
Current liabilities	16,515,769	7,921,744
Long-term liabilities	<u>44,219,892</u>	<u>57,114,923</u>
Total liabilities	<u>60,735,661</u>	<u>65,036,667</u>
Net assets:		
Investment in capital assets, net of related debt	(1,045,413)	(2,621,943)
Restricted	14,487,295	11,597,045
Unrestricted	<u>15,830,790</u>	<u>15,265,637</u>
Total net assets	<u>29,272,672</u>	<u>24,240,739</u>
Total liabilities and net assets	<u>\$ 90,008,333</u>	<u>89,277,406</u>

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

Operating revenue	\$ 40,463,573	42,165,519
Administrative charges	9,306,670	9,843,086
Service fees	11,735,526	11,074,935
Ash treatment	3,042,583	3,271,200
Inter-municipal tipping fees	123,941	573,044
Depreciation and amortization	3,552,401	3,562,813
Landfill closure and post-closure costs (benefit)	323,046	(1,557,209)
Personal services and employee benefit	3,137,176	2,915,868
Contractual expenses	2,892,842	3,314,006
Other administrative and operating expenses	<u>643,454</u>	<u>667,881</u>
Total operating expenses	<u>34,757,639</u>	<u>33,665,624</u>
Operating income	5,705,934	8,499,895
Nonoperating revenue (expense), net	<u>(674,001)</u>	<u>(1,086,182)</u>
Change in net assets	<u>\$ 5,031,933</u>	<u>7,413,713</u>

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

Debt Administration

The Agency's Series 2004 E and F and Series 1994 and 1995 outstanding bonds were rated A1 by Moody's Investors Services on May 7, 2010.

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

Blydenburgh Cleanfill

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

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

Sayville Landfill

The Lincoln Avenue Landfill (Sayville Landfill) remains inactive. Consulting engineers have prepared all permit documents and they have been approved by the NYSDEC. The construction documents have been approved by the NYSDEC. The construction includes grading and capping. The capping is scheduled to start in 2012, as permitted by a decision of the NYSDEC.

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>2011</u>	<u>2010</u>
Collection unit:		
Dwelling units	8,610	8,610
Collection fees	\$ <u>2,961,410</u>	<u>2,898,798</u>
MacArthur Resource Recovery Facility (MRRF) Operations:		
Billable tons	168,264	161,365
Tipping fees	\$ <u>32,473,529</u>	<u>33,385,419</u>
Kilowatt Hours (KWH) produced	53,773,652	54,891,965
Electricity sales	\$ <u>3,059,714</u>	<u>3,574,475</u>
Compost - sales revenue	\$ <u>234,500</u>	<u>265,676</u>
Sayville - recycling fees	\$ <u>1,141,315</u>	<u>832,034</u>

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

MacArthur Resource Recovery Facility (MRRF)

Electricity Warranty

The electric export warranty agreement calls for the generation of 53,152,847 KWH per year. The total KWH produced for 2011 was 53,773,652. This generated a surplus of 620,805 KWH. This excess calculates to \$11,627 in warranty provision expense, which was owed to the operator according to the electricity sales warranty.

Ash Warranty

The operating agreement provides for the generation of not more than 38% of billable tons of municipal solid waste. During 2011, the total of ash generated was 60,824 tons, which was 7,599 tons less than the contractual limit of 38% of billable tons. This savings resulted in an ash warranty payment to the operator in the amount of \$152,168.

Collection Unit

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

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 balance sheets as of December 31 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Current assets	\$ <u>47,424,067</u>	<u>46,416,322</u>
Capital assets	\$ <u>21,492,901</u>	<u>24,585,502</u>
Net assets	\$ <u>29,272,672</u>	<u>24,240,739</u>

Capital Assets

At December 31, 2011, the Agency had \$21,492,901 in net capital assets, including buildings and equipment, as compared to \$24,585,502 at December 31, 2010. The net decrease from 2010 in the amount of \$3,092,601, is due to \$3,552,401 in current year depreciation and amortization expense offset by capital asset additions of \$459,800.

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

Results of Operations

Revenue

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

	<u>2011</u>	<u>2010</u>
Tipping fees	\$ 32,473,529	33,385,419
Collections	2,961,410	2,898,798
Sale of electricity	3,059,714	3,574,475
Ancillary revenue	<u>1,968,920</u>	<u>2,306,827</u>
Total operating revenue	\$ <u>40,463,573</u>	<u>42,165,519</u>

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

The Agency offset some of the decreased commercial revenue by entering into a supplemental waste operations agreement with Covanta Holding Corporation. The revenue for 2011 amounted to \$403,000.

The total production of electricity and the average price per KWH for 2011 decreased, resulting in a decrease in revenue from the sale of electricity.

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

Expenses

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

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

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

Debt Service Reserve Fund

The trust agreement requires the Agency to maintain a reserve to fund future bond principal and interest payments. This requirement is equal to the maximum aggregate debt service on all series of bonds issued and outstanding under the indenture for a particular project in the current or any succeeding bond year. At December 31, 2011, the minimum amount required was \$5,961,438 which is invested in 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 is \$7,021,507, which includes an additional \$4,500,000 plus interest earned during 2011.

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>2011</u>	<u>2010</u>
Total operating revenue	\$ <u>40,463,573</u>	<u>42,165,519</u>
Net cash provided by operating activities	\$ <u>9,073,401</u>	<u>10,214,104</u>

Capital Assets and Long-Term Debt

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

Final Comments

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

Request for Information

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

ISLIP RESOURCE RECOVERY AGENCY
 Combined Balance Sheets
 December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 44,223,733	43,806,136
Accounts receivable, less allowance of \$250,308 in 2011 and \$253,987 in 2010	1,149,002	858,892
Notes receivable, current portion, net of unearned interest of \$2,913 in 2011 and \$10,098 in 2010	55,205	173,428
Due from other governments	8,489	15,266
Due from primary government	1,738,454	1,321,700
Prepaid expenses	249,184	240,900
Total current assets	47,424,067	46,416,322
Restricted assets:		
Cash and equivalents	17,738,132	3,879,586
Investments	2,710,601	13,699,522
Capital assets, net	21,492,901	24,585,502
Notes receivable, less current portion, net of unearned interest of \$445 in 2011 and \$3,359 in 2010	17,698	69,299
Other assets - deferred charges - bond financing costs, net of accumulated amortization of \$1,893,523 in 2011 and \$1,891,282 in 2010	624,934	627,175
Total assets	\$ 90,008,333	89,277,406

(Continued)

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
Combined Balance Sheets, Continued

<u>Liabilities and Net Assets</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current portion of long-term debt	\$ 4,815,000	1,631,738
Accounts payable and accrued expenses	1,439,695	1,298,625
Due to other governments	230,871	240,770
Due to primary government	204,984	271,818
Current portion of estimated liability for landfill closure and post-closure costs	<u>9,252,000</u>	<u>857,000</u>
Total current liabilities	<u>15,942,550</u>	<u>4,299,951</u>
Current liabilities payable from restricted assets:		
Current portion of long-term debt	-	2,893,262
Accrued interest on bonds	<u>573,219</u>	<u>728,531</u>
Total current liabilities payable from restricted assets	<u>573,219</u>	<u>3,621,793</u>
Other liabilities:		
Estimated liability for landfill closure and post-closure costs, less current portion	24,424,108	32,784,823
Long-term debt, less current portion	17,723,314	22,682,445
Compensated absences	390,924	349,371
Other postemployment benefits	<u>1,681,546</u>	<u>1,298,284</u>
Total other liabilities	<u>44,219,892</u>	<u>57,114,923</u>
Total liabilities	<u>60,735,661</u>	<u>65,036,667</u>
Net assets:		
Invested in capital assets, net of related debt	(1,045,413)	(2,621,943)
Restricted	14,487,295	11,597,045
Unrestricted	<u>15,830,790</u>	<u>15,265,637</u>
Total net assets	<u>29,272,672</u>	<u>24,240,739</u>
Commitments and contingencies (note 10)		
Total liabilities and net assets	<u>\$ 90,008,333</u>	<u>89,277,406</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Tipping fees	\$ 32,473,529	33,385,419
Collections	2,961,410	2,898,798
Sale of electricity	3,059,714	3,574,475
Recycling	1,141,315	832,034
Other revenue	460,791	1,008,996
Rent revenue	66,600	163,000
Ash disposal	300,214	302,797
	<hr/>	<hr/>
Total operating revenue	40,463,573	42,165,519
Operating expenses:		
Administrative charges	9,306,670	9,843,086
Service fees	11,735,526	11,074,935
Ash treatment	3,042,583	3,271,200
Intermunicipal tipping fees	123,941	573,044
Depreciation and amortization	3,552,401	3,562,813
Landfill closure and post-closure costs (benefit)	323,046	(1,557,209)
Personal services	1,635,186	1,592,394
Employee benefits	1,501,990	1,323,474
Contractual expenses	2,892,842	3,314,006
Professional fees	125,833	68,126
Rent and utilities	196,695	304,912
Miscellaneous	320,926	294,843
	<hr/>	<hr/>
Total operating expenses	34,757,639	33,665,624
Operating income	<hr/>	<hr/>
	5,705,934	8,499,895
Nonoperating revenue (expense):		
Interest income	485,859	542,053
Debt service (interest)	(1,159,860)	(1,628,235)
	<hr/>	<hr/>
Total nonoperating revenue (expense)	(674,001)	(1,086,182)
Change in net assets	5,031,933	7,413,713
Net assets at beginning of year	<hr/>	<hr/>
	24,240,739	16,827,026
Net assets at end of year	<hr/>	<hr/>
	\$ 29,272,672	24,240,739

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
 Combined Statements of Cash Flows
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 39,763,486	42,285,107
Cash payments:		
Personal services and employee benefits	(2,712,361)	(2,599,064)
Goods and services	<u>(27,977,724)</u>	<u>(29,471,939)</u>
Net cash provided by operating activities	<u>9,073,401</u>	<u>10,214,104</u>
Cash flows from capital and related financing activities:		
Proceeds from notes receivable	169,824	211,398
Acquisition and construction of capital assets	(459,800)	(103,941)
Principal payments on revenue bonds payable	(4,693,742)	(4,235,000)
Interest payments on revenue bonds payable	<u>(1,288,320)</u>	<u>(1,745,703)</u>
Net cash used in capital and related financing activities	<u>(6,272,038)</u>	<u>(5,873,246)</u>
Cash flows from investing activities:		
Proceeds from sale or redemption of investments	26,008,453	43,669,696
Purchase of investments	(15,019,532)	(43,464,962)
Interest income	<u>485,859</u>	<u>542,053</u>
Net cash provided by investing activities	<u>11,474,780</u>	<u>746,787</u>
Net increase in cash and equivalents	14,276,143	5,087,645
Cash and equivalents at beginning of year	<u>47,685,722</u>	<u>42,598,077</u>
Cash and equivalents at end of year	<u>\$ 61,961,865</u>	<u>47,685,722</u>

(Continued)

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY
Combined Statements of Cash Flows, Continued

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,705,934	8,499,895
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,552,401	3,562,813
Provision (release) for allowance	-	(59,936)
Changes in:		
Accounts receivable	(290,018)	544,390
Due from other governments	6,777	9,070
Due from primary government	(416,846)	(373,936)
Prepaid expenses	(8,284)	(37,819)
Accounts payable and accrued expenses	141,070	(439,893)
Due to other governments	(9,899)	(34,699)
Due to primary government	(66,834)	271,818
Estimated liability for landfill closure and post-closure costs	34,285	(2,044,403)
Compensated absences	41,553	(33,858)
Other postemployment benefits	383,262	350,662
Net cash provided by operating activities	<u>\$ 9,073,401</u>	<u>10,214,104</u>
Reconciliation of cash and equivalents at beginning of year:		
Current assets - cash and equivalents	43,806,136	41,079,388
Restricted assets - cash and equivalents	<u>3,879,586</u>	<u>1,518,689</u>
Total	<u>\$ 47,685,722</u>	<u>42,598,077</u>
Reconciliation of cash and equivalents at end of year:		
Current assets - cash and equivalents	44,223,733	43,806,136
Restricted assets - cash and equivalents	<u>17,738,132</u>	<u>3,879,586</u>
Total	<u>\$ 61,961,865</u>	<u>47,685,722</u>

See accompanying notes to combined financial statements.

ISLIP RESOURCE RECOVERY AGENCY

Notes to Combined Financial Statements

December 31, 2011 and 2010

(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 one closed landfill; one inactive landfill; a cleanfill, Phase I and Phase II; the MacArthur Resource Recovery Facility, a material recovery facility; and a composting facility) in the Town and to contract with the Town for the purpose of receiving, treating and disposing of municipal solid waste generated in the Town.

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

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

(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 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 upon determination of net income, financial position and changes in financial position on the accrual basis.

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 currently provides service for seven town garbage districts. 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. The Agency applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The Agency has adopted GASB Statement No. 34 - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." The adoption of Statement No. 34 required the Agency to make change to the presentation of its basic financial statements in addition to requiring the presentation of the Agency's Management's Discussion and Analysis (MD&A). MD&A is considered to be required supplemental data and precedes the combined financial statements.

(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 in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those related to valuation of receivables, the estimated liability for landfill closure and post-closure costs, litigation and the liability for postemployment benefits. It is at least reasonably possible that the significant estimates used will change within the next year.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Cash and Equivalents

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

(g) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

(h) Investments

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Treasury obligations have been classified as held-to-maturity as the Agency has the positive intent and ability to hold the securities to maturity. Held-to-maturity debt securities are stated at amortized cost, which approximated fair value at December 31, 2011 and 2010. Related amortization and interest are included in interest income as earned.

(i) Capital Assets

Property and equipment is 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) Bond Financing Costs

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) 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 balance sheet date.

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

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

The estimated liability for landfill closure and post-closure care costs amounted to \$33,676,108 and \$33,641,823 as of December 31, 2011 and 2010, respectively. The amount recognized for the cleanfill, Phase I, is based upon the usage of 84.00% and 81.63% of capacity for 2011 and 2010, respectively. The amount recognized for the cleanfill, Phase II, is based on the usage of 93.90% and 91.70% of the capacity for 2011 and 2010, respectively. It is estimated that an additional \$1,860,000 will be recognized as closure and post-closure care expenses between December 31, 2011 and 2015, when the site is expected to be filled to capacity.

The estimated total cost of the landfill closure and post-closure care of \$33,676,108 and \$33,641,823 are 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, 2011 and 2010. However, the, actual costs of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

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

(l) Insurance

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) 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.

(n) Operating Revenue and Expenses

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

(o) 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 2011 and 2010, \$166,850 and \$136,710, respectively, was paid on behalf of eleven retirees.

The Agency implemented GASB Statement No. 45 - "Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). GASB Statement No. 45 requires the cost of OPEB to be associated with the periods in which the exchange occurs, rather than with the periods when benefits are paid or provided. See note 8 for the impact of the implementation of GASB Statement No. 45 on the combined financial statements of the Agency.

The Agency implemented GASB Statement No. 50 - "Pension Disclosures." Statement No. 50 improves the disclosure requirements for retiree health insurance and other postemployment benefits (OPEB) to public employee pensions. Statement No. 50 requires disclosure of the current funded status of the plan as of the most recent actuarial valuation date.

(p) Subsequent Events

The Agency has evaluated events after December 31, 2011, and through March 23, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments

(a) Investments

Investments of the Agency are categorized by level of credit risk (the risk that a counter party to an investment transaction will not fulfill its obligations). Category 1 - the lowest risk, includes investments that are insured or registered or for which securities are held by the Agency or its agent in the Agency's name. Category 2 - includes investments that are uninsured or unregistered with securities held by the counter party's trust department or agent, in the Agency's name. Category 3 - the highest risk, includes investments that are uninsured and unregistered with securities held by the counter party, or by its trust department or agent but not in the Agency's name. At December 31, 2011 and 2010, all the Agency's investments are classified as Category 1. Following are the components of the Agency's cash, equivalents and investments at December 31, 2011 and 2010:

	2011		
	Unrestricted	Restricted	Total
Cash and equivalents	\$ 44,223,733	17,738,132	61,961,865
U.S. Government securities	-	2,710,601	2,710,601
	\$ 44,223,733	20,448,733	64,672,466
	2010		
	Unrestricted	Restricted	Total
Cash and equivalents	\$ 43,806,136	3,879,586	47,685,722
U.S. Government securities	-	13,699,522	13,699,522
	\$ 43,806,136	17,579,108	61,385,244

During 2011 and 2010, the Agency invested directly in Federal obligations with financial institutions approved by the Agency's Board of Directors. The investments are fully collateralized by a trustee agreement with the Town. At December 31, 2011 and 2010, the carrying value and the fair value of these investments were equivalent.

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments, Continued

(b) Cash and Equivalents

The Town maintains a consolidated account and temporary investments with a financial institution on behalf of the Agency. The Agency's bank deposits at December 31, 2011 and 2010 were as follows:

	2011		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	<u>36,479,104</u>	<u>7,694,629</u>	<u>44,173,733</u>
	<u>\$ 36,529,104</u>	<u>7,694,629</u>	<u>44,223,733</u>
Restricted - Agency	<u>\$ 17,568,132</u>	<u>170,000</u>	<u>17,738,132</u>
	2010		
	Agency Fund	Collection Unit Fund	Total
Unrestricted:			
Agency	\$ 50,000	-	50,000
Town (allocated share)	<u>36,026,926</u>	<u>7,729,210</u>	<u>43,756,136</u>
	<u>\$ 36,076,926</u>	<u>7,729,210</u>	<u>43,806,136</u>
Restricted - Agency	<u>\$ 3,879,586</u>	<u>-</u>	<u>3,879,586</u>

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

Restricted accounts are maintained in accordance with the terms of the bond indentures of the Agency. Collateral is not required on those accounts.

Reconciliation of cash and equivalents per statements of cash flows to the balance sheets:

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(2) Cash, Equivalents and Investments, Continued

(b) Cash and Equivalents, Continued

	2010		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and equivalents, beginning of year	\$ 41,079,388	1,518,689	42,598,077
Net increase	<u>2,726,748</u>	<u>2,360,897</u>	<u>5,087,645</u>
Cash and equivalents, end of year	<u>\$ 43,806,136</u>	<u>3,879,586</u>	<u>47,685,722</u>

(3) Due from/to Other Governments

Amounts due from other governments at December 31, 2011 and 2010 consist of tipping fees receivable and are as follows:

	2011	2010
New York State	\$ 948	591
Towns and Villages	<u>7,541</u>	<u>14,675</u>
Total	<u>\$ 8,489</u>	<u>15,266</u>

Amounts due to other governments at December 31, 2011 and 2010 consist of the following:

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

	2010		
	<u>Suffolk County New York</u>	<u>Towns and Villages</u>	<u>Total</u>
Intermunicipal ash disposal agreement	\$ -	231,013	231,013
Intermunicipal commodity agreement	-	8,455	8,455
Leachate collection	<u>1,302</u>	<u>-</u>	<u>1,302</u>
Total due to other governments	<u>\$ 1,302</u>	<u>239,468</u>	<u>240,770</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(4) Capital Assets

Activity for capital assets for the years ended December 31, 2011 and 2010 are summarized as follows:

	2011			December 31, 2011
	December 31, 2010	Additions	Dispositions	
MacArthur Resource				
Recovery Facility	\$ 83,501,046	-	-	83,501,046
Landfill monitoring equipment	2,283,196	-	-	2,283,196
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	2,820,572	276,604	(27,030)	3,070,146
Machinery and equipment	826,770	83,798	-	910,568
Buildings	1,180,057	-	-	1,180,057
Containers	672,926	67,660	-	740,586
Furniture and fixtures	<u>159,642</u>	<u>716</u>	<u>-</u>	<u>160,358</u>
	93,646,724	428,778	(27,030)	94,048,472
Less accumulated depreciation and amortization	<u>(69,863,021)</u>	<u>(3,552,401)</u>	<u>27,030</u>	<u>(73,388,392)</u>
	23,783,703	(3,123,623)	-	20,660,080
Land	<u>801,799</u>	<u>31,022</u>	<u>-</u>	<u>832,821</u>
Total	\$ <u>24,585,502</u>	<u>(3,092,601)</u>	<u>-</u>	<u>21,492,901</u>
	2010			December 31, 2010
	December 31, 2009	Additions	Dispositions	
MacArthur Resource				
Recovery Facility	\$ 83,501,046	-	-	83,501,046
Landfill monitoring equipment	2,302,035	-	-	2,302,035
Cleanfill facility	1,278,335	-	-	1,278,335
Landfill site improvements	924,180	-	-	924,180
Trucks and vehicles	2,780,520	40,052	-	2,820,572
Machinery and equipment	817,438	9,332	-	826,770
Buildings	1,180,057	-	-	1,180,057
Containers	601,417	52,670	-	654,087
Furniture and fixtures	<u>157,755</u>	<u>1,887</u>	<u>-</u>	<u>159,642</u>
	93,542,793	103,941	-	93,646,724
Less accumulated depreciation and amortization	<u>(66,300,208)</u>	<u>(3,562,813)</u>	<u>-</u>	<u>(69,863,021)</u>
	27,242,575	(3,458,872)	-	23,783,703
Land	<u>801,799</u>	<u>-</u>	<u>-</u>	<u>801,799</u>
Total	\$ <u>28,044,374</u>	<u>(3,458,872)</u>	<u>-</u>	<u>24,585,502</u>

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(4) Capital Assets, Continued

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 is \$3,552,401 and \$3,562,813, respectively.

(5) Long-Term Debt

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

(a) Revenue Bonds Payable

The following is a summary of changes in bonds payable for the years ended December 31, 2011 and 2010:

	<u>January 1,</u> <u>2010</u>	<u>Principal</u> <u>Repayments</u>	<u>January 1,</u> <u>2011</u>	<u>Principal</u> <u>Repayments</u>	<u>December 31,</u> <u>2011</u>
Serial bonds (6.125% to 7.20%, issued April 1994, maturity dates through July 2011)	\$ 7,245,000	(3,495,000)	3,750,000	(3,750,000)	-
Serial bonds (5.00% to 5.15%, issued April 2004, maturity dates through July 2023)	14,775,000	(740,000)	14,035,000	(775,000)	13,260,000
Serial bonds (5.00%, issued March 2004, maturity dates through July 2013)	<u>8,140,000</u>	<u>-</u>	<u>8,140,000</u>	<u>-</u>	<u>8,140,000</u>
Total	<u>\$ 30,160,000</u>	<u>(4,235,000)</u>	<u>25,925,000</u>	<u>(4,525,000)</u>	<u>21,400,000</u>

	<u>2011</u>	<u>2010</u>
Outstanding principal	\$ 21,400,000	25,925,000
Add: Unamortized debt premium	1,220,147	1,418,832
Deferred loss on early retirement of debt	<u>(81,833)</u>	<u>(136,387)</u>
	22,538,314	27,207,445
Less amounts due within one year	<u>(4,815,000)</u>	<u>(4,525,000)</u>
Long-term debt	\$ <u>17,723,314</u>	<u>22,682,445</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, 2011 and 2010 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, 2011 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 4,815,000	1,146,438	5,961,438
2013	4,995,000	905,688	5,900,688
2014	900,000	655,938	1,555,938
2015	945,000	610,938	1,555,938
2016 through 2020	5,570,000	2,192,631	7,762,631
2021 through 2023	4,175,000	489,038	4,664,038
	<u>\$21,400,000</u>	<u>6,000,671</u>	<u>27,400,671</u>

(b) Advance Refunding of Bonds

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

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(6) Net Assets

The Agency's net assets are categorized as either invested in capital assets, net of related debt; restricted or unrestricted.

Invested in capital assets, net of related debt includes capital assets net of accumulated depreciation and liabilities. 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 asset component as the unspent proceeds.

Restricted net assets include net assets restricted for debt service and capital reserve.

Unrestricted net assets include all net assets not classified as either invested in capital assets, net of related debt or restricted net assets.

The restricted net asset amounts are calculated as follows:

	<u>2011</u>	<u>2010</u>
Invested in capital assets, net of related debt:		
Capital assets, net	\$ 21,492,901	24,585,502
Less revenue bonds payable, net	(22,538,314)	(27,207,445)
Invested in capital asset, net of related debt	\$ <u>(1,045,413)</u>	<u>(2,621,943)</u>
Restricted assets:		
Restricted assets	20,448,733	17,579,108
Less debt service reserve requirements	<u>(5,961,438)</u>	<u>(5,982,063)</u>
Total restricted net assets	<u>14,487,295</u>	<u>11,597,045</u>
Restricted assets for capital reserve	\$ <u>7,021,507</u>	<u>2,507,316</u>
Restricted assets for retirement contribution	\$ <u>250,000</u>	<u>-</u>
Restricted assets for debt service	\$ <u>7,215,788</u>	<u>9,089,729</u>

(7) Pension Plans

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

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(7) Pension Plans, Continued

ERS is noncontributory, except for employees with who joined the System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers. The rates billed by the Comptroller for ERS ranged from 12.6% to 19.5% for April through December 2011 and 9.2% for April 2010 through March 2011, and from 6.9% to 9.2% for April 2009 through March 2010.

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

	<u>ERS</u>
2010	\$ 238,255
2009	163,713
2008	124,112

The Agency's contributions in 2011 and 2010 were equal to 100% of the contributions required for the period.

(8) Postemployment Healthcare Plan

(a) Plan Description

The Agency's defined benefit postemployment healthcare plan provided under the Empire, Health Insurance Plan of New York (HIP), and Vytra, plans (the 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 Agency is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(8) Postemployment Healthcare Plan, Continued

(c) Annual Other Postemployment Benefits (OPEB)

For the years ended December 31, 2011 and 2010, the Agency's annual OPEB cost of \$540,672 and \$481,568, respectively, for Empire, HIP and Vytra was equal to the ARC. The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, the net OPEB obligation for 2011 and 2010 and the changes in the Agency's net obligation were as follows:

	<u>2011</u>	<u>2010</u>
Normal cost	\$ 227,167	197,439
Amortization of unfunded actuarial accrued liability	303,713	271,780
Interest	<u>18,087</u>	<u>16,151</u>
Annual required contribution	548,967	485,370
Interest on net OPEB obligation	51,931	37,905
Adjustment to annual required contribution	<u>(60,226)</u>	<u>(41,707)</u>
Annual OPEB cost	540,672	481,568
Contributions made	<u>(157,410)</u>	<u>(130,906)</u>
Increase in net OPEB obligation	383,262	350,662
Net OPEB obligation at beginning of year	<u>1,298,284</u>	<u>947,622</u>
Net OPEB obligation at end of year	\$ <u>1,681,546</u>	<u>1,298,284</u>
Percentage of Annual OPEB Cost Contributed	<u>29.1%</u>	<u>27.2%</u>

(d) Funded Status and Funding Progress

The funded status of the plan as of December 31, 2011 was as follows:

Actuarial Accrued Liability (AAL)	\$ 6,809,006
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ <u>6,809,006</u>
Funded Ratio (Actuarial value of plan assets/AAL)	0.0%
Covered payroll (Active plan members)	\$ <u>2,060,314</u>
UAAL as a percentage of covered payroll	330.5%

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 below, as required supplementary information, presents multi-year trend information that would show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(8) Postemployment Healthcare Plan, Continued

(e) Actuarial Methods and Assumption

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

In the January 1, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return and an annual healthcare cost trend rate of 10.0 percent (Pre-65) and 8.0 percent (post 65), reduced by decrements to an ultimate rate of 5 percent. The year the ultimate trend rates are reached is 2016 for Pre 65 and 2014 for Post 65. Both rates include a 2.5 percent 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, 2011 was 25.89 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 and January 1997. The March 1994 amendment extended the term of the agreement until December 1, 2013 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 usually amended annually. The most recent amendment is dated May 2010. The administrative fees expense amounted to \$9,306,670 and \$9,843,086 for the years ended December 31, 2011 and 2010, respectively. The overpaid administrative fees at December 31, 2011 and 2010 amounted to \$1,365,566 and \$1,082,100, 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 \$1,349,000 and \$1,279,000 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Tipping fees	\$ 172,998	97,188
Administrative fees	1,365,566	1,082,100
Accrued expenses	150,009	142,412
Other	<u>49,881</u>	<u>-</u>
	<u>\$ 1,738,454</u>	<u>1,321,700</u>

Amounts due to the primary government at December 31, 2011 and 2010 consisted of accounts payable and accrued expenses of \$204,984 and \$271,818, respectively.

(10) Commitments and Contingencies

Commitments and contingencies at December 31, 2011 consist of the following:

(a) Litigation

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

(b) Environmental Issues

The MacArthur Resource Recovery Facility (the Facility) is operated by Veolia Environmental Services North America Corp., f/k/a Montenay Islip, Inc. (the 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, 25% of the revenue from the sale of electricity up to a threshold amount. The original 56,000,000 KWH threshold was reduced in 2005 due to limitations resulting from the installation of the emission control system. The threshold was reduced further in 2007 to 53,152,847 KWH. The Company also receives 50% of the revenue from the sale of any additional electricity sold each year.

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

ISLIP RESOURCE RECOVERY AGENCY
Notes to Combined Financial Statements, Continued

(10) Commitments and Contingencies, Continued

(b) Environmental Issues, Continued

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

(c) Operation of MacArthur Resource Recovery Facility

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

Pursuant to the terms of the amendment to the agreement, construction has commenced to effect capital improvements at the facility. The Covanta Company is acting as Construction Supervisor on these projects and is being compensated for this service at seven percent of the cost of contracts supervised. All capital improvements will become the property of the Agency.

(11) Risk Management

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

(12) Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," amends GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," to allow agent employers that have individual employer OPEB plans, with less than 100 plan members to use the alternate measurement method, regardless of the total number of plan members in the multiple-employer OPEB plan in which it participates. The requirements of this statement are effective for periods beginning after June 15, 2011. This statement is not expected to have a material effect on the combined financial statements of the Agency.

GASB Statement No. 60 - "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements, a type of public-private partnership. This statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue and how to record any obligation of the transferor to the operator. The requirements of this statement are effective for periods beginning after December 15, 2011. This statement is not expected to have a material effect on the combined 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. 61 - "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are so intertwined with the primary government that they are essentially the same as the primary government. The requirements of the statement are effective for period beginning after June 15, 2012. This statement is not expected to have a material effect on the combined financial statements of the Agency.

GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of the statement are effective for period beginning after December 15, 2011. This statement is not expected to have a material effect on the combined financial statements of the Agency.

REQUIRED SUPPLEMENTAL INFORMATION

ISLIP RESOURCE RECOVERY AGENCY

Schedule of Funding Progress for
Other Postemployment Benefit Plan

December 31, 2011 and 2010

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

Actuarial valuation date	Actuarial value of assets (a)	Accrued liability (b)	Unfunded accrued liability (UAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAL as a percentage of covered payroll ((b-a)/c)
1/1/2011	\$ -	6,809,006	6,809,006	0%	2,060,314	330.50%
1/1/2009	-	5,875,575	5,875,575	0%	1,339,549	438.62%
1/1/2007	-	4,592,555	4,592,555	0%	Not available	Not available

ISLIP RESOURCE RECOVERY AGENCY
Combining Balance Sheet
December 31, 2011

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$ 36,529,104	7,694,629	44,223,733
Accounts receivable, less allowance of \$250,308	1,149,002	-	1,149,002
Notes receivable, current portion, net of unearned interest of \$2,913	55,205	-	55,205
Due from other governments	8,489	-	8,489
Due from primary government	1,738,454	-	1,738,454
Due from Agency Fund	-	-	-
Prepaid expenses	97,494	151,690	249,184
Total current assets	<u>39,577,748</u>	<u>7,846,319</u>	<u>47,424,067</u>
Restricted assets:			
Cash and equivalents	17,568,132	170,000	17,738,132
Investments	2,710,601	-	2,710,601
Capital assets, net	20,844,342	648,559	21,492,901
Note receivable, less current portion, net of unearned interest of \$445	17,698	-	17,698
Other assets - deferred charges - bond financing costs, net of accumulated amortization of \$1,893,523	624,934	-	624,934
Total assets	<u>\$ 81,343,455</u>	<u>8,664,878</u>	<u>90,008,333</u>

See independent auditors' report.

ISLIP RESOURCE RECOVERY AGENCY
Combining Balance Sheet, Continued

	<u>Agency</u>	<u>Collection</u>	<u>Total</u>
Current liabilities:			
Current portion of long-term debt	\$ 4,815,000	-	4,815,000
Accounts payable and accrued expenses	1,348,139	91,556	1,439,695
Due to other governments	230,871	-	230,871
Due to primary government	57,579	147,405	204,984
Current portion of estimated liability for landfill closure and post-closure costs	<u>9,252,000</u>	<u>-</u>	<u>9,252,000</u>
Total current liabilities	<u>15,703,589</u>	<u>238,961</u>	<u>15,942,550</u>
Current liabilities payable from restricted assets:			
Current portion of long-term debt	-	-	-
Accrued interest on bonds	<u>573,219</u>	<u>-</u>	<u>573,219</u>
Total current liabilities payable from restricted assets	<u>573,219</u>	<u>-</u>	<u>573,219</u>
Other liabilities:			
Estimated liability for landfill closure and post-closure costs, less current portion	24,424,108	-	24,424,108
Long-term debt, less current portion	17,723,314	-	17,723,314
Compensated absences	208,666	182,258	390,924
Other postemployment benefits	<u>714,153</u>	<u>967,393</u>	<u>1,681,546</u>
Total other liabilities	<u>43,070,241</u>	<u>1,149,651</u>	<u>44,219,892</u>
Total liabilities	<u>59,347,049</u>	<u>1,388,612</u>	<u>60,735,661</u>
Net assets:			
Invested in capital assets, net of related debt	(1,693,972)	648,559	(1,045,413)
Restricted	14,317,295	170,000	14,487,295
Unrestricted	<u>9,373,083</u>	<u>6,457,707</u>	<u>15,830,790</u>
Total net assets	<u>21,996,406</u>	<u>7,276,266</u>	<u>29,272,672</u>
Total liabilities and net assets	<u>\$ 81,343,455</u>	<u>8,664,878</u>	<u>90,008,333</u>

See independent auditors' report.

ISLIP RESOURCE RECOVERY AGENCY
Combining Statement of Revenue, Expenses and
Changes in Net Assets
Year ended December 31, 2011

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

See independent auditors' report.

ISLIP RESOURCE RECOVERY AGENCY
Combining Statement of Cash Flows
Year ended December 31, 2011

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

(Continued)

See independent auditors' report.

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

See independent auditors' report.

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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 the combined financial statements of Islip Resource Recovery Agency (the Agency), a component unit of the Town of Islip, New York, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, the Town of Islip Comptroller, the New York State Governor, the New York State Senate Finance Committee, the New York State Assembly Ways and Means Committee and the Office of the State Comptroller and is not intended to be and should not be used by anyone other than those specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 23, 2012

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH INVESTMENT GUIDELINES**

The Board of Directors
Islip Resource Recovery Agency:

We have audited the schedule of deposits and investments of the Islip Resource Recovery Agency (the Agency), a component unit of the Town of Islip, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 23, 2012.

As part of our audit, we tested the Agency's and the Town of Islip's compliance with certain New York State laws and regulations and their investment policy which, if not followed, could have a direct and material impact on the schedule of deposits and investments. Our audit included tests deemed necessary to obtain reasonable assurance that the schedule is free of material misstatements, and also included analysis of the security and liquidity of investments to determine compliance with the investment policies.

Compliance with the Investment Guidelines for Public Authorities applicable to the Agency is the responsibility of the Agency's management. Our responsibility is to express an opinion regarding compliance with those requirements based on our audit.

The results of our tests indicate that, with respect to items tested, the Agency complied, in all material respects, with the provisions of the New York State authorities law and the investment policy as referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that the Agency had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, the Town of Islip Comptroller, the New York State Governor, the New York State Senate Finance Committee, the New York State Assembly Ways and Means Committee and the Office of the State Comptroller and is not intended to be and should not be used by anyone other than those specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 23, 2012