

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**

**(COMPONENT UNIT OF THE COUNTY OF BERGEN)**

**REPORT OF AUDIT**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2009 AND 2008**

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
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## INDEPENDENT AUDITORS' REPORT

Honorable Commissioners and Members of the Board  
Northwest Bergen County Utilities Authority  
Waldwick, New Jersey

We have audited the accompanying basic financial statements of the Northwest Bergen County Utilities Authority, a component unit of the County of Bergen as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

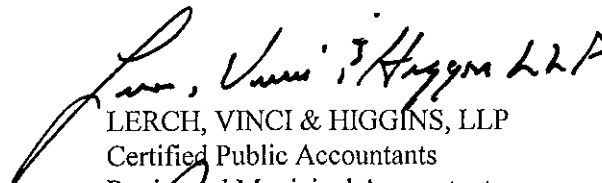
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Northwest Bergen County Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to previously present fairly, in all material respects, the financial position of the Northwest Bergen County Utilities Authority as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

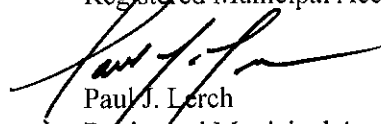
In accordance with Government Auditing Standards, we have also issued our report dated April 8, 2010 on our consideration of the Northwest Bergen County Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Northwest Bergen County Utilities Authority. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Northwest Bergen County Utilities Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants



Paul J. Lerch  
Registered Municipal Accountant  
RMA Number CR00457

Fair Lawn, New Jersey  
May 21, 2010

***MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)***

# ***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2009***

This section of the Northwest Bergen County Utilities Authority's ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2009. Please read it in conjunction with the Authority's financial statements and accompanying notes.

The Authority entered into an agreement on March 12, 1965 with the Boroughs of Allendale, Ho-Ho-Kus, Midland Park, Ramsey, Waldwick and the Township of Wyckoff to provide a wastewater collection and treatment service to all the member municipalities. Since that agreement has been signed, the Authority has added five more municipalities: Township of Mahwah, the Borough of Upper Saddle River, Village of Ridgewood, the Borough of Saddle River and the Borough of Franklin Lakes. The Authority provides wastewater collection and treatment services to ten municipalities.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2009 are as follows:

- Net assets were \$31,965,320, an increase from December 31, 2008 of \$2,703,839.
- Total budgetary revenues from all sources were \$14,735,882 an increase of \$508,374 when compared to the modified budget. The increase is attributable to the New Jersey Clean Energy rebate the Authority will be receiving for their installation of solar panels that will generate electric power.
- Cash from reserves in the amount of \$240,000 was originally budgeted to cover the revenue shortfall, however budget revenues were in excess of expenses in the amount of \$645,884.
- Overall GAAP operating revenues were \$14,335,292, an increase from 2008 of \$1,392,316.
- Operating expenses were \$11,069,489, an decrease from 2008 of \$63,079.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Proprietary Fund – Services for which the Authority charges customers a user fee are generally reported in proprietary funds. These statements offer short- and long-term financial information about the activities and operations of the Authority. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner. The financial statements also include Notes that explain certain information in the financial statements and provide more detailed data.

The Northwest Bergen County Utilities Authority maintains one proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities. The Authority uses the Enterprise Fund to account for its Wastewater System operation.

***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2009  
(Continued)***

**FINANCIAL ANALYSIS OF THE AUTHORITY**

*Net Assets* – The following table summarizes the Statement of Net Assets as of December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u> (Restated)	<u>2007</u>
Current and Other Assets	\$ 19,197,529	\$ 15,956,355	\$ 16,000,161
Capital Assets (Net of Accumulated Depreciation)	<u>42,396,693</u>	<u>39,569,631</u>	<u>39,509,060</u>
 Total Assets	 <u>61,594,222</u>	 <u>55,525,986</u>	 <u>55,509,221</u>
 Other Liabilities	 6,232,808	 6,082,658	 5,058,672
Non-Current Liabilities	<u>23,396,094</u>	<u>20,181,487</u>	<u>22,229,571</u>
 Total Liabilities	 <u>29,628,902</u>	 <u>26,264,145</u>	 <u>27,288,243</u>
 Net Assets:			
Invested in Capital Assets, Net of Related Debt	21,271,347	19,808,693	16,365,942
Restricted	2,239,424	2,857,893	3,865,778
Unrestricted	<u>8,454,549</u>	<u>6,595,255</u>	<u>7,989,258</u>
 Total Net Assets	 <u>\$ 31,965,320</u>	 <u>\$ 29,261,841</u>	 <u>\$ 28,220,978</u>

The Authority's Net Assets increased \$2,703,839 and \$1,326,799 in 2009 and 2008, respectively, which is attributable to the Authority's sound fiscal management. Key elements of this increase are summarized in the following table.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2009**

*(Continued)*

**OPERATING ACTIVITIES**

The following table summarizes the changes in Net Assets between fiscal years 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u> (Restated)	<u>2007</u>
<b>OPERATING REVENUES</b>			
Member Service Fees	\$ 13,212,508	\$ 12,354,985	\$ 12,124,278
Outside Sludge	169,666	143,732	234,528
Industrial Pretreatment Program	89,529	64,480	92,734
Miscellaneous	<u>863,589</u>	<u>379,779</u>	<u>229,776</u>
 Total Operating Revenues	 <u>14,335,292</u>	 <u>12,942,976</u>	 <u>12,681,316</u>
 <b>OPERATING EXPENSES</b>			
Administration	1,739,331	1,908,982	1,590,202
Cost of Providing Services	7,215,863	7,281,971	6,664,985
Depreciation	<u>2,114,295</u>	<u>1,941,615</u>	<u>2,020,236</u>
 Total Operating Expenses	 <u>11,069,489</u>	 <u>11,132,568</u>	 <u>10,275,423</u>
 <b>OPERATING INCOME</b>	 <u>3,265,803</u>	 <u>1,810,408</u>	 <u>2,405,893</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	400,950	501,560	983,289
Interest Expenses	(885,392)	(945,462)	(1,081,285)
Amortization of Costs of Issuance	<u>(77,522)</u>	<u>(39,707)</u>	<u>(44,842)</u>
 Total Non-Operating Income (Expenses)	 <u>(561,964)</u>	 <u>(483,609)</u>	 <u>(142,838)</u>
 <b>CHANGE IN NET ASSETS</b>	 <u>\$ 2,703,839</u>	 <u>\$ 1,326,799</u>	 <u>\$ 2,263,055</u>



***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2009  
(Continued)***

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The following table summarizes the Authority's investment in capital assets, net of depreciation, between fiscal years 2009, 2008 and 2007. The construction in progress represents the Upper Saddle River and Franklin Lakes sewer expansion project, septage receiving station, the upgrade to the plant water system, pump station upgrades, scum tilting troughs, and the incinerator project.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 1,350,526	\$ 1,350,526	\$ 1,350,526
Treatment Plant and Collection System	75,153,224	71,304,928	69,340,366
Property and Equipment	14,256,344	14,255,217	14,030,272
Construction in Progress	<u>2,116,039</u>	<u>1,024,105</u>	<u>1,211,426</u>
	92,876,133	87,934,776	85,932,590
Less Accumulated Depreciation	<u>(50,479,440)</u>	<u>(48,365,145)</u>	<u>(46,423,530)</u>
Capital Assets, Net	<u>\$ 42,396,693</u>	<u>\$ 39,569,631</u>	<u>\$ 39,509,060</u>

The Authority has completed the installation of solar panels that will generate electricity and has been placed in service in 2009.

The Authority's on-going capital plan is extensive and reviewed each year by the Authority's outside engineers. Several of the larger future capital improvements are listed below:

- Continuous improvements to expand odor control
- Pump station upgrades
- Replacement of several trucks and heavy equipment
- Plant water system upgrade
- UV Replacement
- Collection drives and drains
- Incinerator upgrades

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2009**

*(Continued)*

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

*Capital Assets (Continued)*

The Authority's Consulting Engineer has estimated that \$6,999,000 will be required to fund the Capital Projects identified by the Authority in the period 2010-2014. The 2010 Capital Budget will be funded primarily by debt authorization and it is anticipated that the Authority will continue this approach through 2014. As a consequence, there will be no funds added to the Renewal and Replacement Reserve in 2009. As of December 31, 2009, the Authority has restricted in the Renewal and Replacement Reserve Account \$250,000.

Additional information on the Authority's capital assets can be found in Note 6 to the Basic Financial Statements.

*Debt Administration*

The following table summarizes the Authority's long-term debt as of December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue Bonds	\$ 20,637,294	\$ 16,377,068	\$ 16,920,000
Plus: Unamortized Original Issued Premium	517,405	265,692	340,161
Less: Unamortized Loss on Refunding	<u>(442,160)</u>	<u>(559,199)</u>	<u>(715,934)</u>
Total Wastewater Revenue Bonds-Net	<u>20,712,539</u>	<u>16,083,561</u>	<u>16,544,227</u>
New Jersey Environmental Infrastructure Loan	6,436,231	7,779,911	9,104,685
Plus: Unamortized Gain on Refunding	<u>325,343</u>	<u>377,429</u>	<u>414,174</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>6,761,574</u>	<u>8,157,340</u>	<u>9,518,859</u>
Total Long-Term Debt - Net	27,474,113	24,240,901	26,063,086
Plus: Compensated Absences	<u>133,396</u>	<u>119,041</u>	<u>126,621</u>
Long-Term Liabilities	<u>\$ 27,607,509</u>	<u>\$ 24,359,942</u>	<u>\$ 26,189,707</u>

Additional information on the Authority's capital debt can be found in Note 8 of the Basic Financial Statements.

# ***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2009 (Continued)***

### **OTHER FINANCIAL INFORMATION**

#### **2010 BUDGET AND NEXT YEAR RATES**

##### **Assumptions**

- Salaries and Wages will increase due to contractual salary increase and step increase.
- Employee Benefits will increase based upon wages and increased health benefits.
- Public Employee Retirement System contribution is increased due to State mandates.
- The impact of these increased costs will be partially offset by anticipated decreases in the cost of the I&I program.

The Northwest Bergen County Utilities Authority's proposed 2010 Budget totals \$14,889,687, representing \$422,179 or 2.92% increase from the original 2009 Budget of \$14,467,508.

The Operating Budget of \$9,691,226 has increased by \$390,483, or 4.20%. The Capital Improvement portion of the Budget has been eliminated for 2010.

Revenue anticipated from Service Charges will vary from each community – depending on the factors applied for adjusted meter flow, water use and equivalent dwelling units. The Total amount required from all user communities to balance this budget amounts to \$13,738,687, which represents a 3.98% increase from 2009. Funds are anticipated this year for Outside Septage and Sludge in the amount of \$120,000. Interest income is estimated at \$320,000, a significant reduction from 2009 due to the declining interest rates in 2009. Industrial Pretreatment Program Permit income is estimated to be \$68,000 and Collection System Operations income is estimated to be \$58,000. This year we anticipate Miscellaneous Income totaling approximately \$270,000 which includes the sale of Solar Renewable Energy Certificates (SREC's). In addition the Authority is utilizing funds from their reserve in the amount of \$315,000 in order to limit the increase in service charges to member municipalities.

### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the member municipalities and their citizens, investors and creditors, with general overview of the Authority's finances to demonstrate the Authority's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the Authority at 30 Wyckoff Avenue, P.O. Box 255, Waldwick, NJ 07463.

**BASIC FINANCIAL STATEMENTS**

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENTS OF NET ASSETS**  
**AS OF DECEMBER 31, 2009 AND 2008**

	December 31, <u>2009</u>	December 31, <u>2008</u> (Restated)
<b>ASSETS</b>		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 3,456,344	\$ 763,067
Accrued Interest Receivable	2,183	4
Other Receivable	650,537	
Inventory	459,838	458,928
Prepaid Items	<u>108,488</u>	<u>78,740</u>
Total Unrestricted Current Assets	<u>4,677,390</u>	<u>1,300,739</u>
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	3,352,606	3,089,248
Accrued Interest Receivable	9,493	11,280
Project Accounts		
Cash and Cash Equivalents	3,811,076	2,258,820
Accrued Interest Receivable	2,857	
Cost of Issuance Account		
Cash and Cash Equivalents		137,670
Renewal and Replacement Account		
Investments	250,000	2,280,477
Accrued Interest Receivable	1,455	25,005
Bond/Loan Service Account		
Investments	1,129,976	1,323,827
Accrued Interest Receivable	6,795	23,200
Bond/Loan Reserve Account		
Cash and Cash Equivalents	763	507,118
Investments	4,090,242	3,311,378
Accrued Interest Receivable	<u>98,883</u>	<u>96,562</u>
Total Restricted Current Assets	<u>12,754,146</u>	<u>13,064,585</u>
Total Current Assets	<u>17,431,536</u>	<u>14,365,324</u>
Restricted Non-Current Assets		
Loan Reserve Account		
Investments	1,286,380	1,286,380
Accrued Interest Receivable	<u>28,812</u>	<u>28,812</u>
Total Restricted Non-Current Assets	<u>1,315,192</u>	<u>1,315,192</u>
Deferred Charges		
Debt Issuance Costs (net of amortization)	<u>450,801</u>	<u>275,839</u>
Total Deferred Charges	<u>450,801</u>	<u>275,839</u>
Capital Assets		
Land	1,350,526	1,350,526
Treatment Plant and Collection System	75,153,224	71,304,928
Property and Equipment	14,256,344	14,255,217
Construction in Progress	2,116,039	1,024,105
Less Accumulated Depreciation	<u>(50,479,440)</u>	<u>(48,365,145)</u>
Total Capital Assets (net of accumulated depreciation)	<u>42,396,693</u>	<u>39,569,631</u>
Total Non-Current Assets	<u>44,162,686</u>	<u>41,160,662</u>
Total Assets	<u>\$ 61,594,222</u>	<u>\$ 55,525,986</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
COMPARATIVE STATEMENTS OF NET ASSETS  
AS OF DECEMBER 31, 2009 AND 2008

	December 31, <u>2009</u>	December 31, <u>2008</u> (Restated)
<b>LIABILITIES</b>		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 546,500	\$ 554,879
Accrued Salary and Related Benefits	149,584	49,279
Unearned Revenues	36,560	24,870
Escrow Deposits Payable	6,000	7,000
Other Liabilities	<u>3,585</u>	<u>8,048</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>742,229</u>	<u>644,076</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	346,635	5,595
Revenue Bonds Payable	2,949,774	2,834,774
Loans Payable	1,370,340	1,843,681
Accrued Interest on Bonds and Loans	446,593	397,596
Claims and Judgements Payable	<u>377,237</u>	<u>356,936</u>
Total Current Liabilities Payable from Restricted Assets	<u>5,490,579</u>	<u>5,438,582</u>
Non-Current Liabilities		
Revenue Bonds Payable (net of unamortized discounts and deferred amount on refunding)	17,762,765	13,248,786
Loans Payable (net of unamortized gain on loan refinancing)	5,391,234	6,813,660
Accrued Compensated Absences	133,396	119,041
Claims and Judgements Payable	<u>108,699</u>	<u>-</u>
Total Non-Current Liabilities	<u>23,396,094</u>	<u>20,181,487</u>
Total Liabilities	<u>\$ 29,628,902</u>	<u>\$ 26,264,145</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 21,271,347	\$ 19,808,693
Restricted For:		
Debt Service	1,989,424	1,847,893
Renewal and Replacement	250,000	1,010,000
Unrestricted	<u>8,454,549</u>	<u>6,595,255</u>
Total Net Assets	<u>\$ 31,965,320</u>	<u>\$ 29,261,841</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	December 31, <u>2009</u>	December 31, <u>2008</u> (Restated)
<b>OPERATING REVENUES</b>		
Member Service Fees	\$ 13,212,508	\$ 12,354,985
Sewer Connection Fees	46,156	265,189
Discharge Fees	2,800	2,500
Industrial Pretreatment Program	89,529	64,480
Outside Sludge	169,666	143,732
Collection System	81,415	50,133
Miscellaneous	<u>733,218</u>	<u>61,957</u>
 Total Operating Revenues	 <u>14,335,292</u>	 <u>12,942,976</u>
 <b>OPERATING EXPENSES</b>		
Administrative and Executive		
Salaries & Wages	447,123	428,600
Fringe Benefits	185,256	169,873
Other Expenses	1,106,952	1,310,509
Cost of Services		
Salaries & Wages	3,211,184	2,986,415
Fringe Benefits	1,330,751	1,178,055
Other Expenses	2,673,928	3,117,501
Depreciation Expense	<u>2,114,295</u>	<u>1,941,615</u>
 Total Operating Expenses	 <u>11,069,489</u>	 <u>11,132,568</u>
 OPERATING INCOME	 <u>3,265,803</u>	 <u>1,810,408</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	400,590	501,560
Interest Expenses	(885,392)	(945,462)
Amortization of Costs of Issuance	<u>(77,522)</u>	<u>(39,707)</u>
 Total Non-Operating Income (Expenses)	 <u>(562,324)</u>	 <u>(483,609)</u>
 CHANGE IN NET ASSETS	 2,703,479	 1,326,799
Total Net Assets, January 1,	29,261,841	28,220,978
 Prior Period Adjustment	 <u>-</u>	 <u>(285,936)</u>
Total Net Assets, January 1, as Adjusted	<u>29,261,841</u>	<u>27,935,042</u>
 Total Net Assets, December 31,	 <u>\$ 31,965,320</u>	 <u>\$ 29,261,841</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	December 31, <u>2009</u>	December 31, <u>2008</u> (Restated)
Cash Flows from Operating Activities		
Cash Received from Members	\$ 13,212,508	\$ 12,354,985
Cash Received from Other Operating Fees	397,862	523,959
Cash Paid to Suppliers	(5,356,480)	(5,759,865)
Cash Paid to Employees	(3,557,988)	(3,408,762)
Cash Received from Miscellaneous Fees	<u>82,681</u>	<u>61,957</u>
Net Cash Provided by Operating Activities	<u>4,778,583</u>	<u>3,772,274</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds (Uses) from Escrow Deposits	<u>(1,000)</u>	<u>1,000</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(1,000)</u>	<u>1,000</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Long-Term Debt	7,429,499	2,236,842
Proceeds from Issuance of Short-Term Debt		500,000
Principal Payments - Bonds	(2,834,774)	(2,779,774)
Principal Payments - Loans	(1,843,680)	(1,324,774)
Payment of Debt Issuance Costs	(258,079)	(178,917)
Interest Paid - Bonds and Loans	(854,228)	(935,782)
Acquisition of Fixed Assets	<u>(4,560,894)</u>	<u>(2,081,941)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(2,922,156)</u>	<u>(4,564,346)</u>
Cash Flows from Investing Activities		
Proceeds from Investments Matured	1,445,464	
Purchase of Investments		(3,604,412)
Interest Received	<u>563,975</u>	<u>483,694</u>
Net Cash Provided (Used) by Investing Activities	<u>2,009,439</u>	<u>(3,120,718)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,864,866	(3,911,790)
Cash and Cash Equivalents, January 1,	<u>6,755,923</u>	<u>10,667,713</u>
Cash and Cash Equivalents, December 31,	<u>\$ 10,620,789</u>	<u>\$ 6,755,923</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Cash Equivalents	\$ 3,456,344	\$ 763,067
Restricted - Cash and Cash Equivalents	<u>7,164,445</u>	<u>5,992,856</u>
	<u>\$ 10,620,789</u>	<u>\$ 6,755,923</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	December 31, <u>2009</u>	December 31, <u>2008</u> (Restated)
Operating Income	<u>\$ 3,265,803</u>	<u>\$ 1,810,408</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	2,114,295	1,941,615
(Increase)/Decrease in Inventory	(910)	(29,584)
(Increase)/Decrease in Prepaid Expenses	(29,748)	(317)
Increase/(Decrease) in Accounts Payable	(42,207)	45,655
Increase/(Decrease) in Accrued Salary and Related Benefits	100,305	10,833
Increase/(Decrease) in Accrued Compensated Absences	14,355	(4,580)
Increase/(Decrease) in Other Liabilities	(4,463)	7,484
Increase/(Decrease) in Unearned Revenue	11,690	(9,240)
(Increase)/Decrease in Other Receivables	<u>(650,537)</u>	<u>-</u>
Total Adjustments	<u>1,512,780</u>	<u>1,961,866</u>
Net Cash Provided by Operating Activities	<u>\$ 4,778,583</u>	<u>\$ 3,772,274</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Purchase of Capital Assets on Account	\$ 87,383	\$ 84,311
Original Issue Premium	82,786	74,469
Gain on Refunding	52,086	36,745
Loss on Refunding	117,039	156,735

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**NOTES TO BASIC FINANCIAL STATEMENTS**

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Northwest Bergen County Utilities Authority, successor agency to the Northwest Bergen County Sewer Authority, a public body corporate and politic of the State of New Jersey, was created pursuant to the laws of the State of New Jersey, Chapter 123, P.L. 1946 (as amended and supplemented by N.J.S.A. 40:14B-1) by virtue of a resolution of the Board of Chosen Freeholders of the County of Bergen (the "County") adopted July 23, 1952. The Authority commenced operations in 1969 by providing wastewater collection and treatment services to six municipalities. Currently, the Authority provides wastewater collection and treatment services to ten municipalities.

The Authority operates under the provisions of the Municipal and County Utilities Authorities Law (the "Act") and has broad powers under the Act including, among others, the following: to retain, operate and administer its property; to provide for bonds and to secure their payment and rights of holders thereof; to charge and collect service charges for the use of its facilities and to revise such service charges to ensure that the revenues of the Authority will at all times be adequate to pay all operating and maintenance expenses, including reserves, insurance, extensions and replacements, and to pay the principal of and the interest on any bonds or loans, and to maintain such reserves or sinking funds therefore as may be required by the terms of any contract of the Authority; and to make and enforce rules and regulations for the management of its business and affairs.

The Authority is governed by a Board of Commissioners (the "Board") consisting of nine members, each of whom is appointed by the Bergen County Executive with the advice and consent of the Board of Chosen Freeholders. The Act provides that alternate Commissioners may be appointed. In addition, the County Executive has veto power over the actions of the Board of Commissioners. An Executive Director is appointed by the Board and functions as Chief Executive Officer responsible for the daily operations of the Authority.

GASB has issued Statement No. 39 which requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's board, and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority has no component units. The Authority would be includable as a component unit of the County of Bergen on the basis of such criteria.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The accounts of the Authority are organized into one fund with self-balancing accounting records that comprise its assets, liabilities, fund equity, revenues and expenses. The fund type and fund category is as follows:

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Proprietary Fund Types**

*Enterprise Funds* - The Enterprise Fund is used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its users on a continuing basis be financed or recovered primarily through user charges. The Authority maintains an enterprise fund to account for its Wastewater System Operations.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the enterprise fund operations are included on the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The Authority's financial transactions are recorded in accounts that are created by various resolutions adopted by the Authority to meet bond or note covenant requirements (more fully defined in Note 3).

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow FASB guidance issued subsequent to December 1, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Assets, Liabilities and Net Assets**

**1. *Deposits and Investments***

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit and all short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at market value and are limited by the 1972 General Bond Resolution and 1984 Trust Indenture as amended and supplemented thereto.

**2. *Inventory***

The Authority utilizes the consumption method of accounting for inventories whereas they report the inventories they purchase as an asset and defer the recognition of an expenditure until the period in which the inventories are actually consumed.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Assets (Continued)**

**3. *Prepaid Items***

Certain payments to vendors affect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**4. *Accounts Receivable***

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**5. *Restricted Assets***

Certain assets are classified as restricted on the statement of net assets because they are maintained in separate bank accounts and their use is limited by the 1972 General Bond Resolution and the 1984 Trust Indenture and supplements.

**6. *Capital Assets***

All capital assets acquired or constructed by the Authority are reported as expenses in the account that finances the acquisition of the assets and are capitalized in the Operating Accounts.

Construction costs are charged to work in progress until such time as they are completed and certified by the Authority's consulting engineers, at which time they are transferred to their respective asset category and are then depreciated over their useful lives. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Authority during 2009 and 2008 was \$1,005,839 and \$945,462 respectively. Of these amounts \$120,447 and \$-0- were included as part of the cost of capital assets under construction for those years.

All capital assets are valued at historical cost and depreciated on the straight-line method based on their asset class and estimated useful lives as follows:

<u>Class</u>	<u>Life</u>
Treatment Plant	40 Years
Collection System	40 Years
Pumping Stations	40 Years
Machinery and Equipment	5-15 Years
Vehicles	5 Years

**7. *Deferred Debits***

**Debt Issuance Costs**

In connection with the Authority's issuance of debt, the Authority incurred certain professional and printing costs. These expenses are deferred and amortized over the respective lives of the debt based on the effective interest method.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Assets (Continued)**

**8. *Compensated Absences***

Sick leave benefits and salary related payments are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Authority will compensate the employee for the benefits.

**9. *Net Assets***

Restricted net assets are limited to outside third-party restrictions either by law or by other organizations or persons external to the Authority. Unrestricted net assets represent the net assets neither restricted nor invested in capital assets, net of related debt.

**10. *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**11. *Reclassifications***

Certain reclassifications have been made to the December 31, 2008 balances to conform to the December 31, 2009 presentation.

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. *Budgetary Accounting***

The Authority annually prepares an operating budget. The budget is prepared in accordance with the Budget Manual for Local Public Authorities as promulgated by the Division of Local Government Services, which differs in certain respects from accounting principles generally accepted in the United States of America. The budgets serve as a plan for expenses and the proposed means for financing them. Budgetary control is exercised within the respective system. Unexpended appropriations lapse at year-end.

The annual budgets are approved at least sixty days prior to the beginning of the fiscal year. The budgets must be approved by the Board and submitted to the Division of Local Government Services, Bureau of Authority regulation for approval prior to adoption. Budget adoptions and amendments are recorded in the Authority's minutes.

Six Year Capital budgets are also prepared for each system. Included within the budgets are individual projects along with their estimated cost, completion date and source of funding.

The encumbrance method of accounting is utilized by the Authority for budgetary purposes. Under this method purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve a portion of the applicable budget appropriation.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**1. Budgetary Accounting (Continued)**

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either cancelled or are included as re-appropriations of fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and re-appropriations.

**2. Revenues**

After the operating budgets are adopted, a wastewater collection and treatment service charge is approved by the Board. The service charge is calculated based on a formula. The formula is based on 60% of the adjusted meter flow, 20% of the equivalent dwelling units and 20% of water usage for a six month period covering the winter quarters. The service charge is billed quarterly to the participating municipalities. Revenue is recognized in the year that the user is billed.

**NOTE 3 CREATION OF FUNDS**

Under the Bond Resolution dated December 19, 1972 and the Trust Indenture dated September 1, 1984, the following funds are required to be created and held by the Authority's Trustee:

- A) Revenue Fund (Restricted)
- B) Operating Fund (Unrestricted)
- C) Bond Service Fund (Restricted)
- D) Bond Reserve Fund (Restricted)
- E) Renewal and Replacement Fund (Restricted)
- F) General Fund (Unrestricted)
- G) Construction Fund (Restricted)

Each of the above funds represents separate accounts held by a trustee, except for the Operating Account and General Account, which is held by the Authority.

The funds are described as follows:

Revenue Fund - To account for all revenues received by the Authority. All revenues deposited into the Revenue Fund are transferred by the Trustee on the transfer dates as defined by the Bond Resolution to the following funds described below.

Operating Fund - To account for the payment of all operating costs of the Authority.

Bond Service Fund - To account for the accumulation of resources for the payment of principal and interest due during the current fiscal year on outstanding bonds.

Bond (Loan) Reserve Fund - To account for funds held in accordance with the Bond Resolution to meet the Bond Reserve requirement, an amount which is equal to the maximum annual debt service on outstanding bonds. Also, New Jersey Wastewater Trust required an amount which is equal to the maximum annual debt service on outstanding loans.



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 3 CREATION OF FUNDS (Continued)**

Renewal and Replacement Fund – To account for the accumulation of resources to meet the renewal and replacement reserve requirement, as certified by the Authority’s consulting engineers, in accordance with the Bond Resolution. The Trustee can withdraw from this fund, upon a certification of the consulting engineers, for the use of reasonable and necessary expenses of the Authority with respect to making of improvements, constructions, reconstructions, replacements, modifications, renewals, major repairs or maintenance or other items not recurring annually or at shorter intervals with respect to the system or any portion thereof. If on any payment date there are insufficient monies in the bond service account and the bond reserve account to pay interest or a principal installment on any bonds when due and the Authority has exhausted the General Account, the Authority has just cause to use monies from the Renewal and Replacement Fund sufficient to pay the interest and/or principal payments when due.

General Fund – To account for the accumulation of resources resulting from excess monies, which are and shall be free and clear of any lien or pledge created by the Bond Resolution and Trust Indenture.

Construction Fund - To account for all financial resources received by the Authority for the payment of costs related to the construction, acquisition or restoration of the systems. All moneys in the Construction Fund are hereby pledged pending their application to other purposes or disbursement or transfer to other funds, to secure the payment of the principal or redemption price of and interest on bonds.

**NOTE 4 DEPOSITS AND INVESTMENTS**

**Deposits** - The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corp. (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Authority is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank for a temporary period ending December 31, 2013. SIPC replaces cash claims up to a maximum of \$100,000 for each failed brokerage firm. At December 31, 2009 and 2008, the book value of the Authority's deposits were \$544,486 and \$3,666,675, respectively, and bank balances of the Authority's cash and deposits amounted to \$602,176 and \$3,749,857, respectively. The Authority’s deposits which are displayed on the balance sheet as “cash and cash equivalents” are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Insured		
Restricted	\$ 847	\$ 2,903,608
Unrestricted	<u>601,329</u>	<u>846,249</u>
	<u>\$ 602,176</u>	<u>\$ 3,749,857</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Authority does have a formal policy for custodial credit risk. As of December 31, 2009 and 2008, none of the Authority’s bank balances were exposed to custodial credit risk.

**Investments** – The Authority is required by its Bond Resolutions and Trust Indenture to maintain each of its investments in the Fund (account) in which the investment is made. In all accounts, except the operating account, the securities and the underlying collateral are held by the Bond Trustees and are within their care, custody and control. The type, quality and length of time of investment are regulated by the Bond Resolution and Trust Indenture (see Note 3).

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

Under the Authority's Bond Resolution and Trust Indenture, the following investments are permitted:

- (a) Any direct and general obligation of, or any obligation fully and unconditionally guaranteed by, the United States of America;
- (b) Any bond, debenture, note or other evidence of indebtedness issued by any of the following Federal agencies: Government National Mortgage Association, Federal Home Loan Bank, Tennessee Valley Authority, Farmers Home Administration, Export-Import Bank, Federal Financing Bank and Student Loan Marketing Association;
- (c) Any other bond, debenture, note or other evidence of indebtedness issued by the Federal National Mortgage Association to the extent such obligation is guaranteed by the Government National Mortgage Association;
- (d) Any Public Housing Bond issued by any Public Housing Authority and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contribution Contract or Contracts with the United States of America; or any Project Note issued by any Public Housing Authority or Local Public Agency, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- (e) Direct and general obligations of (i) the State of New Jersey, or (ii) of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
- (f) Interest-bearing time deposits or negotiable certificates of deposit issued by any bank, trust company, or savings and loan institution organized under the laws of the United States, any state of the United States of America, or any national banking association (including the Trustee), provided that such certificates of deposit shall be (1) continuously and fully insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation, or (2) at any one time do not exceed, in the aggregate, five percent (5%) of the total capital stock, surplus and undivided earnings of any such bank, trust company, national banking association, or savings and loan institution or (3) continuously and fully secured by such securities as are described above in clauses (a) through (d) which are legal for investment under the laws of the State of New Jersey for funds of the Authority, and which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee Bonds shall be entitled to rely on each such undertaking; and
- (g) Any repurchase with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or (ii) with a Government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which repurchase agreement is secured by any one or more of the securities described in clauses (a) through (c) above.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

Custodial Credit Risk – Investments – For an investment, this is the risk, that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Authority does not have a policy for custodial risk. As of December 31, 2009 and 2008, none of the Authority’s investments were exposed to custodial credit risk.

As of December 31, 2009 and 2008, the Authority had the following investments:

	<u>Market Value</u>
<u>2009</u>	
Certificates of Deposits	\$ 12,235,684
U.S. Treasury Securities (SLUGS)	1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>3,310,837</u>
Total Investments	<u>\$ 16,832,901</u>
Cash Equivalents	<u>\$ 10,076,303</u>
	<u>Market Value</u>
<u>2008</u>	
Certificates of Deposits	\$ 6,693,552
U.S. Treasury Securities (SLUGS)	1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>3,311,378</u>
Total Investments	<u>\$ 11,291,310</u>
Cash Equivalents	<u>\$ 3,089,248</u>

Interest Rate Risk – The Authority does have a formal investment policy that limits investment maturities as a means of managing it’s exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments as noted above (N.J.S.A. 40A:5-15.1). The Authority does not have an investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Authority places no limit in the amount the Authority may invest in any one issuer.

The fair value of the above-listed investments were based on quoted market prices.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 5 RESTRICTED ASSETS**

Bond covenants of the Authority require portions of the debt proceeds as well as other resources to be set-aside for various purposes. These amounts are reported as restricted assets. The "Revenue Fund" account reserves all revenues received for future distribution to the various accounts of the Authority in accordance with the Bond Resolution. The "Construction Fund" account segregates cash and investments that are restricted for use in construction. Cash and investments restricted for debt service payment on bonds are segregated in the "Bond Service Fund" account. Cash and investments reserved to meet future debt service contingencies are segregated in "Bond Reserve Fund" accounts. Cash and investments reserved for major repairs, renewals, replacements and non-routine maintenance items are segregated in "Renewal and Replacement Fund" accounts.

**NOTE 6 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2009 and 2008:

	Balance, January 1, <u>2009</u>	Increases/ (Decrease)	Adjustments	Balance December 31, <u>2009</u>
<u>2009</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>1,024,105</u>	<u>\$ 4,941,357</u>	<u>\$ (3,849,423)</u>	<u>2,116,039</u>
Total Capital Assets, Not Being Depreciated	<u>2,374,631</u>	<u>4,941,357</u>	<u>(3,849,423)</u>	<u>3,466,565</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	71,304,928	-	3,848,296	75,153,224
Property and Equipment	<u>14,255,217</u>	<u>-</u>	<u>1,127</u>	<u>14,256,344</u>
Total Capital Assets Being Depreciated	<u>85,560,145</u>	<u>-</u>	<u>3,849,423</u>	<u>89,409,568</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(37,078,591)	(1,810,499)		(38,889,090)
Property and Equipment	<u>(11,286,554)</u>	<u>(303,796)</u>	<u>-</u>	<u>(11,590,350)</u>
Total Accumulated Depreciation	<u>(48,365,145)</u>	<u>(2,114,295)</u>	<u>-</u>	<u>(50,479,440)</u>
Total Capital Assets, Being Depreciated, Net	<u>37,195,000</u>	<u>(2,114,295)</u>	<u>3,849,423</u>	<u>38,930,128</u>
Capital Assets, Net	<u>\$ 39,569,631</u>	<u>\$ 2,827,062</u>	<u>\$ -</u>	<u>\$ 42,396,693</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 6 CAPITAL ASSETS (Continued)**

	Balance, January 1, <u>2008</u>	Increases/ (Decrease)	Adjustments	Balance December 31, <u>2008</u>
<u>2008</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>1,211,426</u>	\$ 767,190	\$ (954,511)	<u>1,024,105</u>
Total Capital Assets, Not Being Depreciated	<u>2,561,952</u>	<u>767,190</u>	<u>(954,511)</u>	<u>2,374,631</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	69,340,366	1,010,051	954,511	71,304,928
Property and Equipment	<u>14,030,272</u>	<u>224,945</u>	<u>-</u>	<u>14,255,217</u>
Total Capital Assets Being Depreciated	<u>83,370,638</u>	<u>1,234,996</u>	<u>954,511</u>	<u>85,560,145</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(35,404,260)	(1,674,331)		(37,078,591)
Property and Equipment	<u>(11,019,270)</u>	<u>(267,284)</u>	<u>-</u>	<u>(11,286,554)</u>
Total Accumulated Depreciation	<u>(46,423,530)</u>	<u>(1,941,615)</u>	<u>-</u>	<u>(48,365,145)</u>
Total Capital Assets, Being Depreciated, Net	<u>36,947,108</u>	<u>(706,619)</u>	<u>954,511</u>	<u>37,195,000</u>
Capital Assets, Net	<u>\$ 39,509,060</u>	<u>\$ 60,571</u>	<u>\$ -</u>	<u>\$ 39,569,631</u>

**NOTE 7 SHORT-TERM DEBT**

**Business Bridge Loan Payable** – On December 10, 2008 the Authority entered into a Business Bridge Loan agreement with TD Bank North to borrow \$500,000 at an interest rate of 6.09%. On January 6, 2009, this loan was repaid with proceeds received from investments matured.

Short-term debt outstanding at December 31, 2009 and 2008, consist of the following:

	December 31, <u>2009</u>	December 31, <u>2008</u>
Business Bridge Loan - 2008		
6.09% due January 6, 2009	<u>\$ -</u>	<u>\$ 500,000</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**NOTE 7 SHORT-TERM DEBT (Continued)**

The Authority’s schedule of principal and interest on short-term debt issued and outstanding as of December 31, 2009 and 2008 is as follows:

Period Ending December 31,	<u>Loans Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ -	\$ -	\$ -
2008	\$ 500,000	\$ 2,284	\$ 502,284

**NOTE 8 LONG-TERM DEBT**

**Revenue Bonds** – The Authority issues Revenue Bonds to (i) permanently finance capital acquisitions and improvements; (ii) fund bond reserve requirements as more fully described in the Authority’s bond resolution; and (iii) provide for the payment of the costs of issuance related to such bonds.

The 2004 Utility System Revenue Refunding Bonds (“2004 Bonds”) payable from and secured by a pledge of revenues of the Authority derived principally from payments paid by various municipalities pursuant to service contracts and subject to the Authority’s right to pay operating expenses and to pay a rebate to the United States Government. Payment of the principal and interest on the 2004 Bonds are guaranteed by the Municipal Bond Investors Assurance Corporation (MBIA) should the Authority default in the payment thereof.

For the year ended December 31, 2009, the principal amount of the 2004 Bonds outstanding of \$11,625,000 have been increased by \$210,083 and decreased by \$442,160. These amounts represent the unamortized original issue premium on the 2004 refunding bonds and the unamortized deferred loss on defeasement on the 2004 refunding bonds and are being reported in accordance with GASB No. 23.

For the year ended December 31, 2008, the principal amount of the 2004 Bonds outstanding of \$14,300,000 have been increased by \$265,692 and decreased by \$559,199. These amounts represent the unamortized original issue premium on the 2004 refunding bonds and the unamortized deferred loss on defeasement on the 2004 refunding bonds and are being reported in accordance with GASB No. 23.

The 2008 Utility System Revenue Bonds (“2008 Bonds”) were issued for the purposes of (i) constructing and equipping the Solar Energy Project and (ii) paying a portion of the costs of the issuance related to the 2008 Bonds.

The 2009 BCIA Loan Revenue Bonds (“2009 Bonds”) are being issued to provide funds to make a loan to the Northwest Bergen County Utilities Authority. The Series 2009 bonds will be payable from and are secured by payments made on revenue bonds of the Utilities Authority, pursuant to the bond purchase agreement entered into between the Northwest Bergen County Utilities Authority and the Bergen County Improvement Authority

For the year ended December 31, 2009, the principal amount of the 2009 Bonds outstanding of \$7,095,000 has been increased by \$307,322. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GASB No. 23.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 8 LONG-TERM DEBT (Continued)**

**Revenue Bonds (Continued)** - Revenue Bonds outstanding as of December 31, 2009 and 2008 consist of the following:

	December 31, <u>2009</u>	December 31, <u>2008</u>
Wastewater Revenue Bonds, Refunding, Series 2004 2.00-4.75% due July 15, 2005 to 2013	\$ 11,625,000	\$ 14,300,000
Utility System Revenue Bonds, Series 2008 1.05% due December 15, 2008 to 2021	1,917,294	2,077,068
BCIA Loan Revenue Bonds, Series 2009 2.00-5.00% due July 15, 2011 to 2024	<u>7,095,000</u>	<u>-</u>
Total	<u>\$ 20,637,294</u>	<u>\$ 16,377,068</u>

**Intergovernmental Loans Payable** – The Authority has entered into loan agreements with the State of New Jersey Environmental Infrastructure Trust to provide funds for the expansion of the Authority’s Phase II wastewater treatment plant and the replacement fluidized bed sludge incinerator and rehabilitation of the Stage II Phase III interceptor. The Authority has pledged income from operations to pay debt service.

Loans Payable outstanding at December 31, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Wastewater System - 1993 Refunded in 2003 4.50% to 4.80%	\$ 1,563,535	\$ 2,036,413
Fund Loan Payable - Wastewater System - 1993 Refunded in 2003 Interest Free	1,154,861	1,539,560
Trust Loan Payable - Wastewater System - 1997, Refunded in 2006 4.50% to 5.00%	2,317,616	2,553,806
Fund Loan Payable - Wastewater System - 1997, Refunded in 2006 Interest Free	<u>1,400,219</u>	<u>1,650,132</u>
Total	<u>\$ 6,436,231</u>	<u>\$ 7,779,911</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 8 LONG-TERM DEBT (Continued)**

The Authority's long-term debt is reported net of any unamortized premium or discount and net of unamortized loss on refunding. Long-term debt activity for the years ended December 31, 2009 and 2008 was as follows:

	Balance, January 1, 2009	Additions	Reductions	Balance, December 31, 2009	Due Within One Year
<u>2009</u>					
Revenue Bonds	\$ 16,377,068	\$ 7,095,000	\$2,834,774	\$ 20,637,294	\$ 2,949,774
Less: Unamortized Loss on Refunding	(559,199)		(117,039)	(442,160)	
Plus: Unamortized Original Issue Premium	<u>265,692</u>	<u>334,499</u>	<u>82,786</u>	<u>517,405</u>	<u>-</u>
Total Bonds Payable	<u>16,083,561</u>	<u>7,429,499</u>	<u>2,800,521</u>	<u>20,712,539</u>	<u>2,949,774</u>
New Jersey Environmental Infrastructure Loan	7,779,911		1,343,680	6,436,231	1,370,340
Plus: Unamortized Gain on Refunding (1)	<u>377,429</u>	<u>-</u>	<u>52,086</u>	<u>325,343</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>8,157,340</u>	<u>-</u>	<u>1,395,766</u>	<u>6,761,574</u>	<u>1,370,340</u>
Total Long-Term Debt - Net	24,240,901	7,429,499	4,196,287	27,474,113	4,320,114
Plus: Compensated Absences	<u>119,041</u>	<u>87,247</u>	<u>72,892</u>	<u>133,396</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 24,359,942</u>	<u>\$ 7,516,746</u>	<u>\$4,269,179</u>	<u>\$ 27,607,509</u>	<u>\$ 4,320,114</u>

(1) In addition to the annual principal payment, the State of New Jersey refinanced the 1993 and 1997 wastewater loan resulting in a principal reduction for the Authority of \$325,343 as of December 31, 2009. This amount is netted against the loans payable recorded on the balance sheet.



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
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FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 8 LONG-TERM DEBT (Continued)**

<u>2008</u>	Balance, January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2008</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 16,920,000	\$ 2,236,842	\$ 2,779,774	\$ 16,377,068	\$ 2,834,774
Less: Unamortized Loss on Refunding	(715,934)		(156,735)	(559,199)	
Plus: Unamortized Original Issue Premium	<u>340,161</u>	<u>-</u>	<u>74,469</u>	<u>265,692</u>	<u>-</u>
Total Bonds Payable	<u>16,544,227</u>	<u>2,236,842</u>	<u>2,697,508</u>	<u>16,083,561</u>	<u>2,834,774</u>
New Jersey Environmental Infrastructure Loan	9,104,685		1,324,774	7,779,911	1,343,681
Plus: Unamortized Gain on Refunding (1)	<u>414,174</u>	<u>-</u>	<u>36,745</u>	<u>377,429</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>9,518,859</u>	<u>-</u>	<u>1,361,519</u>	<u>8,157,340</u>	<u>1,343,681</u>
Total Long-Term Debt - Net	26,063,086	2,236,842	4,059,027	24,240,901	4,178,455
Plus: Compensated Absences	<u>123,621</u>	<u>7,782</u>	<u>12,362</u>	<u>119,041</u>	<u>11,904</u>
Long-Term Liabilities	<u>\$ 26,186,707</u>	<u>\$ 2,244,624</u>	<u>\$ 4,071,389</u>	<u>\$ 24,359,942</u>	<u>\$ 4,190,359</u>

(1) In addition to the annual principal payment, the State of New Jersey refinanced the 1993 and 1997 wastewater loan resulting in a principal reduction for the Authority of \$377,429 as of December 31, 2008. This amount is netted against the loans payable recorded on the balance sheet.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 8 LONG-TERM DEBT (Continued)**

The Authority’s schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2009 is as follows:

Period Ending December 31,	Revenue Bonds		NJ Environmental Infrastructure Loan		Total
	Principal	Interest	Principal	Interest	
2010	\$ 2,949,774	\$ 762,633	\$ 1,426,035	\$ 220,200	\$ 5,358,642
2011	3,129,774	628,429	1,388,227	182,100	5,328,530
2012	3,284,774	508,951	1,403,504	142,050	5,339,279
2013	3,494,774	383,274	474,996	100,300	4,453,344
2014-2017	2,729,096	945,445	2,068,812	182,000	5,925,353
2018-2021	3,004,101	642,423			3,646,524
2022-2024	2,045,001	201,250	-	-	2,246,251
	<u>\$ 20,637,294</u>	<u>\$ 4,072,405</u>	<u>\$ 6,761,574</u>	<u>\$ 826,650</u>	<u>\$ 32,297,923</u>

The above schedule of principal and interest is based on a calendar year – cash basis.

**NOTE 9 PRIOR-YEAR DEFEASANCE OF DEBT**

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Authority’s financial statements. On December 31, 2009 and 2008, there were no outstanding defeased bonds.

**NOTE 10 ACCRUED COMPENSATED ABSENCES**

Under the existing policies of the Authority, employees are allowed to accumulate (with certain restrictions) unused sick leave benefits over the life of their working careers and to redeem such unused leave time in cash (with certain limitations) upon retirement, termination in good standing or by extended absence immediately preceding retirement. It is estimated that the current cost of such unpaid compensation and salary related payments would approximate \$133,396 and \$119,041 at December 31, 2009 and 2008, respectively. These amounts are accrued as a current liability at December 31, 2009 and 2008.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 11 AMOUNTS REQUIRED BY BOND RESOLUTION COVENANTS AND LOAN AGREEMENTS**

The Authority's bond covenants and loan agreements require certain restricted funds to be on deposit. The balances required to be on deposit at December 31, 2009 and 2008 are as follows:

	Bond/Loan Service Fund	Bond Reserve Fund	R & R Fund	Loan Reserve Fund	Revenue Fund
December 31, 2009					
Required Balance	\$ 2,657,472	\$ 3,793,726	\$ 250,000	\$ 1,644,190	
Cash and Investments	<u>1,129,974</u>	<u>3,765,915</u>	<u>250,000</u>	<u>1,611,470</u>	<u>\$ 3,352,606</u>
Excess/(Deficit)	\$ (1,527,498)	\$ (27,811)	\$ -	\$ (32,720)	\$ 3,352,606
December 31, 2008					
Required Balance	\$ 2,456,504	\$ 3,493,184	\$ 1,010,000	\$ 1,651,093	
Cash and Investments	<u>1,323,827</u>	<u>3,493,406</u>	<u>2,280,477</u>	<u>1,611,470</u>	<u>\$ 3,089,248</u>
Excess/(Deficit)	\$ (1,132,677)	\$ 222	\$ 1,270,477	\$ (39,623)	\$ 3,089,248

**NOTE 12 EMPLOYEE RETIREMENT SYSTEMS**

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees which includes those Authority employees who are eligible for pension coverage.

**Public Employees' Retirement System (PERS)** – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement healthcare coverage.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Authority employees who are eligible for pension coverage.

**Defined Contribution Retirement Program (DCRP)** – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Other Pension Funds**

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The cost of living increase for PERS are funded directly by each of the respective systems and are considered in the annual actuarial calculation of the required contributions for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at [www.state.nj.us/treasury/pension](http://www.state.nj.us/treasury/pension).

**Basis of Accounting**

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement system.

**Investment Valuation**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Significant Legislation**

P.L. 2009, c. 19, effective March 17, 2009 provides an option for local employers to contribute 50 percent of the normal and accrued liability contribution amounts certified by the PERS for payments due in State fiscal year 2009.

This law also provides that a local employer may pay 100 percent of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PERS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

P.L. 2008, c. 89, effective November 1, 2008, increased the TPAF and PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; changed the early retirement provisions; increased the minimum annual compensation required for membership eligibility for new members on or after the effective date of this law.

P.L. 2007, c. 103, certain parts effective July 1, 2007, provided for the following: changed contribution rates of TPAF, PERS, and Defined Contribution Retirement Program (DCRP) to 5.5 percent of annual compensation; imposed an annual maximum wage contribution base and a new retirement age to new employees; implemented changes to State Health Benefits Program (SHBP) which included the creation of the School Employees' Health Benefit Program (SEHBP) and established an employee contribution of 1.5 percent of the employee's base salary.

**Funded Status and Funding Progress**

As of June 30, 2008, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS and PFRS, is 72.6 percent with an unfunded actuarial accrued liability of \$34.4 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 69.6 percent and \$23.0 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 77.2 percent and \$11.4 billion.

The funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)**

**Actuarial Methods and Assumptions**

In the June 30, 2008 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate of return for all the retirement systems; and (2) 5.45 percent for projected salary increases for all the retirement systems.

**Employer and Employee Pension Contributions**

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 5.5% for PERS and 5.5% for DCRP of employees' annual compensation.

**Annual Pension Cost (APC)**

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2009 for PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employee contribution.

During the years ended December 31, 2009, 2008 and 2007, the Authority was required to contribute for normal cost pension contributions the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>	<u>DCRP</u>
2009	\$ 224,293	\$ 150
2008	160,607	125
2007	88,557	

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 13 POST-RETIREMENT MEDICAL BENEFITS**

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating local government employees including the Authority. The Plans are cost-sharing multiple employer-defined benefit plans.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and the Teachers Pension and Annuity (TPAF) are combined and reported as Pension and Other Employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund – State Class. The SHBP-Local, PDP-Local, and the PRM of the TPAF are combined and reported as a separate fund (Health Benefits Program Fund –Local) in the State's CAFR. The post-retirement benefit programs had a total of 484 state and local participating employers and contributing entities for Fiscal Year 2009.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above Funds. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

**Basis of Accounting**

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

**Investment Valuation**

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

**Funded Status and Funding Progress**

As of June 30, 2008, the most recent actuarial valuation date, the State had a \$55.9 billion unfunded actuarial liability for other postemployment benefits (OPEB) which is made up of \$19.8 billion for state active and retired members and \$36.1 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events in the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)**

**Actuarial Methods and Assumptions**

In the June 30, 2008 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included 4.50 percent for investment rate of return for the OPEB.

**Post-Retirement Medical Benefits Contribution**

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2009, there were 84,590 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service. The State and participating local governments contributed \$87.0 million for 7,255 eligible retired members for fiscal year 2009.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 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) of the plan over a period not to exceed thirty years. The Authority's contributions to the State Health Benefits Program Fund for post-retirement benefits for the years ended December 31, 2009, 2008 and 2007 were \$103,076, \$90,323 and \$90,788, respectively, which equaled the required contributions for each year. In addition, the Authority's reimbursements to eligible retired employees for Medicare Part B insurance coverage for the years ended December 31, 2009, 2008 and 2007 were \$17,345, \$15,038 and \$14,399, respectively.

**NOTE 14 OTHER INFORMATION**

**A. Contingencies**

In addition, the Authority is a party defendant in other lawsuits, none of a kind unusual for an Authority of its size and scope of operation. In the opinion of the Authority's Counsel, there are presently no claims for which the outcome can presently be predicted.

**B. Risk Management**

The Authority is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Authority has obtained insurance coverage to guard against these events which will provide minimum exposure to the Authority should they occur.



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 15 FEDERAL ARBITRAGE REGULATIONS**

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2009, the Authority had performed the calculation to determine if there are any estimated arbitrage earnings due to the IRS. Based upon the calculation performed for the computation period January 13, 2004 through December 31, 2009, there is a liability required to be rebated to the IRS in the amount of \$485,936, which includes \$20,311 of accrued interest liability. This arbitrage rebate liability is recorded as claims and judgements under the liability section on the balance sheet.

**NOTE 16 RESTATEMENT/PRIOR PERIOD ADJUSTMENT**

The financial statements for the year ended December 31, 2008 have been restated to reflect the arbitrage rebate liability due to the IRS for the years 2004 through 2008. The interest income for 2008 has been decreased from \$572,560 to \$501,560 to reflect the \$71,000 excess earnings in 2008, due back to the IRS. A prior period adjustment was made to reflect the excess earnings required to be rebated to the IRS for the years 2004 through 2007 in the amount of \$285,936. Total net assets were reduced from \$29,618,777 to \$29,261,841. A decrease of \$356,936 represents the excess earnings required to be rebated to the IRS for the years 2004 through 2008. This amount of \$356,936 has been recorded as claims and judgements under the liability section on the balance sheet at December 31, 2008.

**SUPPLEMENTARY SCHEDULES**

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**WITH BUDGET TO GAAP RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

SCHEDULE 1

	2009 Modified <u>Budget</u>	2009 <u>Actual</u>	Variance Favorable/ (Unfavorable)
<u>WASTEWATER</u>			
<b>OPERATING REVENUES</b>			
Service Charges	\$ 13,212,508	\$ 13,212,508	
Sewer Connection Fees	-	46,156	\$ 46,156
Outside Sludge	120,000	169,666	49,666
Discharge Fees	-	2,800	2,800
Industrial Pretreatment Program	65,000	89,529	24,529
Collection System	150,000	81,415	(68,585)
Miscellaneous	180,000	733,218	553,218
	<u>13,727,508</u>	<u>14,335,292</u>	<u>607,784</u>
<b>NON-OPERATING REVENUES</b>			
Interest on Investments	500,000	400,590	(99,410)
	<u>500,000</u>	<u>400,590</u>	<u>(99,410)</u>
Total Non-Operating Revenues			
	<u>500,000</u>	<u>400,590</u>	<u>(99,410)</u>
Total Revenues	<u>14,227,508</u>	<u>14,735,882</u>	<u>508,374</u>
<b>OPERATING APPROPRIATIONS</b>			
<b>ADMINISTRATION</b>			
Salaries & Wages	455,624	447,123	8,501
Fringe Benefits	195,000	185,256	9,744
Other Expenses	-		
Professionals	610,500	862,522	(252,022)
Communication	36,000	27,991	8,009
Executive	11,000	10,029	971
Management	118,500	206,410	(87,910)
	<u>1,426,624</u>	<u>1,739,331</u>	<u>(312,707)</u>
Total Administration			
	<u>1,426,624</u>	<u>1,739,331</u>	<u>(312,707)</u>
<b>COST OF PROVIDING SERVICES</b>			
Salaries & Wages	3,210,876	3,211,184	(308)
Fringe Benefits	1,304,343	1,330,751	(26,408)
Other Expenses			
Utilities	1,624,200	1,210,325	413,875
Insurance	168,700	122,134	46,566
Vehicles	66,000	57,416	8,584
Collection System	252,500	167,532	84,968
Sewage Treatment & Laboratory	242,500	191,636	50,864
Solids Disposal	876,000	811,707	64,293
Buildings & Grounds/Road	129,000	113,178	15,822
	<u>7,874,119</u>	<u>7,215,863</u>	<u>658,256</u>
Total Cost of Providing Services			
	<u>7,874,119</u>	<u>7,215,863</u>	<u>658,256</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**WITH BUDGET TO GAAP RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

SCHEDULE 1

	2009 Modified <u>Budget</u>	2009 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,207,456	\$ 4,178,456	29,000
Interest Payment on Debt	<u>959,309</u>	<u>956,348</u>	<u>2,961</u>
Total Non-Operating Appropriations	<u>5,166,765</u>	<u>5,134,804</u>	<u>31,961</u>
Total Appropriations	<u>14,467,508</u>	<u>14,089,998</u>	<u>377,510</u>
Total Budget Income/(Loss)	<u>\$ (240,000)</u>	645,884	<u>\$ 885,884</u>

RECONCILIATION TO COMPILATION (GAAP)

Increases to Budget Income:	
Principal Paid on Bonds Payable	4,178,456
Interest Expense - Original Issue Premium	82,786
Interest Expense - Gain on Refunding	52,086
Accrued Interest on Bonds Payable - Net	53,123
Decreases to Budget Income	
Amortization of Debt Issuance Costs	(77,522)
Interest Expense - Loss on Refunding	(117,039)
Depreciation	<u>(2,114,295)</u>
Change in Net Assets - GAAP	<u>\$ 2,703,479</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**WITH BUDGET TO GAAP RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

SCHEDULE 2

	2008 Modified <u>Budget</u>	2008 <u>Actual</u> (Restated)	Variance Favorable/ (Unfavorable)
<u>WASTEWATER</u>			
<b>OPERATING REVENUES</b>			
Service Charges	\$ 12,354,985	\$ 12,354,985	
Sewer Connection Fees	253,548	265,189	\$ 11,641
Outside Sludge	140,000	143,732	3,732
Discharge Fees	-	2,500	2,500
Industrial Pretreatment Program	85,000	64,480	(20,520)
Collection System	50,000	50,133	133
Miscellaneous	30,000	61,957	31,957
<b>Total Operating Revenues</b>	<u>12,913,533</u>	<u>12,942,976</u>	<u>29,443</u>
<b>NON-OPERATING REVENUES</b>			
Reserve for Renewal & Replacement	181,584	181,584	-
Interest on Investments	900,000	501,560	(398,440)
<b>Total Non-Operating Revenues</b>	<u>1,081,584</u>	<u>683,144</u>	<u>(398,440)</u>
<b>Total Revenues</b>	<u>13,995,117</u>	<u>13,626,120</u>	<u>(368,997)</u>
<b>OPERATING APPROPRIATIONS</b>			
<b>ADMINISTRATION</b>			
Salaries & Wages	417,500	428,600	(11,100)
Fringe Benefits	198,400	169,873	28,527
Other Expenses			
Professionals	1,169,500	1,090,191	79,309
Communication	57,500	31,852	25,648
Executive	16,500	7,484	9,016
Management	211,000	180,982	30,018
<b>Total Administration</b>	<u>2,070,400</u>	<u>1,908,982</u>	<u>161,418</u>
<b>COST OF PROVIDING SERVICES</b>			
Salaries & Wages	2,925,000	2,986,415	(61,415)
Fringe Benefits	1,326,227	1,178,055	148,172
Other Expenses			
Utilities	1,539,200	1,492,554	46,646
Insurance	159,500	159,474	26
Vehicles	63,200	60,639	2,561
Collection System	220,000	173,834	46,166
Sewage Treatment & Laboratory	280,000	227,228	52,772
Solids Disposal	956,000	914,089	41,911
Buildings & Grounds/Road	145,000	89,683	55,317
<b>Total Cost of Providing Services</b>	<u>7,614,127</u>	<u>7,281,971</u>	<u>332,156</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**WITH BUDGET TO GAAP RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

SCHEDULE 2

	2008 Modified <u>Budget</u>	2008 <u>Actual</u> (Restated)	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,104,549	\$ 4,104,549	
Interest Payment on Debt	883,402	883,402	
Reserve for Renewal & Replacement	760,000	760,000	
Other Reserves	181,584	181,584	
	<hr/>	<hr/>	
Total Non-Operating Appropriations	5,929,535	5,929,535	
	<hr/>	<hr/>	
Total Appropriations	15,614,062	15,120,488	\$ 493,574
	<hr/>	<hr/>	
Total Budget Income/(Loss)	\$ (1,618,945)	(1,494,368)	\$ 124,577
	<hr/>	<hr/>	

RECONCILIATION TO COMPILATION (GAAP)

Increases to Budget Income:

Principal Paid on Bonds Payable	4,104,549
Reserve for Renewal and Replacement Budgetary Charge	760,000
Interest Expense - Original Issue Premium	74,469
Interest Expense - Gain on Refunding	36,745

Decreases to Budget Income

Amortization of Debt Issuance Costs	(39,707)
Accrued Interest on Bonds Payable - Net	(16,539)
Interest Expense - Loss on Refunding	(156,735)
Depreciation	<u>(1,941,615)</u>

Change in Net Assets - GAAP

\$ 1,326,799

# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

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DEBRA GOLLE, CPA  
CINDY JANACEK, CPA, RMA  
RALPH M. PICONE, CPA, RMA, PSA

## 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

Honorable Commissioners and Members of the Board  
Northwest Bergen County Utilities Authority  
Waldwick, New Jersey

We have audited the financial statements of the Northwest Bergen County Utilities Authority a component unit of the County of Bergen as of and for the year ended December 31, 2009, and have issued our report thereon dated April 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

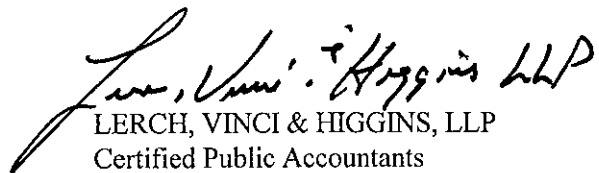
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as item 2009-1 that we consider to be significant deficiency in internal control over financial reporting. 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.

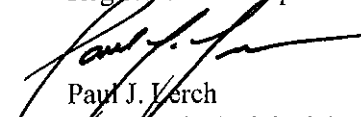
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northwest Bergen County Utilities Authority'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 or other matters that are required to be reported under Government Auditing Standards.

The Northwest Bergen County Utilities Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Northwest Bergen County Utilities Authority board members, management, New Jersey State Department of Community Affairs and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants

  
Paul J. Lerch  
Registered Municipal Accountant  
RMA Number CR00457

Fair Lawn, New Jersey  
May 21, 2010



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**

**ROSTER OF OFFICIALS**

**AS OF DECEMBER 31, 2009**

**COMMISSIONERS**

Joseph Ariyan  
Michael N. Kasparian  
Brian Chewcaskie  
Peter Dachnowicz  
William Dator  
Frank Kelaher  
Ron O'Malley  
Jason Shafron  
Marion Plumley

Chairman  
Vice Chairman  
Commissioner  
Commissioner  
Commissioner  
Commissioner  
Commissioner  
Commissioner  
Commissioner

Todd Sherer  
*Treasurer*

Madeline Thumudo  
*Secretary*

Howard Hurwitz  
*Executive Director*

**General Counsel**  
Douglas M. Bern, Esq.  
Fort Lee, New Jersey

**Auditor**  
Lerch, Vinci & Higgins, LLP  
Fair Lawn, New Jersey

**Bond Counsel**  
Gibbons, DelDeo, Dolan, Guiffinger & Vecchione  
Newark, New Jersey

**Trustee**  
Bank of New York Mellon  
Woodland Park, New Jersey

## SCHEDULE OF FINDINGS AND RESPONSES

### Finding 2009-1

Our review of the inventory system revealed that the Authority does not perform a physical count of inventory on hand and also a verification of inventory values.

### Criteria

Internal control procedures.

### Condition

A verification of inventory quantities and values has not been performed to support the Authority's computerized inventory system.

### Effect

Inventory values may be overstated or understated, which can be potentially material to the financial statements.

### Recommendation

The Authority perform a physical count and a verification of values of the inventory on hand.

### Response

The Authority has an ongoing program of removing materials from inventory that are no longer of use to the Authority. Items that may have commercial value are stockpiled and auctioned during periodic auctions by the County of Bergen. Other items are disposed.

## GENERAL COMMENTS

**Finding** – Our audit of the Construction in Progress “CIP” subsidiary ledger revealed that the beginning balances reported in the CIP “Period Project Audit Trail” were not in agreement with the prior year audit balance for certain projects. The subsidiary project ledger did not reflect adjustments for completed projects which were transferred to fixed assets.

**Recommendation** – It is recommended that that the CIP subsidiary ledger be adjusted on an annual basis to reflect assets which were completed and transferred out of CIP to fixed assets.

## APPRECIATION

We desire to express our appreciation to the Executive Director and other Authority staff who assisted us during the course of our audit.

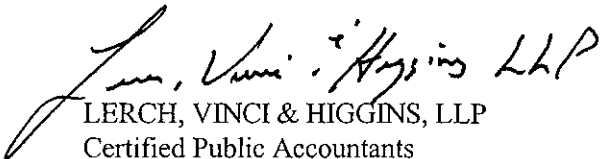
**RECOMMENDATIONS**

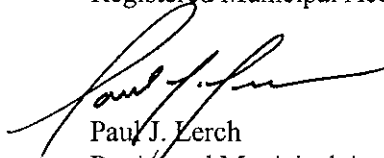
It is recommended that:

1. The Authority perform a physical count and a verification of values of the inventory on hand.
2. The construction in progress "CIP" subsidiary ledger be adjusted on an annual basis to reflect assets which were completed and transferred out of CIP to fixed assets.

\* \* \* \* \*

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, please do not hesitate to call us.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Registered Municipal Accountants

  
Paul J. Lerch  
Registered Municipal Accountant  
RMA Number CR00457