

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2008 AND 2007**

**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, 2008 and 2007, 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.

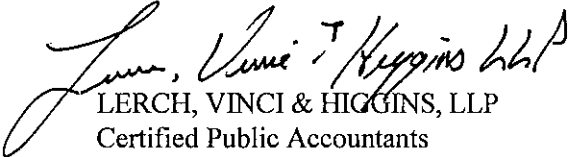
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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.

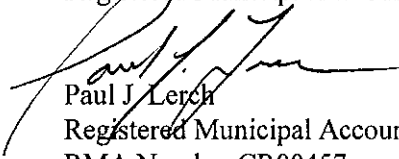
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Bergen County Utilities Authority as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity 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 17, 2009 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 read in conjunction with this report in considering 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  
April 17, 2009

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

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

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2008***

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, 2008. 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 2008 are as follows:

- Net assets were \$29,618,777, an increase from December 31, 2007 of \$1,397,799.
- Total budgetary revenues from all sources were \$13,697,120 a shortfall of \$297,997 when compared to the modified budget. The decrease is attributable to the declining interest rates on investments and deposits.
- Cash from reserves in the amount of \$467,000 was originally budgeted to cover the revenue shortfall, however \$1,423,368 of cash reserves was necessary.
- Overall GAAP operating revenues were \$12,942,976, an increase from 2007 of \$261,660.
- Operating expenses were \$11,132,568, an increase from 2007 of \$857,145.

### **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, 2008  
(Continued)***

**FINANCIAL ANALYSIS OF THE AUTHORITY**

*Net Assets* – The following table summarizes the Statement of Net Assets as of December 31, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 15,956,355	\$ 16,000,161	\$ 18,334,586
Capital Assets (Net of Accumulated Depreciation)	<u>39,569,631</u>	<u>39,509,060</u>	<u>38,820,470</u>
 Total Assets	 <u>55,525,986</u>	 <u>55,509,221</u>	 <u>57,155,056</u>
 Other Liabilities	 5,739,610	 5,058,672	 5,124,766
Non-Current Liabilities	<u>20,167,599</u>	<u>22,229,571</u>	<u>26,072,367</u>
 Total Liabilities	 <u>25,907,209</u>	 <u>27,288,243</u>	 <u>31,197,133</u>
 Net Assets:			
Invested in Capital Assets, Net of Related Debt	19,808,693	16,365,942	12,377,949
Restricted	2,857,893	3,865,778	6,796,041
Unrestricted	<u>6,952,191</u>	<u>7,989,258</u>	<u>6,783,933</u>
 -Total Net Assets	 <u>\$ 29,618,777</u>	 <u>\$ 28,220,978</u>	 <u>\$ 25,957,923</u>

The Authority's Net Assets increased \$1,397,799 and \$2,263,055 in 2008 and 2007, 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, 2008**

*(Continued)*

**OPERATING ACTIVITIES**

The following table summarizes the changes in Net Assets between fiscal years 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>			
Member Service Fees	\$ 12,354,985	\$ 12,124,278	\$ 11,888,669
Outside Sludge	143,732	234,528	118,655
Industrial Pretreatment Program	64,480	92,734	101,607
Miscellaneous	<u>379,779</u>	<u>229,776</u>	<u>105,329</u>
 Total Operating Revenues	 <u>12,942,976</u>	 <u>12,681,316</u>	 <u>12,214,260</u>
<b>OPERATING EXPENSES</b>			
Administration	1,908,982	1,590,202	1,535,228
Cost of Providing Services	7,281,971	6,664,985	6,302,870
Depreciation	<u>1,941,615</u>	<u>2,020,236</u>	<u>2,010,640</u>
 Total Operating Expenses	 <u>11,132,568</u>	 <u>10,275,423</u>	 <u>9,848,738</u>
 OPERATING INCOME	 <u>1,810,408</u>	 <u>2,405,893</u>	 <u>2,365,522</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	572,560	983,289	1,040,483
Interest Expenses	(945,462)	(1,081,285)	(1,236,729)
Amortization of Costs of Issuance	<u>(39,707)</u>	<u>(44,842)</u>	<u>(42,540)</u>
 Total Non-Operating Income (Expenses)	 <u>(412,609)</u>	 <u>(142,838)</u>	 <u>(238,786)</u>
 CHANGE IN NET ASSETS	 <u>\$ 1,397,799</u>	 <u>\$ 2,263,055</u>	 <u>\$ 2,126,736</u>



***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008  
(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 2008, 2007 and 2006. The construction in progress represents the septage receiving station, the upgrade to the plant water system, pump station upgrades, belt-filter press, expanding odor control systems and the solar project.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,350,526	\$ 1,350,526	\$ 1,350,526
Treatment Plant and Collection System	71,304,928	69,340,366	66,989,405
Property and Equipment	14,255,217	14,030,272	12,418,998
Construction in Progress	<u>1,024,105</u>	<u>1,211,426</u>	<u>2,464,835</u>
	87,934,776	85,932,590	83,223,764
Less Accumulated Depreciation	<u>(48,365,145)</u>	<u>(46,423,530)</u>	<u>(44,403,294)</u>
Capital Assets, Net	<u>\$ 39,569,631</u>	<u>\$ 39,509,060</u>	<u>\$ 38,820,470</u>

The Authority has completed construction on the administration building and has been placed in service in 2008. Also, completed is the electrical system upgrade.

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
- Relocation of septage receiving station
- Plant water system upgrade
- Installation of solar panels to generate electrical power
- Scum tilting troughs
- Security upgrades

***NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY***

***MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2008  
(Continued)***

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

*Capital Assets (Continued)*

The Authority's Consulting Engineer has estimated that \$11,882,842 will be required to fund the Capital Projects identified by the Authority in the period 2009-2013. The 2009 Capital Budget will be funded primarily by debt authorization and it is anticipated that the Authority will continue this approach through 2013. As a consequence, there will be no fund added to the Renewal and Replacement Reserve in 2009. As of December 31, 2008, the Authority has restricted in the Renewal and Replacement Reserve Account \$1,010,000. Of this amount, \$288,000 will be used to fund the future projects.

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, 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Wastewater Revenue Bonds Refunding Series 2004	\$ 14,300,000	\$ 16,920,000	\$ 19,465,000
Plus: Unamortized Original Issued Premium	265,692	340,161	449,026
Less: Unamortized Loss on Refunding	<u>(559,199)</u>	<u>(715,934)</u>	<u>(945,063)</u>
Total Wastewater Revenue Bonds-Net	<u>14,006,493</u>	<u>16,544,227</u>	<u>18,968,963</u>
Utility System Revenue Bonds Series 2008	<u>2,077,068</u>	<u>-</u>	<u>-</u>
New Jersey Environmental Infrastructure Loan	7,779,911	9,104,685	10,401,956
Plus: Unamortized Gain on Refunding	<u>377,429</u>	<u>414,174</u>	<u>440,544</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>8,157,340</u>	<u>9,518,859</u>	<u>10,842,500</u>
Total Long-Term Debt - Net	24,240,901	26,063,086	29,811,463
Plus: Compensated Absences	<u>119,041</u>	<u>126,621</u>	<u>114,638</u>
Long-Term Liabilities	<u>\$ 24,359,942</u>	<u>\$ 26,189,707</u>	<u>\$ 29,926,101</u>

Additional information on the Authority's capital debt can be found in Note 7 of the Basic Financial Statements.

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

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

***YEAR ENDED DECEMBER 31, 2008***

***(Continued)***

### **OTHER FINANCIAL INFORMATION**

#### **2009 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 2009 Budget totals \$14,467,508, representing \$440,523 or 3.14% increase from the original 2008 Budget of \$14,026,985.

The Operating Budget of \$9,300,743 has increased by \$861,216, or 10.20%. The Capital Improvement portion of the Budget has been eliminated for 2009, reducing the Budget by \$760,000 in Capital Improvement charges included in the 2008 Budget.

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 \$13,212,508, which represents a 6.94% increase from 2008. Funds are anticipated this year for Outside Septage and Sludge in the amount of \$120,000. Interest income is estimated at \$500,000, a significant reduction from 2008 due to the declining interest rates in 2008. Industrial Pretreatment Program Permit income is estimated to be \$65,000 and Collection System Operations income is estimated to be \$150,000. This year we anticipate Miscellaneous Income totaling approximately \$180,000 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 \$240,000 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, 2008 AND 2007**

	December 31, <u>2008</u>	December 31, <u>2007</u>
<b>ASSETS</b>		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 763,067	\$ 5,524,256
Accrued Interest Receivable	4	1,806
Inventory	458,928	429,344
Prepaid Items	<u>78,740</u>	<u>78,423</u>
Total Unrestricted Current Assets	<u>1,300,739</u>	<u>6,033,829</u>
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	3,089,248	96
Accrued Interest Receivable	11,280	
Project Account		
Cash and Cash Equivalents	2,258,820	
Cost of Issuance Account		
Cash and Cash Equivalents	137,670	
Renewal and Replacement		
Cash and Cash Equivalents		1,710,477
Investments	2,280,477	
Accrued Interest Receivable	25,005	670
Bond/Loan Service Account		
Cash and Cash Equivalents		3,048,239
Investments	1,323,827	
Accrued Interest Receivable	23,200	32,774
Bond/Loan Reserve Account		
Cash and Cash Equivalents	506,896	384,645
Investments	3,311,600	3,311,270
Accrued Interest Receivable	<u>96,562</u>	<u>31,935</u>
Total Restricted Current Assets	<u>13,064,585</u>	<u>8,520,106</u>
Total Current Assets	<u>14,365,324</u>	<u>14,553,935</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>275,839</u>	<u>131,034</u>
Total Deferred Charges	<u>275,839</u>	<u>131,034</u>
Capital Assets		
Land	1,350,526	1,350,526
Treatment Plant and Collection System	71,304,928	69,340,366
Property and Equipment	14,255,217	14,030,272
Construction in Progress	1,024,105	1,211,426
Less Accumulated Depreciation	<u>(48,365,145)</u>	<u>(46,423,530)</u>
Total Capital Assets (net of accumulated depreciation)	<u>39,569,631</u>	<u>39,509,060</u>
Total Non-Current Assets	<u>41,160,662</u>	<u>40,955,286</u>
Total Assets	<u>\$ 55,525,986</u>	<u>\$ 55,509,221</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, 2008 AND 2007**

	December 31, <u>2008</u>	December 31, <u>2007</u>
<b>LIABILITIES</b>		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 554,879	\$ 588,979
Accrued Salary and Related Benefits	49,279	38,446
Accrued Compensated Absences	13,888	12,362
Unearned Revenue	24,870	34,110
Accrued Other Expenses	883	564
Escrow Deposits Payable	7,000	6,000
Other Liabilities	<u>7,165</u>	<u>-</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>657,964</u>	<u>680,461</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	5,595	
Revenue Bonds Payable	2,834,774	2,620,000
Loans Payable	1,843,681	1,324,774
Accrued Interest on Bonds and Loans	<u>397,596</u>	<u>433,437</u>
Total Current Liabilities Payable from Restricted Assets	<u>5,081,646</u>	<u>4,378,211</u>
Non-Current Liabilities		
Revenue Bonds Payable (net of unamortized discounts and deferred amount on refunding)	13,248,786	13,924,227
Loans Payable (net of unamortized gain on loan refinancing)	6,813,660	8,194,085
Accrued Compensated Absences	<u>105,153</u>	<u>111,259</u>
Total Non-Current Liabilities	<u>20,167,599</u>	<u>22,229,571</u>
Total Liabilities	<u>\$ 25,907,209</u>	<u>\$ 27,288,243</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	\$ 19,808,693	\$ 16,365,942
Restricted For:		
Debt Service	1,847,893	1,818,778
Renewal and Replacement	1,010,000	2,047,000
Unrestricted	<u>6,952,191</u>	<u>7,989,258</u>
Total Net Assets	<u>\$ 29,618,777</u>	<u>\$ 28,220,978</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	December 31, <u>2008</u>	December 31, <u>2007</u>
<b>OPERATING REVENUES</b>		
Member Service Fees	\$ 12,354,985	\$ 12,124,278
Sewer Connection Fees	265,189	63,249
Discharge Fees	2,500	26,219
Industrial Pretreatment Program	64,480	92,734
Outside Sludge	143,732	234,528
Collection System	50,133	73,364
Miscellaneous	<u>61,957</u>	<u>66,944</u>
Total Operating Revenues	<u>12,942,976</u>	<u>12,681,316</u>
<b>OPERATING EXPENSES</b>		
Administrative and Executive		
Salaries & Wages	428,600	408,197
Fringe Benefits	169,873	169,936
Other Expenses	1,310,509	1,012,069
Cost of Services		
Salaries & Wages	2,986,415	2,808,193
Fringe Benefits	1,178,055	1,169,194
Other Expenses	3,117,501	2,687,598
Depreciation Expense	<u>1,941,615</u>	<u>2,020,236</u>
Total Operating Expenses	<u>11,132,568</u>	<u>10,275,423</u>
OPERATING INCOME	<u>1,810,408</u>	<u>2,405,893</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	572,560	983,289
Interest Expenses	(945,462)	(1,081,285)
Amortization of Costs of Issuance	<u>(39,707)</u>	<u>(44,842)</u>
Total Non-Operating Income (Expenses)	<u>(412,609)</u>	<u>(142,838)</u>
CHANGE IN NET ASSETS	1,397,799	2,263,055
Total Net Assets, January 1,	<u>28,220,978</u>	<u>25,957,923</u>
Total Net Assets, December 31,	<u>\$ 29,618,777</u>	<u>\$ 28,220,978</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, 2008 AND 2007**

	December 31, <u>2008</u>	December 31, <u>2007</u>
Cash Flows from Operating Activities		
Cash Received from Members	\$ 12,354,985	\$ 12,124,278
Cash Received from Other Operating Fees	523,959	486,994
Cash Paid to Suppliers	(5,759,865)	(5,118,889)
Cash Paid to Employees	(3,408,762)	(3,192,063)
Cash Received from Miscellaneous Fees	<u>61,957</u>	<u>66,944</u>
Net Cash Provided by Operating Activities	<u>3,772,274</u>	<u>4,367,264</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds from Escrow Deposits	<u>1,000</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	<u>1,000</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Issuance of Long-Term Debt	2,236,842	
Proceeds from Issuance of Short-Term Debt	500,000	
Principal Payments - Bonds	(2,779,774)	(2,545,000)
Principal Payments - Loans	(1,324,774)	(1,297,270)
Payment of Debt Issuance Costs	(178,917)	
Interest Paid - Bonds and Loans	(935,782)	(1,041,869)
Acquisition of Fixed Assets	<u>(2,081,941)</u>	<u>(2,735,368)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,564,346)</u>	<u>(7,619,507)</u>
Cash Flows from Investing Activities		
Purchase of Investments	(3,604,634)	(190)
Interest Received	<u>483,694</u>	<u>1,038,106</u>
Net Cash Provided by Investing Activities	<u>(3,120,940)</u>	<u>1,037,916</u>
Net Decrease in Cash and Cash Equivalents	(3,912,012)	(2,214,327)
Cash and Cash Equivalents, January 1,	<u>10,667,713</u>	<u>12,882,040</u>
Cash and Cash Equivalents, December 31,	<u>\$ 6,755,701</u>	<u>\$ 10,667,713</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Cash Equivalents	\$ 763,067	\$ 5,524,256
Restricted - Cash and Cash Equivalents	<u>5,992,634</u>	<u>5,143,457</u>
	<u>\$ 6,755,701</u>	<u>\$ 10,667,713</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, 2008 AND 2007**

	December 31, <u>2008</u>	December 31, <u>2007</u>
Operating Income	\$ 1,810,408	\$ 2,405,893
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	1,941,615	2,020,236
(Increase)/Decrease in Inventory	(29,584)	2,088
(Increase)/Decrease in Prepaid Expenses	(317)	18,541
Increase/(Decrease) in Accounts Payable	45,655	(82,878)
Increase/(Decrease) in Accrued Salary and Related Benefits	10,833	15,344
Increase/(Decrease) in Accrued Compensated Absences	(4,580)	8,983
Increase/(Decrease) in Accrued Other Expenses	319	(17,843)
Increase/(Decrease) in Other Liabilities	7,165	-
Increase/(Decrease) in Unearned Revenue	<u>(9,240)</u>	<u>(3,100)</u>
Total Adjustments	<u>1,961,866</u>	<u>1,961,371</u>
Net Cash Provided by Operating Activities	<u>\$ 3,772,274</u>	<u>\$ 4,367,264</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
Purchase of Capital Assets on Account	\$ 84,311	\$ 164,066
Original Issue Premium	74,469	108,865
Gain on Refunding	36,745	26,370
Loss on Refunding	156,735	229,129

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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, 2008 AND 2007**

**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, 2008 AND 2007**

**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, 2008 AND 2007**

**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.

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, 2008 AND 2007**

**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, 2007 balances to conform to the December 31, 2008 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, 2008 AND 2007**

**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, 2008 AND 2007**

**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 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, 2009. SIPC replaces cash claims up to a maximum of \$100,000 for each failed brokerage firm. At December 31, 2008 and 2007, the book value of the Authority's deposits were \$6,755,701 and \$10,667,713, respectively, and bank balances of the Authority's cash and deposits amounted to \$6,838,600 and \$10,792,291, 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>	
	December 31, <u>2008</u>	December 31, <u>2007</u>
Insured		
Restricted	\$ 5,992,351	\$ 5,143,458
Unrestricted	<u>846,249</u>	<u>5,648,833</u>
	<u>\$ 6,838,600</u>	<u>\$ 10,792,291</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, 2008 and 2007, 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, 2008 AND 2007**

**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 per centum (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, 2008 AND 2007**

**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, 2008 and 2007, none of the Authority’s investments were exposed to custodial credit risk.

As of December 31, 2008 and 2007, the Authority had the following investments:

	<u>Market Value</u>
<u>2008</u>	
Certificates of Deposits	\$ 3,604,304
U.S. Treasury Securities (SLUGS)	1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>3,311,600</u>
	<u>\$ 8,202,284</u>
	<u>Market Value</u>
<u>2007</u>	
U.S. Treasury Securities (SLUGS)	\$ 1,286,380
Federal Home Loan Mortgage Corp. Repurchase Agreement	<u>3,311,270</u>
	<u>\$ 4,597,650</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, 2008 AND 2007**

**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, 2008 and 2007:

	Balance, January 1, <u>2008</u>	Increases/ (Decrease)	<u>Adjustments</u>	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	(34,022,815)	(1,674,331)		(35,697,146)
Property and Equipment	<u>(12,400,715)</u>	<u>(267,284)</u>	<u>-</u>	<u>(12,667,999)</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>

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

**NOTE 6 CAPITAL ASSETS (Continued)**

	Balance, January 1, <u>2007</u>	Increases/ (Decrease)	<u>Adjustments</u>	Balance December 31, <u>2007</u>
<u>2007</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>2,464,835</u>	\$ (106,443)	\$ (1,146,966)	<u>1,211,426</u>
Total Capital Assets, Not Being Depreciated	<u>3,815,361</u>	<u>(106,443)</u>	<u>(1,146,966)</u>	<u>2,561,952</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	66,989,405	1,219,971	1,130,990	69,340,366
Property and Equipment	<u>12,418,998</u>	<u>1,595,298</u>	<u>15,976</u>	<u>14,030,272</u>
Total Capital Assets Being Depreciated	<u>79,408,403</u>	<u>2,815,269</u>	<u>1,146,966</u>	<u>83,370,638</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(32,554,088)	(1,468,727)		(34,022,815)
Property and Equipment	<u>(11,849,206)</u>	<u>(551,509)</u>	-	<u>(12,400,715)</u>
Total Accumulated Depreciation	<u>(44,403,294)</u>	<u>(2,020,236)</u>	-	<u>(46,423,530)</u>
Total Capital Assets, Being Depreciated, Net	<u>35,005,109</u>	<u>795,033</u>	<u>1,146,966</u>	<u>36,947,108</u>
Capital Assets, Net	<u>\$ 38,820,470</u>	<u>\$ 688,590</u>	<u>\$ -</u>	<u>\$ 39,509,060</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%. This loan is due to mature on January 6, 2009.

Short-term debt outstanding at December 31, 2008 and 2007, consist of the following:

	December 31, <u>2008</u>	December 31, <u>2007</u>
Business Bridge Loan - 2008 6.09% due January 6, 2009	<u>\$ 500,000</u>	<u>\$ -</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 for short-term debt issued and outstanding as of December 31, 2008 is as follows:

Period Ending <u>December 31,</u>	<u>Principal</u>	<u>Loans Payable</u>	
		<u>Interest</u>	<u>Total</u>
2009	\$ 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, 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 is being reported in accordance with GASB No. 23.

For the year ended December 31, 2007, the principal amount of the 2004 Bonds outstanding of \$16,920,000 have been increased by \$340,161 and decreased by \$715,934. 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 is 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.

Revenue Bonds outstanding as of December 31, 2008 and 2007 consist of the following:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Wastewater Revenue Bonds, Refunding, Series 2004 2.00-4.75% due July 15, 2005 to 2013	\$ 14,300,000	\$ 16,920,000
Utility System Revenue Bonds, Series 2008 1.05% due December 15, 2008 to 2021	<u>2,077,068</u>	<u>-</u>
<b>Total</b>	<u>\$ 16,377,068</u>	<u>\$ 16,920,000</u>

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

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

**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, 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Wastewater System - 1993 Refunded in 2003 4.50% to 4.80%	\$ 2,036,413	\$ 2,484,842
Fund Loan Payable - Wastewater System - 1993 Refunded in 2003 Interest Free	1,539,560	1,922,703
Trust Loan Payable - Wastewater System - 1997, Refunded in 2006 4.50% to 5.00%	2,553,806	2,798,806
Fund Loan Payable - Wastewater System - 1997, Refunded in 2006 Interest Free	<u>1,650,132</u>	<u>1,898,334</u>
Total	<u>\$ 7,779,911</u>	<u>\$ 9,104,685</u>

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

**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, 2008 and 2007 was as follows:

	Balance, January 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2008</u>	Due Within <u>One Year</u>
<b>Wastewater Revenue Bonds</b>					
Refunding Series 2004	\$ 16,920,000		\$ 2,620,000	\$ 14,300,000	\$ 2,675,000
Plus: Unamortized Original Issue Premium	340,161		74,469	265,692	
Less:					
Unamortized Loss on Refunding	<u>(715,934)</u>	<u>-</u>	<u>(156,735)</u>	<u>(559,199)</u>	<u>-</u>
<b>Total Wastewater Revenue Bonds - Net</b>	<u>16,544,227</u>	<u>-</u>	<u>2,537,734</u>	<u>14,006,493</u>	<u>2,675,000</u>
<b>Utility System Revenue Bonds</b>					
Series 2008	<u>-</u>	<u>\$ 2,236,842</u>	<u>159,774</u>	<u>2,077,068</u>	<u>159,774</u>
<b>New Jersey Environmental</b>					
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>
<b>Total New Jersey Environmental</b>					
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>
<b>Total Long-Term Debt - Net</b>	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>13,888</u>
<b>Long-Term Liabilities</b>	<u>\$ 26,186,707</u>	<u>\$ 2,244,624</u>	<u>\$ 4,071,389</u>	<u>\$ 24,359,942</u>	<u>\$ 4,192,343</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, 2008 AND 2007**

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

	Balance, January 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2007</u>	Due Within <u>One Year</u>
Wastewater Revenue Bonds					
Refunding Series 2004	\$ 19,465,000		\$ 2,545,000	\$ 16,920,000	\$ 2,620,000
Plus: Unamortized Original Issue Premium	449,026		108,865	340,161	
Less:					
Unamortized Loss on Refunding	<u>(945,063)</u>	<u>-</u>	<u>(229,129)</u>	<u>(715,934)</u>	<u>-</u>
Total Wastewater Revenue Bonds - Net	<u>18,968,963</u>	<u>-</u>	<u>2,424,736</u>	<u>16,544,227</u>	<u>2,620,000</u>
New Jersey Environmental					
Infrastructure Loan	10,401,956		1,297,271	9,104,685	1,324,774
Plus: Unamortized Gain on Refunding (1)	<u>440,544</u>	<u>-</u>	<u>26,370</u>	<u>414,174</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>10,842,500</u>	<u>-</u>	<u>1,323,641</u>	<u>9,518,859</u>	<u>1,324,774</u>
Total Long-Term Debt - Net	29,811,463	-	3,748,377	26,063,086	3,944,774
Plus: Compensated Absences	<u>103,174</u>	<u>\$ 20,447</u>	<u>-</u>	<u>123,621</u>	<u>12,362</u>
Long-Term Liabilities	<u>\$ 29,914,637</u>	<u>\$ 20,447</u>	<u>\$ 3,748,377</u>	<u>\$ 26,186,707</u>	<u>\$ 3,957,136</u>

(1) In addition to the annual principal payment, the State of New Jersey refinanced the 1993 wastewater loan resulting in a principal reduction for the Authority of \$414,174 as of December 31, 2007. 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, 2008 AND 2007**

**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, 2008 is as follows:

Period Ending December 31,	Utility Revenue Bonds		NJ Environmental Infrastructure Loan		Total
	Principal	Interest	Principal	Interest	
2009	\$ 2,834,774	\$ 618,110	\$ 1,343,681	\$ 256,481	\$ 5,053,046
2010	2,949,774	506,058	1,370,340	220,200	5,046,372
2011	3,079,774	371,854	1,327,811	182,100	4,961,539
2012	3,234,774	253,376	1,354,801	142,050	4,985,001
2013	2,999,774	128,699	441,462	100,300	3,670,235
2014-2017	<u>1,278,198</u>	<u>60,395</u>	<u>1,941,816</u>	<u>182,000</u>	<u>3,462,409</u>
	<u>\$ 16,377,068</u>	<u>\$ 1,938,492</u>	<u>\$ 7,779,911</u>	<u>\$ 1,083,131</u>	<u>\$ 27,178,602</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, 2008 and 2007, 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 \$119,041 and \$123,621 at December 31, 2008 and 2007, respectively. These amounts are accrued as a current liability at December 31, 2008 and 2007.

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

**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, 2008 and 2007 are as follows:

<u>December 31, 2008</u>	<u>Bond/Loan Service Fund</u>	<u>Bond Reserve Fund</u>	<u>R &amp; R Fund</u>	<u>Loan Reserve Fund</u>	<u>Revenue Fund</u>
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)	<u>\$ (1,132,677)</u>	<u>\$ 222</u>	<u>\$ 1,270,477</u>	<u>\$ (39,623)</u>	<u>\$ 3,089,248</u>
<u>December 31, 2007</u>					
Required Balance	\$ 2,456,963	\$ 3,311,600	\$ 2,047,000	\$ 1,651,093	
Cash and Investments	<u>3,048,239</u>	<u>3,311,600</u>	<u>1,710,477</u>	<u>1,670,695</u>	<u>\$ 96</u>
Excess/(Deficit)	<u>\$ 591,276</u>	<u>\$ -</u>	<u>\$ (336,523)</u>	<u>\$ 19,602</u>	<u>\$ 96</u>

**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 system (retirement system) 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.

**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.

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

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

**Other Pension Funds (Continued)**

The State also administers the Pensions Adjustment Fund (PAF) which provides cost of living increases, equal to 60 percent of the change in the average consumer price index, to eligible retirees in some State-sponsored pension systems. This benefit is funded by the State as benefit allowances become payable.

The cost of living increase for PERS is funded directly by each of the respective systems and is 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 obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

**Basis of Accounting**

The financial statements of the various pension Funds are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the Funds. Benefits or refunds are recognized when due and payable in accordance with the terms of the funds.

**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.

**Significant Legislation**

Chapter 108, P.L. 2003, effective July 1, 2003 provided that the State Treasurer shall reduce the normal and accrued liability contributions payable by employers other than the State, excluding the contribution payable from the benefit enhancement fund, to a percentage of the amount certified annually by the retirement system, which for PERS will be as follows: for payments due in the State fiscal year ending June 30, 2005, 20 percent; for payments due in the State fiscal year ending June 30, 2006, not more than 40 percent; for payments due in the State fiscal year ending June 30, 2007, not more than 60 percent; and for payments due in the State fiscal year ending June 30, 2008, not more than 80 percent.

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

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

**Significant Legislation (Continued)**

Chapter 42, P.L. 2002 permitted local government units to issue refunding bonds to retire unfunded accrued liability resulting from early retirement benefits under PERS, effective July 12, 2002.

Chapter 92, P.L. 2007 implements certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform which establishes a DCRP for elected and certain appointed officials, effective July 1, 2007.

**Employer and Employee Pension Contributions**

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS and 5.5% for DCRP of the employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds except the PAF and DCRP. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums for participating local governments. In the DCRP, member contributions are matched by a 3% employer contribution.

During the year ended June 30, 2007 for PERS which are cost sharing multi-employer defined benefit pension plans, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997. For the DCRP, which is a defined contribution plan, annual pension cost equals annual required contributions.

During the years ended December 31, 2008, 2007 and 2006, 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>
2008	\$ 160,607	\$ 125
2007	88,557	
2006	46,975	

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

**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.

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 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 a fund (Health Benefits Program Fund - State). 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 health benefit programs had a total of 454 state and local participating employers and contributing entities for Fiscal Year 2007.

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 the above trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

**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. 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 Treasury, Division of Investment, issues publicly available financial reports. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 2909, Trenton, New Jersey 08625-0290.

**Funding Policy**

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, 2007, there were 75,860 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.

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

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

**Funding Policy (Continued)**

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 \$64.6 million for 6,304 eligible retired members for Fiscal Year 2007.

PERS retirees are excluded from the provisions set forth in P.L. 1977, c. 136 since their health benefits coverage is funded through each of their respective pension fund systems via an annual appropriation. The State and participating local governments made post-retirement medical (PRM) contributions of \$224.3 million for PERS in Fiscal Year 2007.

The State will set in fiscal year 2008 the employer contribution rate based on 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, 2008, 2007 and 2006 were \$90,323, \$90,788 and \$99,255, 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, 2008, 2007 and 2006 were \$15,038, \$14,399 and \$12,066, 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.

**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, 2008 and 2007, the Authority had not performed the calculation to determine if there are any estimated arbitrage earnings due to the IRS. This amount if any should not be material based upon the Authority's outstanding obligations.

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

**NOTE 16 SUBSEQUENT EVENTS**

On February 18, 2009, the Bergen County Improvement Authority sold \$7,095,000 of bonds to the NW Capital Markets, Inc. at an interest rate of 2%-5%. These bonds dated February 26, 2009 will mature over 15 years with the first maturity due August 15, 2011.

These Series 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.



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**SUPPLEMENTARY SCHEDULES**

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

SCHEDULE 1

	2008 Modified Budget	2008 Actual	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>	<b>12,913,533</b>	<b>12,942,976</b>	<b>29,443</b>
<b>NON-OPERATING REVENUES</b>			
Reserve for Renewal & Replacement	181,584	181,584	-
Interest on Investments	900,000	572,560	(327,440)
<b>Total Non-Operating Revenues</b>	<b>1,081,584</b>	<b>754,144</b>	<b>(327,440)</b>
<b>Total Revenues</b>	<b>13,995,117</b>	<b>13,697,120</b>	<b>(297,997)</b>
<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>	<b>2,070,400</b>	<b>1,908,982</b>	<b>161,418</b>
<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>	<b>7,614,127</b>	<b>7,281,971</b>	<b>332,156</b>

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

SCHEDULE 1

	2008 Modified Budget	2008 Actual	Variance Favorable/ (Unfavorable)
<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)	(1,423,368)	\$ 195,577
	<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	(16,538)
Interest Expense - Loss on Refunding	(156,735)
Depreciation	(1,941,615)
	<hr/>

Change in Net Assets - GAAP	<u>\$ 1,397,800</u>
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**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET**  
**WITH BUDGET TO GAAP RECONCILIATION**  
**FOR THE PERIOD ENDED DECEMBER 31, 2007**

SCHEDULE 2

	2007 Adopted Budget	2007 Actual	Variance Favorable/ (Unfavorable)
<u>WASTEWATER</u>			
<b>OPERATING REVENUES</b>			
Service Charges	\$ 12,124,278	\$ 12,124,278	
Sewer Connection Fees		63,249	\$ 63,249
Outside Sludge	100,000	234,528	134,528
Discharge Fees		26,219	26,219
Industrial Pretreatment Program	80,000	92,734	12,734
Collection System	40,000	73,364	33,364
Miscellaneous	10,000	66,944	56,944
<b>Total Operating Revenues</b>	<b>12,354,278</b>	<b>12,681,316</b>	<b>327,038</b>
<b>NON-OPERATING REVENUES</b>			
Interest on Investments	730,000	983,289	253,289
<b>Total Non-Operating Revenues</b>	<b>730,000</b>	<b>983,289</b>	<b>253,289</b>
<b>Total Revenues</b>	<b>13,084,278</b>	<b>13,664,605</b>	<b>580,327</b>
<b>OPERATING APPROPRIATIONS</b>			
<b>ADMINISTRATION</b>			
Salaries & Wages	388,000	408,197	(20,197)
Fringe Benefits	170,975	169,936	1,039
Other Expenses			
Professionals	758,500	865,048	(106,548)
Communication	41,500	28,388	13,112
Executive	19,500	9,933	9,567
Management	210,000	108,700	101,300
<b>Total Administration</b>	<b>1,588,475</b>	<b>1,590,202</b>	<b>(1,727)</b>
<b>COST OF PROVIDING SERVICES</b>			
Salaries & Wages	2,585,000	2,808,193	(223,193)
Fringe Benefits	1,155,254	1,169,194	(13,940)
Other Expenses			
Utilities	1,121,200	1,242,852	(121,652)
Insurance	150,000	152,056	(2,056)
Vehicles	43,000	45,090	(2,090)
Collection System	264,500	199,986	64,514
Sewage Treatment & Laboratory	294,000	189,780	104,220
Solids Disposal	558,300	713,414	(155,114)
Buildings & Grounds/Road	108,000	144,420	(36,420)
<b>Total Cost of Providing Services</b>	<b>6,279,254</b>	<b>6,664,985</b>	<b>(385,731)</b>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET  
WITH BUDGET TO GAAP RECONCILIATION  
FOR THE PERIOD ENDED DECEMBER 31, 2007**

SCHEDULE 2

	2007 Adopted <u>Budget</u>	2007 <u>Actual</u>	Variance Favorable/ (Unfavorable)
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 3,842,270	\$ 3,842,270	
Interest Payment on Debt	1,004,279	1,004,279	
Reserve for Renewal & Replacement	725,000	725,000	
	<hr/>	<hr/>	
Total Non-Operating Appropriations	5,571,549	5,571,549	
	<hr/>	<hr/>	
Total Appropriations	13,439,278	13,826,736	\$ (387,458)
	<hr/>	<hr/>	
Total Budget Income/(Loss)	\$ (355,000)	(162,131)	\$ 192,869
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

RECONCILIATION TO COMPILATION (GAAP)

Increases to Budget Income:

Principal Paid on Bonds Payable	3,842,270
Reserve for Renewal and Replacement Budgetary Charge	725,000
Interest Expense - Original Issue Premium	108,865
Interest Expense - Gain on Refunding	26,370
Accrued Interest on Bonds Payable - Net	16,888

Decreases to Budget Income

Amortization of Debt Issuance Costs	(44,842)
Interest Expense - Loss on Refunding	(229,129)
Depreciation	(2,020,236)
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Change in Net Assets - GAAP

\$ 2,263,055

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# LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS

17 - 17 ROUTE 208  
FAIR LAWN, NJ 07410  
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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 as of and for the year ended December 31, 2008, and have issued our report thereon dated April 17, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

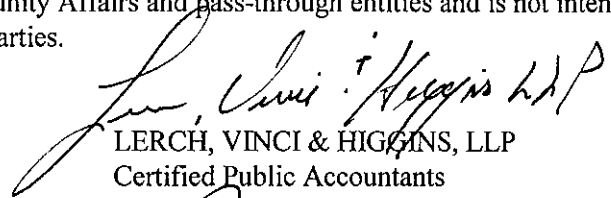
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

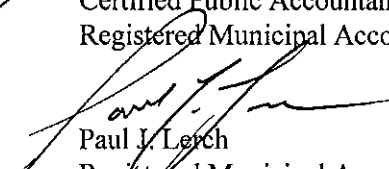
As part of obtaining reasonable assurance about whether the Northwest Bergen County Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which 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 is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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  
April 17, 2009



**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY**

**ROSTER OF OFFICIALS**

**AS OF DECEMBER 31, 2008**

**COMMISSIONERS**

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

Chairman  
Vice Chairman  
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 08-1**

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 of.

## **GENERAL COMMENTS**

There are none.

## **APPRECIATION**

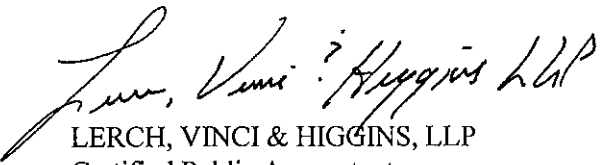
We desire to express our appreciation to the Executive Director and other Authority staff who assisted us during the course of our audit.

**RECOMMENDATIONS**

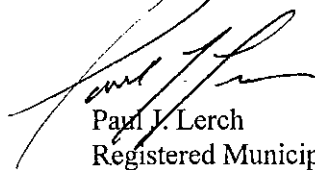
It is recommended that the Authority perform a physical count and a verification of values of the inventory on hand.

\* \* \* \* \*

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