

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF BERGEN)
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Northwest Bergen County Utilities Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Bergen County Utilities Authority as of December 31, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

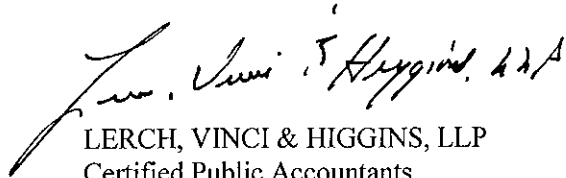
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northwest Bergen County Utilities Authority's basic financial statements as a whole. The supplementary schedules listed in the table of contents and the schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules listed in the table of contents, schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules listed in the table of contents, schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Northwest Bergen County Utilities Authority's internal control over financial reporting and compliance.



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



Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 9, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2013

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, 2013. 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 not including Franklin Lakes because they have not completed the wastewater system hookup.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2013 are as follows:

- Net Position was \$43,345,849 as of December 31, 2013, an increase from December 31, 2012 of \$2,060,494.
- Total budgetary revenues from all sources were \$16,082,961 an excess of \$478,454 when compared to the modified budget.
- Actual revenues were in excess of expenses resulting in a budgetary income of \$978,678.
- Overall GAAP operating revenues were \$12,942,027, a decrease from 2012 of \$1,663,801. The decrease in operating revenues is attributable to a credit given to all the member municipalities in the amount of \$1,598,983 on all member service fees. The 2013 budget was amended to reflect the reduction in member service fees.
- Overall GAAP operating expenses were \$11,296,950, an increase from 2012 of \$143,693.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of the: Management's Discussion and Analysis (this section), the basic financial statements and supplementary schedules. 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-term 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 one Enterprise Fund to account for its Wastewater System Operation.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013
(Continued)***

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position – The following table summarizes the Statement of Net Position as of December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and Non-Current Assets	\$ 15,916,283	\$ 20,047,980	\$ 17,774,463
Capital Assets (Net of Accumulated Depreciation)	<u>46,286,711</u>	<u>45,094,763</u>	<u>44,243,426</u>
Total Assets	62,202,994	65,142,743	62,017,889
Deferred Charge on Refunding	<u>-</u>	<u>28,581</u>	<u>166,493</u>
Total Deferred Outflows of Resources	-	28,581	166,493
Total Assets and Deferred Outflows of Resources	<u>62,202,994</u>	<u>65,171,324</u>	<u>62,184,382</u>
Current Liabilities	2,943,480	6,425,228	6,434,915
Non-Current Liabilities	<u>15,786,671</u>	<u>17,300,212</u>	<u>17,697,370</u>
Total Liabilities	18,730,151	23,725,440	24,132,285
Deferred Gain on Refunding	<u>126,994</u>	<u>160,529</u>	<u>209,233</u>
Total Deferred Inflows of Resources	126,994	160,529	209,233
Total Liabilities and Deferred Inflows of Resources	<u>18,857,145</u>	<u>23,885,969</u>	<u>24,341,518</u>
Net Position:			
Net Investment in Capital Assets	30,800,273	27,782,225	25,008,389
Restricted	7,826,090	8,836,332	9,773,707
Unrestricted	<u>4,719,486</u>	<u>4,666,798</u>	<u>3,487,350</u>
Total Net Position	<u>\$ 43,345,849</u>	<u>\$ 41,285,355</u>	<u>\$ 38,269,446</u>

The Authority's Net Position increased \$2,060,494 and \$3,442,491 in 2013 and 2012, 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, 2013
(Continued)**

OPERATING ACTIVITIES

The following table summarizes the changes in Net Position between fiscal years 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUES			
Member Service Fees	\$ 11,854,972	\$ 13,728,526	\$ 13,916,922
Outside Sludge	625,636	555,547	433,579
Industrial Pretreatment Program	42,360	71,903	75,479
Miscellaneous	419,059	249,852	383,191
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	12,942,027	14,605,828	14,809,171
OPERATING EXPENSES			
Administration	1,649,926	1,595,754	1,564,260
Cost of Providing Services	7,784,314	7,758,523	7,500,308
Depreciation	1,862,710	1,798,980	1,805,024
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	11,296,950	11,153,257	10,869,592
OPERATING INCOME	<hr/>	<hr/>	<hr/>
	1,645,077	3,452,571	3,939,579
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental Grants	419,593	506,644	
Other Reimbursements	298,881		
Interest Income	178,399	243,829	241,487
Interest Expense	(481,456)	(614,888)	(696,846)
Costs of Issuance Expense	-	(145,665)	(70,495)
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Total Non-Operating Revenues/(Expenses)	415,417	(10,080)	(525,854)
CHANGE IN NET POSITION	<hr/>	<hr/>	<hr/>
	\$ 2,060,494	\$ 3,442,491	\$ 3,413,725

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013
(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 2013, 2012 and 2011. The construction in progress represents the pump station improvements and the primary tank improvements.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,372,226	\$ 1,350,526	\$ 1,350,526
Treatment Plant and Collection System	88,194,637	82,021,145	77,517,445
Property and Equipment	14,362,324	14,256,344	14,256,344
Construction in Progress	<u>78,181</u>	<u>3,324,695</u>	<u>5,178,078</u>
	104,007,368	100,952,710	98,302,393
Less Accumulated Depreciation	<u>(57,720,657)</u>	<u>(55,857,947)</u>	<u>(54,058,967)</u>
Capital Assets, Net	<u>\$ 46,286,711</u>	<u>\$ 45,094,763</u>	<u>\$ 44,243,426</u>

During the year ending December 31, 2013 the Authority completed additional incinerator upgrades and site paving and lighting improvements. The Franklin Lakes sewer expansion project was placed in service at the end of 2013. However, there is additional work to be completed.

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
- Incinerator emission control upgrade/Repairs
- Franklin Lakes Sanitary Sewer Project
- Upgrading Wasting System
- Primary tank upgrades
- Grease Collection System
- Vehicle Replacement

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2013
(Continued)***

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

- 2 ° Clarifier Upgrades
- Electrical System Upgrades
- Collection System Expansion

The Authority's Consulting Engineer has estimated that \$23,916,000 will be required to fund the Capital Projects identified by the Authority in the years 2014 through 2019. The 2014 Capital Budget will be funded primarily by debt authorization and it is anticipated that the Authority will continue this approach through 2019. In addition, the 2014 operating budget has a capital outlay appropriation to fund pump station upgrades, vehicle replacement and primary tank upgrades. During 2013, the consulting engineer has certified that the Renewal and Replacement Reserve balance should be \$3,250,000.

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

Debt Administration

The following table summarizes the Authority's long-term debt as of December 31, 2013, 2012 and 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenue Bonds	\$ 7,778,197	\$ 11,272,971	\$ 14,557,745
Plus: Unamortized Original Issue Premium	<u>178,587</u>	<u>223,467</u>	<u>321,288</u>
Total Wastewater Revenue Bonds-Net	<u>7,956,784</u>	<u>11,496,438</u>	<u>14,879,033</u>
New Jersey Environmental Infrastructure Loan	8,793,025	9,559,366	7,073,079
Plus: Unamortized Original Issue Premium	<u>364,963</u>	<u>386,026</u>	<u>158,055</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>9,157,988</u>	<u>9,945,392</u>	<u>7,231,134</u>
Total Long-Term Debt - Net	17,114,772	21,441,830	22,110,167
Plus: Compensated Absences	132,425	132,774	136,755
Claims and Judgements	<u>-</u>	<u>318,699</u>	<u>248,699</u>
Long-Term Liabilities	<u>\$ 17,247,197</u>	<u>\$ 21,893,303</u>	<u>\$ 22,495,621</u>

Additional information on the Authority's capital debt can be found in the notes to the financial statements.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2013 (Continued)

OTHER FINANCIAL INFORMATION

2014 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 Northwest Bergen County Utilities Authority's adopted 2014 Budget totals \$12,972,502, representing \$4,230,988 or 25% decrease from the original 2013 Budget of \$17,203,490. This decrease is primarily due to a reduction in debt service for the budget year 2014.

The 2014 Operating Budget of \$11,775,688 has decreased by \$2,430,172, or 17% from 2013.

Revenue anticipated from Service Charges will vary for 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 \$11,999,923, which represents a 1.2% increase when compared to the 2013 amended budget. Funds are anticipated this year for Outside Septage and Sludge in the amount of \$400,000. Interest income is estimated at \$35,000, a reduction from 2013 due to declining balances and interest rates. Industrial Pretreatment Program Permit income is estimated to be \$82,579 and Collection System Operations income is estimated to be \$59,000. This year we anticipate Miscellaneous Income totaling approximately \$100,000 which includes the sale of Solar Renewable Energy Certificates (SREC's). In addition the Authority is utilizing \$256,000 from unrestricted net position.

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.

FINANCIAL STATEMENTS

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013 AND 2012

	December 31, 2013	December 31, 2012 (Restated)
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 4,110,252	\$ 4,227,417
Accounts Receivable		20,928
Intergovernmental Receivable	213,307	
Inventory	530,249	519,968
Prepaid Items	126,477	123,147
Total Unrestricted Current Assets	<u>4,980,285</u>	<u>4,891,460</u>
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	2,046,210	3,494,196
Accrued Interest Receivable	41	537
Project Accounts		
Cash and Cash Equivalents	767,300	1,436,091
Accrued Interest Receivable	3	366
Renewal and Replacement Account		
Cash and Cash Equivalents	250,000	250,000
Accrued Interest Receivable	5	6
Bond/Loan Service Account		
Cash and Cash Equivalents	1,976,763	1,896,889
Accrued Interest Receivable	1,140	3,082
Bond/Loan Reserve Account		
Cash and Cash Equivalents	3,954,457	657
Investments		3,310,942
Accrued Interest Receivable	1,571	93,835
Loan Receivable-NJEIT	1,252,561	3,354,727
Total Restricted Current Assets	<u>10,250,051</u>	<u>13,841,328</u>
Total Current Assets	<u>15,230,336</u>	<u>18,732,788</u>
Restricted Non-Current Assets		
Bond/Loan Reserve Account		
Investments	670,580	1,286,380
Accrued Interest Receivable	15,367	28,812
Total Restricted Non-Current Assets	<u>685,947</u>	<u>1,315,192</u>
Capital Assets		
Land	1,372,226	1,350,526
Construction in Progress	78,181	3,324,695
Treatment Plant and Collection System	88,194,637	82,021,145
Property and Equipment	14,362,324	14,256,344
Less Accumulated Depreciation	<u>(57,720,657)</u>	<u>(55,857,947)</u>
Total Capital Assets (net of accumulated depreciation)	<u>46,286,711</u>	<u>45,094,763</u>
Total Non-Current and Capital Assets	<u>46,972,658</u>	<u>46,409,955</u>
Total Assets	<u>62,202,994</u>	<u>65,142,743</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charge on Refunding	-	28,581
Total Deferred Outflows of Resources	<u>-</u>	<u>28,581</u>
Total Assets and Deferred Outflows of Resources	<u>62,202,994</u>	<u>65,171,324</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013 AND 2012

	December 31, <u>2013</u>	December 31, <u>2012</u> (Restated)
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 560,463	\$ 462,348
Accrued Salary and Related Benefits	89,752	96,881
Accrued Compensated Absences	13,243	13,277
Unearned Revenues	25,801	61,579
Escrow Deposits Payable	6,560	11,700
Claims and Judgments Payable		318,699
Other Liabilities	<u>25,291</u>	<u>53,124</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>721,110</u>	<u>1,017,608</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	456,826	331,279
Revenue Bonds Payable	664,774	3,494,774
Loans Payable	782,509	766,341
Accrued Interest on Bonds and Loans	218,953	296,325
Unearned Revenues	<u>99,308</u>	<u>518,901</u>
Total Current Liabilities Payable from Restricted Assets	<u>2,222,370</u>	<u>5,407,620</u>
Non-Current Liabilities		
Revenue Bonds Payable (net of unamortized premiums)	7,292,010	8,001,664
Loans Payable (net of unamortized premiums)	8,375,479	9,179,051
Accrued Compensated Absences	<u>119,182</u>	<u>119,497</u>
Total Non-Current Liabilities	<u>15,786,671</u>	<u>17,300,212</u>
Total Liabilities	<u>18,730,151</u>	<u>23,725,440</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Gains on Refunding	<u>126,994</u>	<u>160,529</u>
Total Deferred Inflows of Resources	<u>126,994</u>	<u>160,529</u>
Total Liabilities and Deferred Inflows of Resources	<u>18,857,145</u>	<u>23,885,969</u>
NET POSITION		
Net Investment in Capital Assets	30,800,273	27,782,225
Restricted For:		
Operating Reserve	2,582,101	2,486,186
Debt Service	749,815	2,117,565
Debt Reserve	1,244,174	3,982,581
Renewal and Replacement	3,250,000	250,000
Unrestricted	<u>4,719,486</u>	<u>4,666,798</u>
Total Net Position	<u>\$ 43,345,849</u>	<u>\$ 41,285,355</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	December 31, <u>2013</u>	December 31, <u>2012</u> (Restated)
OPERATING REVENUES		
Member Service Fees	\$ 11,854,972	\$ 13,728,526
Sewer Connection Fees	130,482	72,693
Discharge Fees	30,219	1,900
Industrial Pretreatment Program	42,360	71,903
Outside Sludge	625,636	555,547
Collection System	55,237	54,718
Solar Renewable Energy Certificates	52,000	28,470
Miscellaneous	<u>151,121</u>	<u>92,071</u>
 Total Operating Revenues	 <u>12,942,027</u>	 <u>14,605,828</u>
 OPERATING EXPENSES		
Administrative and Executive		
Salaries & Wages	574,867	559,325
Fringe Benefits	307,326	295,069
Other Expenses	767,733	741,360
Cost of Services		
Salaries & Wages	3,185,557	3,236,374
Fringe Benefits	1,702,653	1,706,756
Other Expenses	2,896,104	2,815,393
Depreciation Expense	<u>1,862,710</u>	<u>1,798,980</u>
 Total Operating Expenses	 <u>11,296,950</u>	 <u>11,153,257</u>
 OPERATING INCOME	 <u>1,645,077</u>	 <u>3,452,571</u>
 NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental Grants	419,593	506,644
Bergen County Reimbursements	188,096	
Insurance Reimbursements - Hurricane Sandy	12,049	
FEMA - Hurricane Reimbursements	98,736	
Interest Income	178,399	243,829
Interest Expense	(481,456)	(614,888)
Costs of Issuance Expense	<u>-</u>	<u>(145,665)</u>
 Total Non-Operating Income (Expenses)	 <u>415,417</u>	 <u>(10,080)</u>
 CHANGE IN NET POSITION	 2,060,494	 3,442,491
Total Net Position, January 1,	<u>41,285,355</u>	<u>37,842,864</u>
Total Net Position, December 31,	<u>\$ 43,345,849</u>	<u>\$ 41,285,355</u>

The accompanying notes are an integral part of the financial statements.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	December 31, <u>2013</u>	December 31, <u>2012</u>
Cash Flows from Operating Activities		
Cash Received from Members	\$ 11,854,972	\$ 13,728,526
Cash Received from Other Operating Fees	921,084	761,533
Cash Paid to Suppliers	(5,631,358)	(5,346,055)
Cash Paid to Employees	(3,767,902)	(3,801,902)
Cash Received from Miscellaneous Fees	<u>151,121</u>	<u>92,071</u>
Net Cash Provided by Operating Activities	<u>3,527,917</u>	<u>5,434,173</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds from FEMA/Insurance - Hurricane Reimbursements	85,574	
Proceeds (Uses) from Escrow Deposits	<u>(5,140)</u>	<u>5,700</u>
Net Cash Provided by Non-Capital Financing Activities	<u>80,434</u>	<u>5,700</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from NJEIT Loan Receivable	2,102,166	2,679,381
Principal Payments - Bonds	(3,494,774)	(3,284,774)
Principal Payments - Loans	(766,341)	(1,499,801)
Payment of Debt Issuance Costs	-	(145,665)
Interest Paid - Bonds and Loans	(633,053)	(746,108)
Payment of Arbitrage Rebate	(352,250)	-
Acquisition of Fixed Assets	<u>(2,911,570)</u>	<u>(2,999,165)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(6,055,822)</u>	<u>(5,996,132)</u>
Cash Flows from Investing Activities		
Proceeds/(Purchase) of Investments	3,926,742	(1,270,469)
Interest Received	<u>320,461</u>	<u>228,868</u>
Net Cash Provided by (Used for) Investing Activities	<u>4,247,203</u>	<u>(1,041,601)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	1,799,732	(1,597,860)
Cash and Cash Equivalents, January 1,	<u>11,305,250</u>	<u>12,903,110</u>
Cash and Cash Equivalents, December 31,	<u>\$ 13,104,982</u>	<u>\$ 11,305,250</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Cash Equivalents	\$ 4,110,252	\$ 4,227,417
Restricted - Cash and Cash Equivalents	<u>8,994,730</u>	<u>7,077,833</u>
	<u>\$ 13,104,982</u>	<u>\$ 11,305,250</u>

The accompanying notes are an integral part of the financial statements.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	December 31, <u>2013</u>	December 31, <u>2012</u>
Operating Income	<u>\$ 1,645,077</u>	<u>\$ 3,452,571</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	1,862,710	1,798,980
(Increase)/Decrease in Inventory	(10,281)	89,937
(Increase)/Decrease in Accounts Receivable	20,928	(20,928)
(Increase)/Decrease in Prepaid Items	(3,330)	(7,920)
Increase/(Decrease) in Accounts Payable	83,902	78,010
Increase/(Decrease) in Accrued Salary and Related Benefits	(7,129)	(2,222)
Increase/(Decrease) in Accrued Compensated Absences	(349)	(3,981)
Increase/(Decrease) in Other Liabilities	(27,833)	52,496
Increase/(Decrease) in Unearned Revenue	<u>(35,778)</u>	<u>(2,770)</u>
Total Adjustments	<u>1,882,840</u>	<u>1,981,602</u>
Net Cash Provided by Operating Activities	<u>\$ 3,527,917</u>	<u>\$ 5,434,173</u>
Noncash Investing, Capital and Financing Activities		
Purchase of Capital Assets on Account	\$ 480,185	\$ 340,425
Amortization of Original Issue Premium	65,943	114,634
Amortization of Gain on Refunding	33,535	48,704
Amortization of Loss on Refunding	28,581	137,912
Unearned Revenue - ARRA Grant		1,025,545
Issuance of Long-Term Debt - NJEIT Loan		3,986,088
Original Issue Premium - NJEIT Loan		244,784

The accompanying notes are an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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. The Authority would be includable as a component unit of the County of Bergen.

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.

B. New Accounting Standards

During fiscal year 2013 and 2012, the Authority adopted the following GASB statements:

- GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

- GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.
- GASB 65, *Items Previously Reported as Assets and Liabilities*, although not required to be implemented until next year, the Authority elected to apply the statement to the current year financial statements. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Other accounting standards that the Authority is currently reviewing for applicability and potential impact on the financial statements include:

- GASB 66, *Technical Corrections – 2012, an Amendment of GASB Statements 10 and 62*, will be effective beginning with the year ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
- GASB 67, *Financial Reporting for Pension Plans, an Amendment of GASB 25*, will be effective beginning with the year ending June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The Authority does not expect this Statement to impact its financial statements.
- GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective beginning with the year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The Authority does not expect this Statement to impact its financial statements.

C. 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 THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 Position. 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.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit as well as 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 THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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

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.

6. Capital Assets

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

Construction costs are charged to work in progress until such time as they are completed and certified by the Authority's consulting engineers, at which time they are transferred to their respective asset category and are then depreciated over their useful lives. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Authority during the years ended December 31, 2013 and 2012 was \$481,456 and \$681,116, respectively. Of these amounts, \$- and \$66,228 were included as part of the cost of capital assets under construction for those years.

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

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

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Continued)

7. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding which results from the loss on a debt refunding reported in the statement of net position. A deferred charge on debt refunding results from the loss on the transaction when the debt's reacquisition price is greater than the carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Accordingly, one item that qualifies for reporting in this category is the deferred charge which results from the gain on a debt refunding reported in the statement of net position. A deferred charge on debt refunding results from the gain on the transaction when the carrying value of refunded debt is greater than its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

8. *Long-Term Obligations*

In the Authority's financial statements, long-term debt and other long-term obligations are reported as liabilities in the of net position. Gains resulting from debt refundings are classified as deferred inflows of resources and losses are reported as deferred outflows or resources. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Gains and losses resulting from debt refundings are also deferred and amortized over the life of the refunded bonds or new bonds whichever is less using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs (other than for prepaid insurance) are treated as an expense.

9. *Net Position*

In the statement of net position, there are three classes of net position:

- **Net investment in capital assets** – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt also should be included.
- **Restricted net position** – reports net position when constraints placed on the residual amount of noncapital assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – any portion of net position not already classified as either net investment in capital assets or net position – restricted is classified as net position – unrestricted.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position (Continued)

10. *Net Position Flow Assumption*

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

11. *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.

12. *Unearned Revenue*

Grant funds and related program income receivable, but not earned at year end, are reported as unearned revenue. Additionally, deposits received whereby contract requirements are not satisfied as of the date of audit are considered unearned revenue.

13. *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.

14. *Reclassifications*

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's 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. 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.

A Five Year Capital budget is also prepared. Included within the budgets are individual projects along with their estimated cost, completion date and source of funding.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

1. Budgetary Accounting (Continued)

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.

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 net position 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 Authority. 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.

3. Designated Unrestricted Net Position

The Authority is permitted under budgetary accounting practices promulgated by the Division of Local Government Services to designate unrestricted net position. The Board of Commissioners may formally dedicate net position to establish designations of unrestricted net position to meet policy adopted by the Board. As of December 31, 2013 and 2012, the Authority has not designated any of its unrestricted net position.

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 (Restricted)
- C) Bond Service Fund (Restricted)
- D) Bond (Loan) 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. In addition to the funds listed above, the Authority maintains an Operating Account and General Improvement 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/Loan 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.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 3 CREATION OF FUNDS (Continued)

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.

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.

Project 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

Cash Deposits - The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corp. (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Authority is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to Pledge Plus collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances for interest bearing accounts are insured up to \$250,000 in the aggregate by the FDIC for each bank. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, temporary unlimited deposit insurance coverage was provided for non-interest bearing accounts from December 31, 2010 through December 31, 2012. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2013 and 2012, the book value of the Authority's deposits were \$ 3,943,549 and \$4,639,628, respectively, and bank balances of the Authority's cash and deposits amounted to \$3,938,696 and \$4,599,150, respectively. The Authority’s deposits which are displayed on the balance sheet as “cash and cash equivalents” are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Insured		
Restricted	\$ 284,646	\$ 412,209
Unrestricted	<u>3,654,050</u>	<u>4,186,941</u>
	<u>\$ 3,938,696</u>	<u>\$ 4,599,150</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, 2013 and 2012, none of the Authority’s bank balances were exposed to custodial credit risk.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

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).

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 THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2013 and 2012, the Authority had the following investments:

	<u>Fair Value</u>
<u>2013</u>	
Certificates of Deposits	\$ 9,161,433
U.S. Securities (SLUGS) - Treasury	<u>670,580</u>
Total Investments	<u>\$ 9,832,013</u>
Cash Equivalents	<u>\$ 9,161,433</u>
	<u>Fair Value</u>
<u>2012</u>	
Certificates of Deposits	\$ 6,665,622
U.S. Securities (SLUGS) - Treasury Federal Home Loan Mortgage Corp.	<u>1,286,380</u> <u>3,310,942</u>
Total Investments	<u>\$ 11,262,944</u>
Cash Equivalents	<u>\$ 6,665,622</u>

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, 2013 and 2012, \$670,580 and \$4,597,322, respectively of the Authority's investments were exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Uninsured and Collateralized:		
Collateral held by pledging financial institution's trust department or agent but not in the Authority's name	<u>\$ 670,580</u>	<u>\$ 4,597,322</u>

Interest Rate Risk – The Authority does have a formal investment policy that limits investment maturities as a means of managing its 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 THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 was as follows:

	Balance, January 1, <u>2013</u>	Increases/ (Decrease)	<u>Adjustments</u>	Balance December 31, <u>2013</u>
<u>2013</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526	-	\$ 21,700	\$ 1,372,226
Construction in Progress	<u>3,324,695</u>	<u>\$ 2,948,678</u>	<u>(6,195,192)</u>	<u>78,181</u>
Total Capital Assets, Not Being Depreciated	<u>4,675,221</u>	<u>2,948,678</u>	<u>(6,173,492)</u>	<u>1,450,407</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System Property and Equipment	82,021,145 <u>14,256,344</u>	 <u>105,980</u>	6,173,492 <u>-</u>	88,194,637 <u>14,362,324</u>
Total Capital Assets Being Depreciated	<u>96,277,489</u>	<u>105,980</u>	<u>6,173,492</u>	<u>102,556,961</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System Property and Equipment	(43,196,416) <u>(12,661,531)</u>	(1,623,996) <u>(238,714)</u>	 <u>-</u>	(44,820,412) <u>(12,900,245)</u>
Total Accumulated Depreciation	<u>(55,857,947)</u>	<u>(1,862,710)</u>	<u>-</u>	<u>(57,720,657)</u>
Total Capital Assets, Being Depreciated, Net	<u>40,419,542</u>	<u>(1,756,730)</u>	<u>6,173,492</u>	<u>44,836,304</u>
Capital Assets, Net	<u>\$ 45,094,763</u>	<u>\$ 1,191,948</u>	<u>\$ -</u>	<u>\$ 46,286,711</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 5 CAPITAL ASSETS (Continued)

	Balance, January 1, <u>2012</u>	Increases/ (Decrease)	Adjustments	Balance December 31, <u>2012</u>
<u>2012</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,350,526			\$ 1,350,526
Construction in Progress	<u>5,178,078</u>	<u>\$ 2,649,156</u>	<u>\$ (4,502,539)</u>	<u>3,324,695</u>
Total Capital Assets, Not Being Depreciated	<u>6,528,604</u>	<u>2,649,156</u>	<u>(4,502,539)</u>	<u>4,675,221</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System Property and Equipment	77,517,445 <u>14,256,344</u>	1,161 <u>-</u>	4,502,539 <u>-</u>	82,021,145 <u>14,256,344</u>
Total Capital Assets Being Depreciated	<u>91,773,789</u>	<u>1,161</u>	<u>4,502,539</u>	<u>96,277,489</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System Property and Equipment	(41,882,216) <u>(12,176,751)</u>	(1,314,200) <u>(484,780)</u>	<u>-</u>	(43,196,416) <u>(12,661,531)</u>
Total Accumulated Depreciation	<u>(54,058,967)</u>	<u>(1,798,980)</u>	<u>-</u>	<u>(55,857,947)</u>
Total Capital Assets, Being Depreciated, Net	<u>37,714,822</u>	<u>(1,797,819)</u>	<u>4,502,539</u>	<u>40,419,542</u>
Capital Assets, Net	<u>\$ 44,243,426</u>	<u>\$ 851,337</u>	<u>\$ -</u>	<u>\$ 45,094,763</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6 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.

As of December 31, 2013, the principal amount of the 2004 Bonds outstanding is \$-0-.

As of December 31, 2012, the principal amount of the 2004 Bonds outstanding of \$2,840,000 have been increased by \$13,580. This amount represents the unamortized original issue premium on the 2004 refunding bonds and is being reported in accordance with GAAP.

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

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

As of December 31, 2013, the principal amount of the 2009 Bonds outstanding of \$6,500,000 has been increased by \$178,587. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GAAP.

As of December 31, 2012, the principal amount of the 2009 Bonds outstanding of \$6,995,000 has been increased by \$209,887. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GAAP.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued) - Revenue Bonds outstanding as of December 31, 2013 and 2012 consist of the following:

	December 31, <u>2013</u>	December 31, <u>2012</u>
Wastewater Revenue Bonds, Refunding, Series 2004 2.00-4.75% due July 15, 2005 to 2013		\$ 2,840,000
Utility System Revenue Bonds, Series 2008 1.05% due December 15, 2008 to 2021	\$ 1,278,197	1,437,971
BCIA Loan Revenue Bonds, Series 2009 2.00-5.00% due July 15, 2011 to 2024	<u>6,500,000</u>	<u>6,995,000</u>
Total	<u>\$ 7,778,197</u>	<u>\$ 11,272,971</u>

Intergovernmental Loans Payable – The Authority has entered into loan agreements with the State of New Jersey Environmental Infrastructure Trust to provide funds for the expansion of the Authority’s Phase II wastewater treatment plant and the replacement fluidized bed sludge incinerator, rehabilitation of the Stage II Phase III interceptor and construction of a gravity collection system and pump station to serve portions of Franklin Lakes. During 2010, the Authority entered into a loan agreement with the State of New Jersey to provide funds for the incinerator upgrade. During 2012, the Authority entered into a loan agreement with the State of New Jersey to provide funds for the Franklin Lakes sewer project. The Authority has pledged income from operations to pay debt service.

Loans Payable outstanding at December 31, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Wastewater System - 1997, Refunded in 2006 4.50% to 5.00%	\$ 1,474,383	1,814,712
Fund Loan Payable - Wastewater System - 1997, Refunded in 2006 Interest Free	467,434	568,566
Trust Loan Payable- Wastewater System - 2010 5.00%	1,545,000	1,600,000
Fund Loan Payable- Wastewater System- 2010 Interest Free	1,500,000	1,590,000
Trust Loan Payable- Wastewater System - 2012 2.00% to 5.00%	1,865,000	1,935,000
Fund Loan Payable- Wastewater System- 2012 Interest Free	<u>1,941,208</u>	<u>2,051,088</u>
Total	<u>\$ 8,793,025</u>	<u>\$ 9,559,366</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6 LONG-TERM DEBT (Continued)

Long-term debt activity for the years ended December 31, 2013 and 2012 was as follows:

<u>2013</u>	Balance, January 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2013</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 11,272,971		\$ 3,494,774	\$ 7,778,197	\$ 664,774
Plus: Unamortized Original Issue Premium	<u>223,467</u>	<u>-</u>	<u>44,880</u>	<u>178,587</u>	<u>-</u>
Total Bonds Payable	<u>11,496,438</u>	<u>-</u>	<u>3,539,654</u>	<u>7,956,784</u>	<u>664,774</u>
New Jersey Environmental Infrastructure Loan	9,559,366		766,341	8,793,025	782,509
Plus: Unamortized Original Issue Premium	<u>386,026</u>	<u>-</u>	<u>21,063</u>	<u>364,963</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>9,945,392</u>	<u>-</u>	<u>787,404</u>	<u>9,157,988</u>	<u>782,509</u>
Total Long-Term Debt - Net	21,441,830	-	4,327,058	17,114,772	1,447,283
<u>Plus:</u>					
Compensated Absences	132,774		349	132,425	13,243
Claims and Judgments	<u>318,699</u>	<u>\$ 33,551</u>	<u>352,250</u>	<u>-</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 21,893,303</u>	<u>\$ 33,551</u>	<u>\$ 4,679,657</u>	<u>\$ 17,247,197</u>	<u>\$ 1,460,526</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6 LONG-TERM DEBT (Continued)

<u>2012</u>	Balance, January 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2012</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 14,557,745		\$ 3,284,774	\$ 11,272,971	\$ 3,494,774
Plus: Unamortized Original Issue Premium	<u>321,288</u>	<u>-</u>	<u>97,821</u>	<u>223,467</u>	<u>-</u>
Total Bonds Payable	<u>14,879,033</u>	<u>-</u>	<u>3,382,595</u>	<u>11,496,438</u>	<u>3,494,774</u>
New Jersey Environmental Infrastructure Loan	7,073,079	\$ 3,986,088	1,499,801	9,559,366	766,341
Plus: Unamortized Original Issue Premium	<u>158,055</u>	<u>244,784</u>	<u>16,813</u>	<u>386,026</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>7,231,134</u>	<u>4,230,872</u>	<u>1,516,614</u>	<u>9,945,392</u>	<u>766,341</u>
Total Long-Term Debt - Net	22,110,167	4,230,872	4,899,209	21,441,830	4,261,115
<u>Plus:</u>					
Compensated Absences	136,755		3,981	132,774	13,277
Claims and Judgments	<u>248,699</u>	<u>70,000</u>	<u>-</u>	<u>318,699</u>	<u>318,699</u>
Long-Term Liabilities	<u>\$ 22,495,621</u>	<u>\$ 4,300,872</u>	<u>\$ 4,903,190</u>	<u>\$ 21,893,303</u>	<u>\$ 4,593,091</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 6 LONG-TERM DEBT (Continued)

The Authority's schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2013 is as follows:

Period Ending December 31,	Revenue Bonds		NJ Environmental Infrastructure Loan		Total
	Principal	Interest	Principal	Interest	
2014	\$ 664,775	\$ 258,096	\$ 782,509	\$ 226,711	\$ 1,932,091
2015	674,775	243,794	813,685	205,361	1,937,615
2016	689,775	229,241	830,959	181,811	1,931,786
2017-2021	3,703,872	856,739	2,328,702	630,055	7,519,368
2022-2026	2,045,000	201,250	2,034,398	386,055	4,666,703
2027-2031	-	-	2,002,772	127,939	2,130,711
	<u>\$ 7,778,197</u>	<u>\$ 1,789,120</u>	<u>\$ 8,793,025</u>	<u>\$ 1,757,932</u>	<u>\$ 20,118,274</u>

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

NOTE 7 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 \$132,425 and \$132,774 at December 31, 2013 and 2012, respectively. These amounts are accrued as a liability at December 31, 2013 and 2012.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 8 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, 2013 and 2012 are as follows:

	Bond/Loan Service Fund	Bond/Loan Reserve Fund	R & R Fund	Revenue Fund
<u>December 31, 2013</u>				
Required Balance	\$ 968,768	\$ 1,489,278	\$ 3,250,000	\$ 2,582,101
Cash and Investments	<u>1,976,763</u>	<u>4,625,037</u>	<u>250,000</u>	<u>2,046,210</u>
Excess/(Deficit)	<u>\$ 1,007,995</u>	<u>\$ 3,135,759</u>	<u>\$ (3,000,000)</u>	<u>\$ (535,891)</u>
<u>December 31, 2012</u>				
Required Balance	\$ 2,413,890	\$ 4,451,812	\$ 250,000	\$ 2,486,186
Cash and Investments	<u>1,896,889</u>	<u>4,597,979</u>	<u>250,000</u>	<u>3,494,196</u>
Excess/(Deficit)	<u>\$ (517,001)</u>	<u>\$ 146,167</u>	<u>\$ -</u>	<u>\$ 1,008,010</u>

Operating Reserve – Under the provisions of the Bond Resolution, the Authority is required to reserve an amount estimated to be necessary for operating expenses which is consistent with the annual operating budget for the three month period commencing on the last day of each quarter in any fiscal year and to be transferred within ten days thereafter to the operating account. Such amount must be on deposit for operating expenses along with the required balances for the Bond Service Fund, Bond Reserve Fund, and Renewal and Replacement Fund. As of December 31, 2013 and 2012, the net amounts available for the Operating Reserve were \$2,582,101 and \$2,486,186, respectively.

NOTE 9 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 10 years of service for pension benefits and, if applicable, 25 years for post-retirement healthcare coverage.

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

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership. This provision was extended by Chapter 1, P.L. 2010, effective May 21, 2010, to new employees (Tier 2) of the PFRS and new employers who would otherwise be eligible to participate in PERS and do not work the minimum required hours but earn a base salary of at least \$5,000 are eligible for participation in the DCRP.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 9 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Other Pension Funds

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

The cost of living increase for PERS are funded directly by each of the respective systems, but are currently suspended as a result of reform legislation.

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

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

Basis of Accounting

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

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which PERS operate and to the benefit provisions of those systems.

This new legislation's provisions impacting employee pension and health benefits include:

- For new members of PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65. The eligibility age to qualify for a service retirement in the PERS increased from age 62 to 65 for Tier 5 members.
- It increased the active member contribution rates as follows: PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years; PFRS active member rates increase from 8.5 percent to 10 percent. For Fiscal Year 2013, the PERS member contribution rate was 6.64%. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 9 EMPLOYEE RETIREMENT SYSTEMS (Continued)

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. The financial report 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.

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS is 64.5 percent with an unfunded actuarial accrued liability of \$47.2 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 56.7 percent and \$34.4 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 76.1 percent.

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

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

Actuarial Methods and Assumptions

In the July 1, 2012 actuarial valuations, the date of the most recent actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as asset valuation method for pension trust funds. The actuarial assumptions included (a) 7.90% for investment rate of return for all the retirement systems except CPFPPF (2.00%) and (b) changes to projected salary increases, which vary by fund.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 6.50% plus an additional 1% phased-in over 7 years beginning in July 2012 for PERS and 5.50% for DCRP of employees' annual compensation. The member contribution for PERS was 6.64% in fiscal year 2013.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 9 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2013 for PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended December 31, 2013, 2012 and 2011, the Authority, was required to contribute for normal cost pension contributions, accrued liability pension contributions, early retirement incentive program contributions, deferred pension obligation contributions, and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>	<u>DCRP</u>
2013	\$ 367,101	\$ 325
2012	378,934	125
2011	349,900	150

NOTE 10 POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for 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 the Teacher’s Pension and Annuity (TPAF) are combined and reported as Pension and Other Employee Benefit Trust Funds in the State’s Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost sharing multiple-employer plan. The post-retirement benefit programs had a total of 566 state and local participating employers and contributing entities for Fiscal Year 2013.

The State of New Jersey sponsors and administers the following health benefit program covering substantially all local government employees from local participating employers.

State Health Benefits Program Funds (HBPF) – Local Government (including Prescription Drug Program Fund) – Certain local employers who participate in the State Health Benefits Program provide health insurance coverage to their employees at retirement. Under provisions of P.L. 1997, c.330, the State of New Jersey provides partially funded benefits to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Also, local employees are eligible for the PDP coverage after 60 days of employment.

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 Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 10 POST-RETIREMENT MEDICAL BENEFITS (Continued)

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.

Significant Legislation

P.L. 2011, c.78, effective October 2011, sets new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary. For those employed on or after June 28, 2011 the 4-year phase in does not apply, and contributions based on the full percentage rate of contribution are required.

Investment Valuation

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

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the State had a \$51.5 billion unfunded actuarial liability for other postemployment benefits (OPEB) which is made up of \$19.3 billion for state active and retired members and \$32.2 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

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

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

Actuarial Methods and Assumptions

In the July 1, 2012 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included 4.50 percent for investment rate of return for the OPEB.

Post-Retirement Medical Benefits Contribution

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2013, there were 100,134 retirees receiving post-retirement medical benefits, and the State contributed \$1.07 billion on their behalf. 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 THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 10 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Post-Retirement Medical Benefits Contribution (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 \$139.8 million for 9,404 eligible retired members for Fiscal Year 2013. This benefit covers the Police and Firemen's Retirement System.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Authority's contributions to the State Health Benefits Program Fund-Local Government for post-retirement benefits for the years ended December 31, 2013, 2012 and 2011 were \$190,512, \$167,930 and \$141,045, respectively, which equaled the required contributions for each year (or were not available). In addition, the Authority's reimbursements to eligible retired employees for Medicare Part B insurance coverage for the years ended December 31, 2013, 2012 and 2011 were \$20,141, \$18,481 and \$16,388, respectively.

NOTE 11 OTHER INFORMATION

A. Contingencies

The Authority is a party defendant in certain 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 12 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. During 2009, the Authority had performed the initial 5-year calculation as required under the 1986 Tax Reform Act to determine if there were any estimated arbitrage earnings due to the IRS. Based upon the initial 5-year calculation performed for the computation period January 13, 2004 through December 31, 2008, there was a liability required to be rebated to the IRS in the amount of \$377,237, which includes \$20,311 of accrued interest liability. The \$377,237 due to the IRS was paid in full by the Authority in May, 2010. During 2013, the Authority had performed the second calculation as required under the 1986 Tax Reform Act to determine if there were any estimated arbitrage earnings due to the IRS. Based upon the second calculation performed for the computation period January 13, 2004 through July 15, 2013, there was a liability required to be rebated to the IRS in the amount of \$352,250. The \$352,250 due to the IRS was paid in full by the Authority in September, 2013. At December 31, 2013, the Authority had no estimated arbitrage earnings due to the IRS.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

NOTE 13 RESTATEMENT

On January 1, 2013, the Authority implemented GASB Statement No. 65, "Items Previously Reported in Assets and Liabilities". The Authority has determined that the effect of implementing this accounting change on the financial statements previously reported as of and for the year ended December 31, 2012 is as follows:

Statement of Net Position - December 31, 2012

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
ASSETS			
Deferred Outflows of Resources			
Deferred Debt Issuance Costs (net)	\$ 505,866	-	\$ (505,866)
Total Deferred Outflows of Resources	534,447	\$ 28,581	(505,866)
Total Assets and Deferred Outflows of Resources	65,677,190	65,171,324	(505,866)
NET POSITION			
Net Investment in Capital Assets	28,192,536	27,782,225	(410,311)
Unrestricted	4,762,353	4,666,798	(95,555)
Total Net Position	41,791,221	41,285,355	(505,866)

Statement of Revenues, Expenses and Changes in Net Position - 2012

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
NON-OPERATING REVENUE (EXPENSES)			
Amortization of Costs of Issuance	\$ (66,381)	-	\$ 66,381
Costs of Issuance Expense	-	\$ (145,665)	(145,665)
Total Non-Operating Revenue (Expenses)	69,204	(10,080)	(79,284)
CHANGE IN NET POSITION	3,521,775	3,442,491	(79,284)
NET POSITION, January 1, 2012	38,269,446	37,842,864	(426,582)
NET POSITION, December 31, 2012	41,791,221	41,285,355	(505,866)

NOTE 14 SUBSEQUENT EVENTS

On March 12, 2014, the Authority has been approved by the Local Finance Board for a loan from the New Jersey Environment Infrastructure Trust in an amount not to exceed \$600,000.

SUPPLEMENTARY SCHEDULES

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013 Modified <u>Budget</u>	2013 <u>Actual</u>	<u>Variance</u>
<u>WASTEWATER</u>			
OPERATING REVENUES			
Service Charges	\$ 11,854,972	\$ 11,854,972	
Sewer Connection Fees	40,000	130,482	\$ 90,482
Outside Sludge	400,000	625,636	225,636
Discharge Fees		30,219	30,219
Industrial Pretreatment Program	68,000	42,360	(25,640)
Collection System	59,000	55,237	(3,763)
Solar Renewable Energy Certificates (SREC)	50,000	52,000	2,000
Miscellaneous	50,000	151,121	101,121
	<u>12,521,972</u>	<u>12,942,027</u>	<u>420,055</u>
NON-OPERATING REVENUES			
Debt Service Reserves	2,962,535	2,962,535	-
Interest on Investments	120,000	178,399	58,399
	<u>3,082,535</u>	<u>3,140,934</u>	<u>58,399</u>
Total Non-Operating Revenues			
	<u>15,604,507</u>	<u>16,082,961</u>	<u>478,454</u>
OPERATING APPROPRIATIONS			
ADMINISTRATION			
Salaries & Wages	557,263	574,867	(17,604)
Fringe Benefits	313,992	307,326	6,666
Other Expenses			
Professionals	615,000	525,370	89,630
Communication	42,200	43,387	(1,187)
Executive	14,000	20,425	(6,425)
Management	210,000	178,551	31,449
	<u>1,752,455</u>	<u>1,649,926</u>	<u>102,529</u>
Total Administration			
COST OF PROVIDING SERVICES			
Salaries & Wages	3,336,871	3,185,557	151,314
Fringe Benefits	1,880,219	1,702,653	177,566
Other Expenses			
Utilities	1,255,200	1,276,548	(21,348)
Insurance	155,000	146,804	8,196
Vehicles	79,000	87,157	(8,157)
Collection System	254,000	238,657	15,343
Sewage Treatment & Laboratory	277,000	301,138	(24,138)
Solids Disposal	790,000	654,337	135,663
Buildings & Grounds/Road	165,000	201,744	(36,744)
	<u>8,192,290</u>	<u>7,794,595</u>	<u>397,695</u>
Total Cost of Providing Services			

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013 Modified <u>Budget</u>	2013 <u>Actual</u>	<u>Variance</u>
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,261,115	\$ 4,261,115	
Interest Payment on Debt	548,647	548,647	
Capital Outlay	850,000	850,000	-
	<u>5,659,762</u>	<u>5,659,762</u>	<u>-</u>
Total Non-Operating Appropriations			
	<u>5,659,762</u>	<u>5,659,762</u>	<u>-</u>
Total Appropriations	<u>15,604,507</u>	<u>15,104,283</u>	<u>\$ 500,224</u>
Total Budget Income	<u>\$ -</u>	<u>978,678</u>	<u>\$ 978,678</u>

RECONCILIATION TO CHANGE IN NET POSITION (GAAP)

Increases to Budget Income:

Principal Paid on Bonds/Loans Payable	4,261,115
Accrued Interest on Bonds/Loans Payable	80,700
Interest Expense - Original Issue Premium	65,943
Interest Expense - Gain on Refunding	33,535
Capital Outlay Budgetary Charge	850,000
Federal Grants - ARRA	419,593
Bergen County Reimbursements	188,096
Insurance Reimbursements	12,049
FEMA Reimbursements	98,736
Inventory Adjustment	10,281

Decreases to Budget Income

Interest Paid on Bonds/Loans Payable	(84,406)
Interest Expense - Loss on Refunding	(28,581)
Debt Service Reserves Realized as Budget Revenue	(2,962,535)
Depreciation	<u>(1,862,710)</u>

Change in Net Position - GAAP

\$ 2,060,494

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Modified <u>Budget</u>	2012 <u>Actual</u>	<u>Variance</u>
<u>WASTEWATER</u>			
OPERATING REVENUES			
Service Charges	\$ 13,728,526	\$ 13,728,526	
Sewer Connection Fees	70,000	72,693	\$ 2,693
Outside Sludge	360,000	555,547	195,547
Discharge Fees		1,900	1,900
Industrial Pretreatment Program	65,000	71,903	6,903
Collection System	48,000	54,718	6,718
Solar Renewable Energy Certificates (SREC)	75,000	28,470	(46,530)
Miscellaneous	43,000	92,071	49,071
	<u>14,389,526</u>	<u>14,605,828</u>	<u>216,302</u>
NON-OPERATING REVENUES			
Debt Service Reserves	901,588	901,588	-
Interest on Investments	200,000	243,829	43,829
	<u>1,101,588</u>	<u>1,145,417</u>	<u>43,829</u>
Total Non-Operating Revenues			
	<u>15,491,114</u>	<u>15,751,245</u>	<u>260,131</u>
OPERATING APPROPRIATIONS			
ADMINISTRATION			
Salaries & Wages	566,630	559,325	7,305
Fringe Benefits	301,000	295,069	5,931
Other Expenses			
Professionals	565,000	578,536	(13,536)
Communication	43,800	37,046	6,754
Executive	7,500	8,699	(1,199)
Management	218,000	117,079	100,921
	<u>1,701,930</u>	<u>1,595,754</u>	<u>106,176</u>
Total Administration			
COST OF PROVIDING SERVICES			
Salaries & Wages	3,227,538	3,236,374	(8,836)
Fringe Benefits	1,778,284	1,706,756	71,528
Other Expenses			
Utilities	1,408,200	1,118,106	290,094
Insurance	150,000	149,480	520
Vehicles	61,750	69,994	(8,244)
Collection System	283,000	174,446	108,554
Sewage Treatment & Laboratory	279,000	306,453	(27,453)
Solids Disposal	720,000	779,284	(59,284)
Buildings & Grounds/Road	140,000	127,693	12,307
	<u>8,047,772</u>	<u>7,668,586</u>	<u>379,186</u>
Total Cost of Providing Services			

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Modified Budget	2012 Actual	Variance
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 4,784,575	\$ 4,784,575	
Interest Payment on Debt	636,837	636,837	-
Capital Outlay	500,000	500,000	
	<hr/>	<hr/>	<hr/>
Total Non-Operating Appropriations	5,921,412	5,921,412	-
	<hr/>	<hr/>	<hr/>
Total Appropriations	15,671,114	15,185,752	\$ 485,362
	<hr/>	<hr/>	<hr/>
Total Budget Income/(Loss)	\$ (180,000)	565,493	\$ 745,493
	<hr/>	<hr/>	<hr/>

RECONCILIATION TO CHANGE IN NET POSITION (GAAP)

Increases to Budget Income:	
Principal Paid on Bonds/Loans Payable	4,784,575
Accrued Interest on Bonds/Loans Payable	38,242
Interest Expense - Original Issue Premium	114,634
Interest Expense - Gain on Refunding	48,704
Capital Outlay Budgetary Charge	500,000
Federal Grants - ARRA	506,644
Decreases to Budget Income	
Debt Issuance Costs Expense	(145,665)
Interest Paid on Bonds/Loans Payable	(41,719)
Interest Expense - Loss on Refunding	(137,912)
Inventory Adjustment	(89,937)
Debt Service Reserves Realized as Budget Revenue	(901,588)
Depreciation	<hr/> (1,798,980)
Change in Net Position - GAAP	<hr/> \$ 3,442,491



LERCH, VINCI & HIGGINS, LLP

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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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Northwest Bergen County Utilities Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents which collectively comprise the Northwest Bergen County Utilities Authority's basic financial statements, and have issued our report thereon dated April 9, 2014.

Internal Control over Financial Reporting

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

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

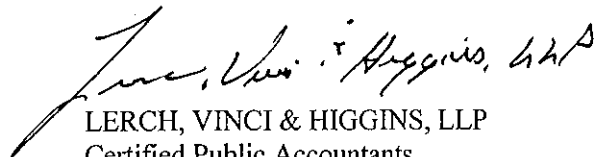
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

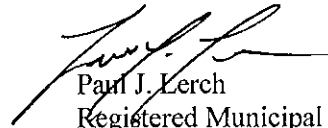
As part of obtaining reasonable assurance about whether the Northwest Bergen County Utilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which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

Purpose of this Report

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



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



Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 9, 2014



LERCH, VINCI & HIGGINS, LLP

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**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL
ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 04-04**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major State Program

We have audited the Northwest Bergen County Utilities Authority's compliance with the types of compliance requirements described in the New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement that could have a direct and material effect on the Northwest Bergen County Utilities Authority's major state programs for the year ended December 31, 2013. The Northwest Bergen County Utilities Authority's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Northwest Bergen County Utilities Authority's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Northwest Bergen County Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Northwest Bergen County Utilities Authority's compliance.

Opinion on Each Major State Program

In our opinion, the Northwest Bergen County Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Northwest Bergen County Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Northwest Bergen County Utilities Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with New Jersey OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Northwest Bergen County Utilities Authority's internal control over compliance.

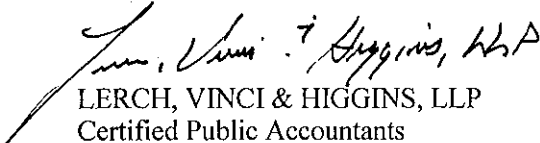
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

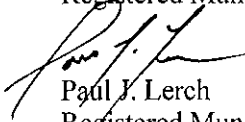
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 04-04

We have audited the financial statements of the Northwest Bergen County Utilities Authority as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Northwest Bergen County Utilities Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 9, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by New Jersey OMB Circular 04-04 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements 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 9, 2014

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal CFDA Number	Grant Year	Grant Award	2013 Receipts	Balance, December 31, 2012	Revenues Realized	Expended	Balance December 31, 2013	* Cumulative * Expenditures
97.036	2012	\$ 98,736	\$ 73,525	\$ -	\$ 98,736	\$ 98,736	\$ -	\$ 98,736
								*
								*
								*
								*
								*
								*

Law and Public Safety
New Jersey State Police- Public Asst. Grants- FEMA -
Hurricane Sandy

Note: This Schedule is not subject to a single Audit in accordance with OMB Circular A-133.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2013

<u>State Grant Program</u>	<u>Grant Number</u>	<u>Grant Year</u>	<u>Grant Award</u>	<u>Grant Receipts</u>	<u>Balance, December 31, 2012</u>	<u>Revenue</u>	<u>Expended</u>	<u>Balance, December 31, 2013</u>	<u>Memo</u> * <u>Cumulative Expenditures</u>
Department of Environmental Protection									
New Jersey Environmental Infrastructure Trust - Fund Loan	S340700-09	2012	\$ 2,051,088	\$ 808,462	\$ 1,243,565		\$ 808,462	\$ 435,103	* \$ 1,615,985
New Jersey Environmental Infrastructure Trust - Trust Loan	S340700-09	2012	2,051,088	808,462	1,243,565	-	808,462	435,103	* 1,615,985
					<u>\$ 2,487,130</u>	<u>\$ -</u>	<u>\$ 1,616,924</u>	<u>\$ 870,206</u>	* <u>\$ 3,231,970</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1 GENERAL

All federal financial assistance received directly from federal agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedules of expenditures of federal awards and state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule is prepared using grant basis of accounting for proprietary funds as presented by accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. This basis of accounting realizes grant awards as revenue and capital expenditures as expense. Under the accrual basis for proprietary funds, loan proceeds are not considered revenue and capital expenditures are capitalized and depreciated over the life of the asset.

NOTE 3 RELATIONSHIP TO STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not necessarily agree with the amounts reported in the related state financial reports due to differences between the Authority's budgetary basis of accounting and accounting principles generally accepted in the United States of America (GAAP).

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Part I – Summary of Auditor’s Results

Financial Statement Section

- A) Type of auditors' report issued: Unmodified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? yes X no
- 2) Significant deficiency(ies) identified that were
 not considered to be material weaknesses? yes X none reported
- C) Noncompliance material to basic financial
 statements noted? yes X no

Federal Awards Section - NOT APPLICABLE

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
 FOR THE YEAR ENDED DECEMBER 31, 2013**

Part I – Summary of Auditor’s Results

State Awards Section

Dollar threshold used to distinguish type A and type B programs: \$ 300,000 _____

Auditee qualified as low-risk auditee? _____ X _____ yes _____ no

Type of auditors' report issued on compliance for major programs: Unmodified _____

Internal Control over major programs:

1) Material weakness (es) identified? _____ yes _____ X _____ no

2) Significant deficiency(ies) identified that were not
 considered to be material weaknesses? _____ yes _____ X _____ none reported

Any audit findings disclosed that are required to be reported
 in accordance with N.J. OMB Circular Letter 04-04? _____ yes _____ X _____ no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
S340700-09	New Jersey Environmental Infrastructure Trust Loan

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements in accordance with Government Auditing Standards.

There are none.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

Part 3 – Schedule of Federal and State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

CURRENT YEAR FEDERAL AWARDS

Not Applicable

CURRENT YEAR STATE AWARDS

There are none.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133 (Section .315(a)(b)) and New Jersey OMB's Circular 04-04.

STATUS OF PRIOR YEAR FINDINGS

There were none.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2013

COMMISSIONERS

Brian Chewkaskie
Michael N. Kasparian
Peter Dachnowicz – Resigned June 4, 2013
John DaPuzzo
Christopher DePhillips
Kenneth Gabbert
Frank Kelaher
Marion Plumley
Elizabeth Salazer

Chairman
Vice Chairman
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

Todd Sherer
Treasurer

Madeline Thumudo
Secretary

Howard Hurwitz
Executive Director

James Rotundo
Assistant Executive Director

General Counsel
Leon Sokol, Esq.
Hackensack, New Jersey

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

Bond Counsel
Gibbons PC
Newark, New Jersey

Trustee
Bank of New York Mellon
Woodland Park, New Jersey

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS AND RECOMMENDATIONS

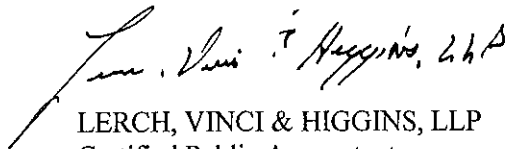
Our audit of the Authority cash and cash equivalents revealed that the resolution for “Designation of Depositories” hasn’t been updated to reflect the current banking institutions being utilized. It is recommended that the Authority update the resolution for designating depositories to be reflective of the current banking institutions being utilized.

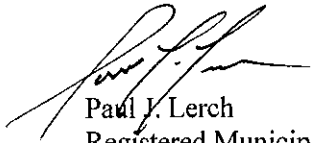
Our review of the control procedures for the cash disbursements revealed that the blank check stock is not kept in a secure location. It is recommended that the Authority keep the blank check stock in a secure location.

APPRECIATION

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

* * * * *


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


Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457