

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF BERGEN)
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
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LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
GARY W. HIGGINS, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
PAUL J. LERCH, CPA, RMA, PSA
DONNA L. JAPHET, CPA, PSA
JULIUS B. CONSONI, CPA, PSA

DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
LORI T. MANUKIAN, CPA, PSA
MARK SACO, CPA
KEVIN LOMSKI, CPA

ELIZABETH A. SHICK, CPA, RMA, PSA
ANDREW PARENTE, CPA, RMA, PSA
ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
RALPH M. PICONE, CPA, RMA, PSA

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners
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, 2014 and 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.

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, 2014 and 2013, 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.

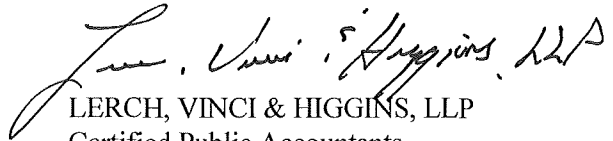
Other Information

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, schedule of expenditures of federal awards and the schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08, 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 14, 2015 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. Lorch

Registered Municipal Accountant

RMA Number CR00457

Fair Lawn, New Jersey
April 14, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2014

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, 2014. 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.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- Net Position was \$44,110,189 as of December 31, 2014, an increase from December 31, 2013 of \$764,340.
- Total operating budgetary revenues from all sources were \$13,610,817 an excess of \$929,315 when compared to the modified budget.
- Actual revenues were in excess of expenses resulting in a budgetary income of \$185,832.
- Overall GAAP operating revenues were \$13,610,817, an increase from 2013 of \$668,790. The increase in operating revenues is attributable to increased outside sludge dumping and sewer connection fees.
- Overall GAAP operating expenses were \$12,631,164, an increase from 2013 of \$1,334,214. The increase in operating expenses is partially attributable to a recent judgment with a former employee.

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, 2014
(Continued)**

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position – The following table summarizes the Statement of Net Position as of December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and Non-Current Assets	\$ 15,574,929	\$ 15,916,283	\$ 20,047,980
Capital Assets (Net of Accumulated Depreciation)	<u>46,869,053</u>	<u>46,286,711</u>	<u>45,094,763</u>
Total Assets	62,443,982	62,202,994	65,142,743
Deferred Charge on Refunding	<u>-</u>	<u>-</u>	<u>28,581</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>28,581</u>
Total Assets and Deferred Outflows of Resources	<u>62,443,982</u>	<u>62,202,994</u>	<u>65,171,324</u>
Current Liabilities	3,444,058	2,943,480	6,425,228
Non-Current Liabilities	<u>14,799,035</u>	<u>15,786,671</u>	<u>17,300,212</u>
Total Liabilities	18,243,093	18,730,151	23,725,440
Deferred Gain on Refunding	<u>90,700</u>	<u>126,994</u>	<u>160,529</u>
Total Deferred Inflows of Resources	<u>90,700</u>	<u>126,994</u>	<u>160,529</u>
Total Liabilities and Deferred Inflows of Resources	<u>18,333,793</u>	<u>18,857,145</u>	<u>23,885,969</u>
Net Position:			
Net Investment in Capital Assets	32,146,015	30,800,273	27,782,225
Restricted	7,965,864	7,826,090	8,836,332
Unrestricted	<u>3,998,490</u>	<u>4,719,486</u>	<u>4,666,798</u>
Total Net Position	<u>\$ 44,110,369</u>	<u>\$ 43,345,849</u>	<u>\$ 41,285,355</u>

The Authority's Net Position increased \$764,340 and \$2,060,494 in 2014 and 2013, 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, 2014
(Continued)***

OPERATING ACTIVITIES

The following table summarizes the changes in Net Position between fiscal years 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Member Service Fees	\$ 11,999,923	\$ 11,854,972	\$ 13,728,526
Outside Sludge	986,075	625,636	555,547
Industrial Pretreatment Program	79,506	42,360	71,903
Miscellaneous	<u>545,313</u>	<u>419,059</u>	<u>249,852</u>
 Total Operating Revenues	 <u>13,610,817</u>	 <u>12,942,027</u>	 <u>14,605,828</u>
OPERATING EXPENSES			
Administration	1,615,516	1,649,926	1,595,754
Cost of Providing Services	9,121,244	7,784,314	7,758,523
Depreciation	<u>1,894,404</u>	<u>1,862,710</u>	<u>1,798,980</u>
 Total Operating Expenses	 <u>12,631,164</u>	 <u>11,296,950</u>	 <u>11,153,257</u>
 OPERATING INCOME	 <u>979,653</u>	 <u>1,645,077</u>	 <u>3,452,571</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental Grants	44,867	419,593	506,644
Other Reimbursements	70,270	298,881	
Interest Income	61,036	178,399	243,829
Interest Expense	(382,711)	(481,456)	(614,888)
Costs of Issuance Expense	<u>(8,775)</u>	<u>-</u>	<u>(145,665)</u>
 Total Non-Operating Revenues/(Expenses)	 <u>(215,313)</u>	 <u>415,417</u>	 <u>(10,080)</u>
 CHANGE IN NET POSITION	 <u>\$ 764,340</u>	 <u>\$ 2,060,494</u>	 <u>\$ 3,442,491</u>

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014
(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 2014, 2013 and 2012. The construction in progress represents the pump station improvements, primary tank improvements, SSI Emission Upgrades and the SSI Repairs.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,372,226	\$ 1,372,226	\$ 1,350,526
Treatment Plant and Collection System	89,435,177	88,194,637	82,021,145
Property and Equipment	14,435,765	14,362,324	14,256,344
Construction in Progress	<u>1,240,946</u>	<u>78,181</u>	<u>3,324,695</u>
	106,484,114	104,007,368	100,952,710
Less Accumulated Depreciation	<u>(59,615,061)</u>	<u>(57,720,657)</u>	<u>(55,857,947)</u>
Capital Assets, Net	<u>\$ 46,869,053</u>	<u>\$ 46,286,711</u>	<u>\$ 45,094,763</u>

During the year ending December 31, 2014 the Authority completed additional incinerator upgrades, fuel tank removal and installation and improvements to the Darlington pump station. The Franklin Lakes sewer expansion project was placed in service at the end of 2013.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

***MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014
(Continued)***

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

The Authority's on-going capital plan is extensive and reviewed each year by the Authority's outside engineers. The Authority's Consulting Engineer has estimated that \$25,494,500 will be required to fund the Capital Projects identified by the Authority in the years 2015 through 2020. The 2015 Capital Budget will be funded primarily by debt authorization and it is anticipated that the Authority will continue this approach through 2020. The consulting engineer has certified that the Renewal and Replacement Reserve balance should be \$3,250,000 as of December 31, 2014.

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, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue Bonds	\$ 7,113,423	\$ 7,778,197	\$ 11,272,971
Plus: Unamortized Original Issue Premium	<u>149,578</u>	<u>178,587</u>	<u>223,467</u>
Total Wastewater Revenue Bonds-Net	<u>7,263,001</u>	<u>7,956,784</u>	<u>11,496,438</u>
New Jersey Environmental Infrastructure Loan	8,558,397	8,793,025	9,559,366
Plus: Unamortized Original Issue Premium	<u>365,038</u>	<u>364,963</u>	<u>386,026</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>8,923,435</u>	<u>9,157,988</u>	<u>9,945,392</u>
Total Long-Term Debt - Net	16,186,436	17,114,772	21,441,830
Plus: Compensated Absences	139,641	132,425	132,774
Claims and Judgements	<u>-</u>	<u>-</u>	<u>318,699</u>
Long-Term Liabilities	<u>\$ 16,326,077</u>	<u>\$ 17,247,197</u>	<u>\$ 21,893,303</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, 2014 (Continued)

OTHER FINANCIAL INFORMATION

2015 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 2015 Budget totals \$12,654,770, representing \$317,732 or 2.4% decrease from the original 2014 Budget of \$12,972,502. This decrease is primarily due to a reduction in debt service for the budget year 2014.

The 2015 Operating Budget of \$10,705,786 has increased by \$377,000, or 3.6% from 2014.

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 \$11,966,770, which represents a .3% decrease when compared to the 2014 adopted budget. Funds are anticipated this year for Outside Septage and Sludge in the amount of \$400,000. Interest income is estimated at \$35,000. Industrial Pretreatment Program Permit income is estimated to be \$63,000 and Collection System Operations income is estimated to be \$50,000. This year we anticipate Miscellaneous Income totaling approximately \$100,000.

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, 2014 AND 2013

	December 31, <u>2014</u>	December 31, <u>2013</u>
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 3,844,570	\$ 4,110,252
Accounts Receivable	132,381	-
Intergovernmental Receivable	3,096	213,307
Inventory	617,927	530,249
Prepaid Items	<u>118,860</u>	<u>126,477</u>
Total Unrestricted Current Assets	<u>4,716,834</u>	<u>4,980,285</u>
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	3,762,770	2,046,210
Accrued Interest Receivable	-	41
Project Accounts		
Cash and Cash Equivalents	1,061,159	767,300
Accrued Interest Receivable	-	3
Renewal and Replacement Account		
Cash and Cash Equivalents	3,250,000	250,000
Accrued Interest Receivable	-	5
Bond/Loan Service Account		
Cash and Cash Equivalents	530,371	1,976,763
Accrued Interest Receivable	52	1,140
Bond/Loan Reserve Account		
Cash and Cash Equivalents	818,777	3,954,457
Accrued Interest Receivable	-	1,571
Loan Receivable-NJEIT	<u>749,018</u>	<u>1,252,561</u>
Total Restricted Current Assets	<u>10,172,147</u>	<u>10,250,051</u>
Total Current Assets	<u>14,888,981</u>	<u>15,230,336</u>
Restricted Non-Current Assets		
Loan Reserve Account		
Investments	670,580	670,580
Accrued Interest Receivable	<u>15,368</u>	<u>15,367</u>
Total Restricted Non-Current Assets	<u>685,948</u>	<u>685,947</u>
Capital Assets		
Land	1,372,226	1,372,226
Construction in Progress	1,240,946	78,181
Treatment Plant and Collection System	89,435,177	88,194,637
Property and Equipment	14,435,765	14,362,324
Less Accumulated Depreciation	<u>(59,615,061)</u>	<u>(57,720,657)</u>
Total Capital Assets (net of accumulated depreciation)	<u>46,869,053</u>	<u>46,286,711</u>
Total Non-Current Assets	<u>47,555,001</u>	<u>46,972,658</u>
Total Assets	<u>\$ 62,443,982</u>	<u>\$ 62,202,994</u>

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

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2014 AND 2013**

	December 31, <u>2014</u>	December 31, <u>2013</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 787,900	\$ 560,463
Accrued Salary and Related Benefits	132,804	89,752
Accrued Compensated Absences	13,964	13,243
Unearned Revenues	74,770	25,801
Escrow Deposits Payable	5,000	6,560
Claims and Judgments Payable	473,660	-
Other Liabilities	<u>29,801</u>	<u>25,291</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>1,517,899</u>	<u>721,110</u>
Current Liabilities (Payable from Restricted Assets)		
Accounts Payable	150,479	456,826
Revenue Bonds Payable	674,774	664,774
Loans Payable	838,304	782,509
Accrued Interest on Bonds and Loans	208,161	218,953
Unearned Revenues	<u>54,441</u>	<u>99,308</u>
Total Current Liabilities Payable from Restricted Assets	<u>1,926,159</u>	<u>2,222,370</u>
Non-Current Liabilities		
Revenue Bonds Payable (net of unamortized premiums)	6,588,227	7,292,010
Loans Payable (net of unamortized premiums)	8,085,131	8,375,479
Accrued Compensated Absences	<u>125,677</u>	<u>119,182</u>
Total Non-Current Liabilities	<u>14,799,035</u>	<u>15,786,671</u>
Total Liabilities	<u>18,243,093</u>	<u>18,730,151</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Gains on Refunding	<u>90,700</u>	<u>126,994</u>
Total Deferred Inflows of Resources	<u>90,700</u>	<u>126,994</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 18,333,793</u>	<u>\$ 18,857,145</u>
NET POSITION		
Net Investment in Capital Assets	\$ 32,146,015	\$ 30,800,273
Restricted For:		
Operating Reserve	2,676,447	2,582,101
Debt Service	775,465	749,815
Debt Reserve	1,263,772	1,244,174
Renewal and Replacement	3,250,000	3,250,000
Unrestricted	<u>3,998,490</u>	<u>4,719,486</u>
Total Net Position	<u>\$ 44,110,189</u>	<u>\$ 43,345,849</u>

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

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31, <u>2014</u>	December 31, <u>2013</u>
OPERATING REVENUES		
Member Service Fees	\$ 11,999,923	\$ 11,854,972
Sewer Connection Fees	337,902	130,482
Discharge Fees	3,000	30,219
Industrial Pretreatment Program	79,506	42,360
Outside Sludge	986,075	625,636
Collection System	58,479	55,237
Solar Renewable Energy Certificates	-	52,000
Miscellaneous	<u>145,932</u>	<u>151,121</u>
 Total Operating Revenues	 <u>13,610,817</u>	 <u>12,942,027</u>
OPERATING EXPENSES		
Administrative and Executive		
Salaries & Wages	541,611	574,867
Fringe Benefits	253,074	307,326
Other Expenses	820,831	767,733
Cost of Services		
Salaries & Wages	3,942,185	3,185,557
Fringe Benefits	1,841,906	1,702,653
Other Expenses	3,337,153	2,896,104
Depreciation Expense	<u>1,894,404</u>	<u>1,862,710</u>
 Total Operating Expenses	 <u>12,631,164</u>	 <u>11,296,950</u>
 OPERATING INCOME	 <u>979,653</u>	 <u>1,645,077</u>
NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental Grants	44,867	419,593
Bergen County Reimbursements	-	188,096
Insurance Reimbursements - Hurricane Sandy	-	12,049
FEMA - Hurricane Reimbursements	70,270	98,736
Interest Income	61,036	178,399
Interest Expense	(382,711)	(481,456)
Costs of Issuance Expense	<u>(8,775)</u>	<u>-</u>
 Total Non-Operating Income (Expenses)	 <u>(215,313)</u>	 <u>415,417</u>
 CHANGE IN NET POSITION	 764,340	 2,060,494
Total Net Position, January 1,	<u>43,345,849</u>	<u>41,285,355</u>
Total Net Position, December 31,	<u>\$ 44,110,189</u>	<u>\$ 43,345,849</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, 2014 AND 2013**

	December 31, <u>2014</u>	December 31, <u>2013</u>
Cash Flows from Operating Activities		
Cash Received from Members	\$ 11,999,923	\$ 11,854,972
Cash Received from Other Operating Fees	1,381,550	921,084
Cash Paid to Suppliers	(6,357,278)	(5,631,358)
Cash Paid to Employees	(3,959,868)	(3,767,902)
Cash Received from Miscellaneous Fees	<u>145,932</u>	<u>151,121</u>
Net Cash Provided by Operating Activities	<u>3,210,259</u>	<u>3,527,917</u>
Cash Flows from Non-Capital Financing Activities		
Proceeds from FEMA - Hurricane Reimbursements	95,481	85,574
Proceeds (Uses) from Escrow Deposits	<u>(1,560)</u>	<u>(5,140)</u>
Net Cash Provided for Non-Capital Financing Activities	<u>93,921</u>	<u>80,434</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from NJEIT Loan Receivable	1,087,930	2,102,166
Reimbursements from County of Bergen	185,000	
Principal Payments - Bonds	(664,774)	(3,494,774)
Principal Payments - Loans	(797,128)	(766,341)
Payment of Debt Issuance Costs	(8,775)	-
Interest Paid - Bonds and Loans	(480,618)	(633,053)
Payment of Arbitrage Rebate		(352,250)
Acquisition of Fixed Assets	<u>(2,526,893)</u>	<u>(2,911,570)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(3,205,258)</u>	<u>(6,055,822)</u>
Cash Flows from Investing Activities		
Proceeds/(Purchase) of Investments	-	3,926,742
Interest Received	<u>63,743</u>	<u>320,461</u>
Net Cash Provided by (Used for) Investing Activities	<u>63,743</u>	<u>4,247,203</u>
Net Increase in Cash and Cash Equivalents	162,665	1,799,732
Cash and Cash Equivalents, January 1,	<u>13,104,982</u>	<u>11,305,250</u>
Cash and Cash Equivalents, June 30,	<u>\$ 13,267,647</u>	<u>\$ 13,104,982</u>
Analysis of Balance at June 30,		
Unrestricted - Cash and Cash Equivalents	\$ 3,844,570	\$ 4,110,252
Restricted - Cash and Cash Equivalents	<u>9,423,077</u>	<u>8,994,730</u>
	<u>\$ 13,267,647</u>	<u>\$ 13,104,982</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, 2014 AND 2013

	December 31, <u>2014</u>	December 31, <u>2013</u>
Operating Income	\$ 979,653	\$ 1,645,077
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	1,894,404	1,862,710
(Increase)/Decrease in Accounts Receivable	(132,381)	20,928
(Increase)/Decrease in Inventory	(87,678)	(10,281)
(Increase)/Decrease in Prepaid Items	7,617	(3,330)
Increase/(Decrease) in Accounts Payable	(28,763)	83,902
Increase/(Decrease) in Accrued Salary and Related Benefits	43,052	(7,129)
Increase/(Decrease) in Accrued Compensated Absences	7,216	(349)
Increase/(Decrease) in Claims and Judgments Payable	473,660	
Increase/(Decrease) in Other Liabilities	4,510	(27,833)
Increase/(Decrease) in Unearned Revenue	48,969	(35,778)
	<u>2,230,606</u>	<u>1,882,840</u>
Total Adjustments		
Net Cash Provided by Operating Activities	<u>\$ 3,210,259</u>	<u>\$ 3,527,917</u>
Noncash Investing, Capital and Financing Activities		
Purchase of Capital Assets on Account	\$ 430,038	\$ 480,185
Amortization of Original Issue Premium	50,821	65,943
Amortization of Gain on Refunding	36,294	33,535
Amortization of Loss on Refunding		28,581
Issuance of Long-Term Debt - NJEIT Loan	562,500	
Original Issue Premium - NJEIT Loan	21,887	

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

NOTES TO FINANCIAL STATEMENTS

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 2014 and 2013, 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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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*. 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.
- GASB 66, *Technical Corrections – 2012, an Amendment of GASB Statements 10 and 62*. 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.

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

- GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective beginning with the fiscal 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.
- GASB 69, *Government Combinations and Disposal of Government Operations* will be effective beginning with the fiscal year ending June 30, 2015. The objective of this Statement is to establish accounting and financial reporting standards for mergers, acquisitions and transfers of operations (i.e. government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The Authority does not expect this statement to impact its financial statements.

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

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

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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).

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. Cash, Cash Equivalents 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 FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, 2014 and 2013 was \$382,711 and \$484,784, respectively. Of these amounts, \$-0- and \$3,328 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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 had no items that qualified for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has only one item that qualifies for reporting in this category. It is the deferred charge which results from the gain on a debt refunding reported in the statement of net position. Deferred amounts on refunding of debt 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 statement 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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 fund equity for the subsequent year. Encumbrances at year-end in funds that are budgeted on a project basis automatically carry forward along with their related appropriations and are not subject to annual cancellations and re-appropriations.

2. Revenues

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

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, 2014 and 2013, 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 and loans.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 CASH 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 are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2014 and 2013, the book value of the Authority's deposits were \$13,267,647 and \$3,943,549, respectively, and bank balances of the Authority's cash and deposits amounted to \$13,343,456 and \$3,938,696, respectively. The Authority’s deposits which are displayed on the balance sheet as “cash and cash equivalents” are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	December 31, <u>2014</u>	December 31, <u>2013</u>
Insured		
Restricted	\$ 9,412,235	\$ 284,646
Unrestricted	<u>3,931,221</u>	<u>3,654,050</u>
	<u>\$ 13,343,456</u>	<u>\$ 3,938,696</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, 2014 and 2013, none of the Authority’s bank balances were exposed to custodial credit risk.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 4 CASH 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 percent (5%) of the total capital stock, surplus and undivided earnings of any such bank, trust company, national banking association, or savings and loan institution or (3) continuously and fully secured by such securities as are described above in clauses (a) through (d) which are legal for investment under the laws of the State of New Jersey for funds of the Authority, and which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee Bonds shall be entitled to rely on each such undertaking; and
- (g) Any repurchase with (i) any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or (ii) with a Government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which repurchase agreement is secured by any one or more of the securities described in clauses (a) through (c) above.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of December 31, 2014 and 2013, the Authority had the following investments:

	<u>Fair Value</u>
<u>2014</u>	
U.S. Securities (SLUGS) - Treasury	\$ 670,580
Total Investments	<u>\$ 670,580</u>
Cash Equivalents	<u>\$ -</u>
	<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>

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, 2014 and 2013, \$670,580 and \$670,580, respectively of the Authority’s investments were exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	December 31, <u>2014</u>	December 31, <u>2013</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>\$ 670,580</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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2014 and 2013:

	Balance, January 1, <u>2014</u>	Increases/ (Decrease)	<u>Adjustments</u>	Balance December 31, <u>2014</u>
<u>2014</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,372,226			\$ 1,372,226
Construction in Progress	<u>78,181</u>	\$ 2,405,906	\$ (1,243,141)	<u>1,240,946</u>
Total Capital Assets, Not Being Depreciated	<u>1,450,407</u>	<u>2,405,906</u>	<u>(1,243,141)</u>	<u>2,613,172</u>
Capital Assets, Being Depreciated:				
Treatment Plant and Collection System	88,194,637	17,489	1,223,051	89,435,177
Property and Equipment	<u>14,362,324</u>	<u>53,351</u>	<u>20,090</u>	<u>14,435,765</u>
Total Capital Assets Being Depreciated	<u>102,556,961</u>	<u>70,840</u>	<u>1,243,141</u>	<u>103,870,942</u>
Less Accumulated Depreciation For:				
Treatment Plant and Collection System	(44,820,412)	(1,661,907)	(223,409)	(46,705,728)
Property and Equipment	<u>(12,900,245)</u>	<u>(232,497)</u>	<u>223,409</u>	<u>(12,909,333)</u>
Total Accumulated Depreciation	<u>(57,720,657)</u>	<u>(1,894,404)</u>	<u>-</u>	<u>(59,615,061)</u>
Total Capital Assets, Being Depreciated, Net	<u>44,836,304</u>	<u>(1,823,564)</u>	<u>1,243,141</u>	<u>44,255,881</u>
Capital Assets, Net	<u>\$ 46,286,711</u>	<u>\$ 582,342</u>	<u>\$ -</u>	<u>\$ 46,869,053</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 5 CAPITAL ASSETS (Continued)

	Balance, January 1, <u>2013</u>	Increases/ (Decrease)	Adjustments	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	82,021,145		6,173,492	88,194,637
Property and Equipment	<u>14,256,344</u>	<u>105,980</u>	<u>-</u>	<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	(43,196,416)	(1,623,996)		(44,820,412)
Property and Equipment	<u>(12,661,531)</u>	<u>(238,714)</u>	<u>-</u>	<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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 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, 2014, the principal amount of the 2009 Bonds outstanding of \$5,995,000 has been increased by \$149,578. This amount represents the unamortized original issue premium on the 2009 bonds and is being reported in accordance with GAAP.

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.

Revenue Bonds outstanding as of December 31, 2014 and 2013 consist of the following:

	December 31, <u>2014</u>	December 31, <u>2013</u>
Utility System Revenue Bonds, Series 2008 1.05% due December 15, 2008 to 2021	\$ 1,118,423	\$ 1,278,197
BCIA Loan Revenue Bonds, Series 2009 2.00-5.00% due July 15, 2011 to 2024	<u>5,995,000</u>	<u>6,500,000</u>
Total	<u>\$ 7,113,423</u>	<u>\$ 7,778,197</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 6 LONG-TERM DEBT (Continued)

Intergovernmental Loans Payable – The Authority has entered into loan agreements with the State of New Jersey Environmental Infrastructure Trust to provide funds for the expansion of the Authority’s Phase II wastewater treatment plant and the replacement fluidized bed sludge incinerator, 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. During 2014, the Authority entered into a loan agreement with the State of New Jersey to provide supplementary financing for the Franklin Lakes sewer project. The Authority has pledged income from operations to pay debt service.

Loans Payable outstanding at December 31, 2014 and 2013, consist of the following:

	December 31, <u>2014</u>	December 31, <u>2013</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Wastewater System - 1997, Refunded in 2006		
4.50% to 5.00%	\$ 988,819	1,278,140
Fund Loan Payable - Wastewater System - 1997, Refunded in 2006		
Interest Free	500,369	663,677
Trust Loan Payable- Wastewater System - 2010		
5.00%	1,485,000	1,545,000
Fund Loan Payable- Wastewater System- 2010		
Interest Free	1,410,000	1,500,000
Trust Loan Payable- Wastewater System - 2012		
2.00% to 5.00%	1,795,000	1,865,000
Fund Loan Payable- Wastewater System- 2012		
Interest Free	1,831,328	1,941,208
Trust Loan Payable- Wastewater System - 2014		
3.00% to 5.00%	275,000	
Fund Loan Payable- Wastewater System- 2014		
Interest Free	<u>272,881</u>	<u>-</u>
Total	<u>\$ 8,558,397</u>	<u>\$ 8,793,025</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 6 LONG-TERM DEBT (Continued)

Long-term debt activity for the years ended December 31, 2014 and 2013 was as follows:

<u>2014</u>	Balance, January 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2014</u>	Due Within <u>One Year</u>
Revenue Bonds	\$ 7,778,197		\$ 664,774	\$ 7,113,423	\$ 674,774
Plus: Unamortized Original Issue Premium	<u>178,587</u>	<u>-</u>	<u>29,009</u>	<u>149,578</u>	<u>-</u>
Total Bonds Payable	<u>7,956,784</u>	<u>-</u>	<u>693,783</u>	<u>7,263,001</u>	<u>674,774</u>
New Jersey Environmental Infrastructure Loan	8,793,025	\$ 562,500	797,128	8,558,397	838,304
Plus: Unamortized Original Issue Premium	<u>364,963</u>	<u>21,887</u>	<u>21,812</u>	<u>365,038</u>	<u>-</u>
Total New Jersey Environmental Infrastructure Loan - Net	<u>9,157,988</u>	<u>584,387</u>	<u>818,940</u>	<u>8,923,435</u>	<u>838,304</u>
Total Long-Term Debt - Net	17,114,772	584,387	1,512,723	16,186,436	1,513,078
<u>Plus:</u>					
Compensated Absences	<u>132,425</u>	<u>7,216</u>	<u>-</u>	<u>139,641</u>	<u>13,964</u>
Long-Term Liabilities	<u>\$ 17,247,197</u>	<u>\$ 591,603</u>	<u>\$ 1,512,723</u>	<u>\$ 16,326,077</u>	<u>\$ 1,527,042</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 6 LONG-TERM DEBT (Continued)

<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>\$ 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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, 2014 is as follows:

Year Ending December 31,	Revenue Bonds		NJ Environmental Infrastructure Loan		Total
	Principal	Interest	Principal	Interest	
2015	\$ 674,774	\$ 243,793	\$ 838,304	\$ 215,686	\$ 1,972,557
2016	689,775	229,241	855,577	191,837	1,966,430
2017	699,775	214,313	888,803	166,286	1,969,177
2018	714,775	197,785	379,498	139,536	1,431,594
2019	739,775	173,908	384,499	131,286	1,429,468
2020	764,775	148,306	394,498	122,786	1,430,365
2021-2026	2,829,774	323,678	2,591,989	527,518	6,272,959
2027-2033	-	-	2,225,229	144,339	2,369,568
	<u>\$ 7,113,423</u>	<u>\$ 1,531,024</u>	<u>\$ 8,558,397</u>	<u>\$ 1,639,274</u>	<u>\$ 18,842,118</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 \$139,641 and \$132,425 at December 31, 2014 and 2013, respectively. These amounts are accrued as a liability at December 31, 2014 and 2013.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, 2014 and 2013 are as follows:

	<u>Bond/Loan Service Fund</u>	<u>Bond/Loan Reserve Fund</u>	<u>R & R Fund</u>	<u>Revenue Fund</u>
<u>December 31, 2014</u>				
Required Balance	\$ 983,626	\$ 1,489,278	\$ 3,250,000	\$ 2,676,447
Cash and Investments	<u>530,371</u>	<u>1,489,357</u>	<u>3,250,000</u>	<u>3,762,770</u>
Excess/(Deficit)	<u>\$ (453,255)</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 1,086,323</u>
<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>

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, 2014 and 2013, the net amounts available for the Operating Reserve were \$2,676,447 and \$2,582,101, 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. PERS is a cost-sharing multi-employer defined benefit pension plan.

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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 for members hired or reappointed on or after June 28, 2011; PFRS active member rates increase from 8.5 percent to 10 percent. For Fiscal Year 2014, the PERS member contribution rate was 6.78%. The rate increased to 6.92% effective July 2014. 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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, or at www.state.nj/treasury/doinvest.

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 and \$12.8 billion, respectively.

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 and (b) changes to projected salary increases of 4.22 percent for PERS.

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 2013 for PERS and 5.50% for DCRP of employees' annual compensation. The member contribution for PERS was 6.78% in fiscal year 2014 and 6.78% for fiscal year 2015 effective July 2014.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 9 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*, for the year ended June 30, 2014 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, 2014, 2013 and 2012, 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>
2014	\$ 368,940	\$ 150
2013	367,101	325
2012	378,934	125

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. The plans are classified as either single employer plans or cost sharing multiple employer defined benefit plans depending on the plan the eligible employee is covered under.

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, 2013, 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 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.

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 FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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, 2014, 2013 and 2012 were \$225,211, \$190,512 and \$167,930, respectively, which equaled the required contributions for each year. In addition, the Authority's reimbursements to eligible retired employees for Medicare Part B insurance coverage for the years ended December 31, 2014, 2013 and 2012 were \$24,232, \$20,141 and \$18,481, 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.

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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. During 2014, the Authority has performed the third calculation for the computation period December 4, 2008 through December 4, 2013 which resulted in a liability required to be rebated to the IRS in the amount of \$7,488, which includes \$219 of accrued interest liability. The \$7,488 due to the IRS was paid in full by the Authority in November, 2014. At December 31, 2014, the Authority had not estimated its arbitrage earnings due to the IRS, if any.

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, 2014

	2014 Modified <u>Budget</u>	2014 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
OPERATING REVENUES			
Service Charges	\$ 11,999,923	\$ 11,999,923	\$ -
Sewer Connection Fees	40,000	337,902	297,902
Outside Sludge	400,000	986,075	586,075
Discharge Fees	-	3,000	3,000
Industrial Pretreatment Program	82,579	79,506	(3,073)
Collection System	59,000	58,479	(521)
Solar Renewable Energy Certificates (SREC)	50,000	-	(50,000)
Miscellaneous	50,000	145,932	95,932
Total Operating Revenues	<u>12,681,502</u>	<u>13,610,817</u>	<u>929,315</u>
NON-OPERATING REVENUES			
Interest on Investments	<u>35,000</u>	<u>61,036</u>	<u>26,036</u>
Total Non-Operating Revenues	<u>35,000</u>	<u>61,036</u>	<u>26,036</u>
Total Revenues	<u>12,716,502</u>	<u>13,671,853</u>	<u>955,351</u>
OPERATING APPROPRIATIONS			
ADMINISTRATION			
Salaries & Wages	562,837	541,611	21,226
Fringe Benefits	301,000	253,074	47,926
Other Expenses			
Professionals	615,000	480,106	134,894
Communication	49,000	48,125	875
Executive	21,500	15,177	6,323
Management	355,000	277,423	77,577
Total Administration	<u>1,904,337</u>	<u>1,615,516</u>	<u>288,821</u>
COST OF PROVIDING SERVICES			
Salaries & Wages	3,253,775	3,942,185	(688,410)
Fringe Benefits	2,063,093	1,841,906	221,187
Other Expenses			
Utilities	1,396,200	1,289,556	106,644
Insurance	160,000	160,968	(968)
Vehicles	78,500	62,906	15,594
Collection System	235,000	246,654	(11,654)
Sewage Treatment & Laboratory	262,500	456,910	(194,410)
Solids Disposal	760,000	1,024,792	(264,792)
Buildings & Grounds/Road	215,000	183,044	31,956
Total Cost of Providing Services	<u>8,424,068</u>	<u>9,208,921</u>	<u>(784,853)</u>

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WITH BUDGET TO GAAP RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014 Modified <u>Budget</u>	2014 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
<u>WASTEWATER</u>			
NON-OPERATING APPROPRIATIONS			
Principal Payment on Debt	\$ 1,447,283	\$ 1,461,902	\$ (14,619)
Interest Payment on Debt	460,814	463,682	(2,868)
Capital Outlay	736,000	736,000	-
	<u>2,644,097</u>	<u>2,661,584</u>	<u>(17,487)</u>
Total Non-Operating Appropriations			
	<u>12,972,502</u>	<u>13,486,021</u>	<u>\$ (513,519)</u>
Total Appropriations			
Total Budget Income/(Loss)	<u>\$ (256,000)</u>	185,832	<u>\$ 441,832</u>

RECONCILIATION TO CHANGE IN NET POSITION (GAAP)

Increases to Budget Income:		
Principal Paid on Bonds/Loans Payable		1,461,902
Accrued Interest on Bonds/Loans Payable		10,792
Interest Expense - Original Issue Premium		50,821
Interest Expense - Gain on Refunding		36,294
Capital Outlay Budgetary Charge		736,000
Federal Grants - ARRA		44,867
FEMA Reimbursements		70,270
Inventory Adjustment		87,677
Decreases to Budget Income		
Debt Issuance Costs Expense		(8,775)
Interest Paid on Bonds/Loans Payable		(16,936)
Depreciation		<u>(1,894,404)</u>
Change in Net Position - GAAP		<u>\$ 764,340</u>

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

	2013 Modified <u>Budget</u>	2013 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</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		5,400	5,400
Industrial Pretreatment Program	68,000	67,179	(821)
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
Total Operating Revenues	<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
Total Non-Operating Revenues	<u>3,082,535</u>	<u>3,140,934</u>	<u>58,399</u>
Total 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
Total Administration	<u>1,752,455</u>	<u>1,649,926</u>	<u>102,529</u>
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)
Total Cost of Providing Services	<u>8,192,290</u>	<u>7,794,595</u>	<u>397,695</u>

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

	2013 Modified <u>Budget</u>	2013 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</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	5,659,762	5,659,762	-
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

GOVERNMENT AUDITING STANDARDS

AND

SINGLE AUDIT



LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
GARY W. HIGGINS, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
PAUL J. LERCH, CPA, RMA, PSA
DONNA L. JAPHET, CPA, PSA
JULIUS B. CONSONI, CPA, PSA

DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
LORI T. MANUKIAN, CPA, PSA
MARK SACO, CPA
KEVIN LOMSKI, CPA

ELIZABETH A. SHICK, CPA, RMA, PSA
ANDREW PARENTE, CPA, RMA, PSA
ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
RALPH M. PICONE, CPA, RMA, PSA

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

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners
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, 2014, 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 14, 2015.

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.

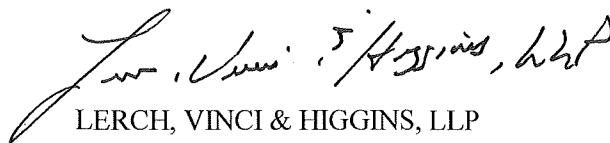
Compliance and Other Matters

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.

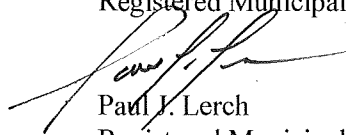
However, we noted certain matters that are not required to be reported under Government Auditing Standards that we have reported to management of the Northwest Bergen County Utilities Authority in the section of this report of audit entitled "General Comments and Recommendations".

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 14, 2015



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 15-08**

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners
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 15-08 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, 2014. 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 15-08, 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, 2014.

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 15-08, 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.

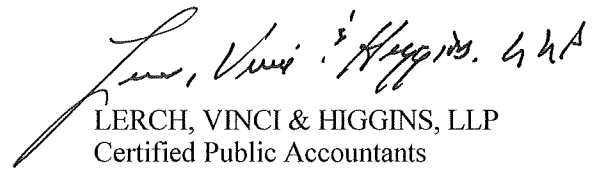
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

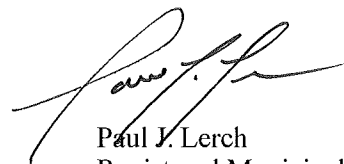
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 15-08

We have audited the financial statements of the Northwest Bergen County Utilities Authority as of and for the year ended December 31, 2014, 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 14, 2015, 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 15-08 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.



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Paul J. Lerch
Registered Municipal Accountant
RMA Number CR00457

Fair Lawn, New Jersey
April 14, 2015

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Federal</u>									*
<u>CFDA</u>	<u>Grant</u>	<u>Grant</u>	<u>2014</u>	<u>Balance,</u>	<u>Revenues</u>		<u>Balance</u>	*	Cumulative
<u>Number</u>	<u>Year</u>	<u>Award</u>	<u>Receipts</u>	<u>December 31,</u>	<u>Realized</u>	<u>Expended</u>	<u>December 31,</u>	*	<u>Expenditures</u>
				<u>2013</u>			<u>2014</u>	*	
<u>Law and Public Safety</u>									
New Jersey State Police- Public Asst. Grants- FEMA- Hurricane Sandy	97.036	2012	\$ 70,270	\$ 95,481	\$ -	\$ 70,270	\$ 70,270	\$ -	\$ 70,270
									*
									*
									*
									*
									*
									*

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

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014**

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, 2014**

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 15-08? _____ yes X no

Identification of major programs:

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

**NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

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, 2014**

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 15-08.

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, 2014**

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 15-08.

STATUS OF PRIOR YEAR FINDINGS

There were none.

NORTHWEST BERGEN COUNTY UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2014

COMMISSIONERS

Brian Chewkaskie
Michael N. Kasparian
Dennis Bonagura
John DaPuzzo
Christopher DePhillips
Kenneth Gabbert
Frank Kelaher
Marion Plumley
Elizabeth Salazer

Chairman
Vice Chairman
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

Todd Sherer
Treasurer

Alison Gordon
Secretary

Howard Hurwitz
Executive Director

James Rotundo
Assistant Executive Director

General Counsel
Sokol Behot, LLP
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 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.

Our review of the state tax payments made by the payroll provider on behalf of the Authority are not being verified on the state's website to ensure all payments have been properly remitted. It is recommended that the state tax payments made by payroll provider be verified on the state's website to ensure that they have been properly remitted.

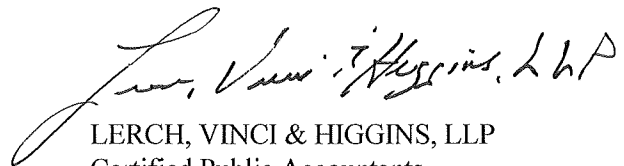
SUGGESTION TO MANAGEMENT

It is suggested that a physical count of the inventory on hand be performed once every three years.

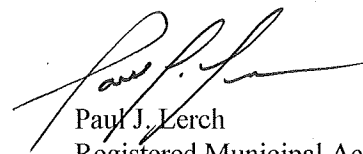
APPRECIATION

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