

THE BERGEN COUNTY UTILITIES AUTHORITY

(A Component Unit of the County of Bergen)

REPORT OF AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2012

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

Honorable Chairman and Members of the
Board of Commissioners
The Bergen County Utilities Authority
Little Ferry, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Bergen County Utilities Authority, a component unit of the County of Bergen as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bergen County Utilities Authority as of December 31, 2012 and 2011, 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 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, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 16, 2013 on our consideration of the 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 Bergen County Utilities Authority's internal control over financial reporting and compliance.


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


Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411

Fair Lawn, New Jersey
May 16, 2013

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

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The Bergen County Utilities Authority's ("BCUA" or "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements and accompanying notes.

The BCUA is responsible for conducting the following operations:

- Operation, maintenance and improvement of a Water Pollution Control System serving forty-seven municipalities and various commercial entities.
- Implementing a co-operative Solid Waste and Recycling System on behalf of municipalities who choose to participate in the program.
- Generation and collection of revenues to accomplish those quality of life tasks. For more than fifty years the BCUA has accomplished those tasks and has employed, trained and developed many residents of Bergen County and positioned the Authority to be of continuing benefit to the County of Bergen and the environment.

FINANCIAL HIGHLIGHTS

- The Authority's total net position from current year operations decreased \$1,246,602.
- Cash and Investments decreased \$32,718.
- Operating Revenues were \$73,981,375.
- Operating Expenses were \$66,475,698.
- Operating Income was \$7,505,677, as compared to the prior year operating income of \$5,049,206.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of four parts: The Independent Auditors' Report, Management's Discussion and Analysis (this section), the basic financial statements and supplementary schedules and information. The Authority is a self-supporting entity and follows enterprise fund reporting for its Water Pollution Control and Solid Waste operations; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Proprietary-type fund statements offer short and long-term financial information about the activities and operations of the Authority. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner. The Management Discussion and Analysis section includes a narrative regarding selected financial information from 2012, 2011 and 2010.

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position – A summary of the Authority's Net Position as of December 31, 2012, 2011 and 2010 is presented below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS AND DEFERRED OUTFLOWS			
Current Assets and Deferred Outflows	\$ 66,850,503	\$ 70,287,734	\$ 80,607,789
Capital Assets	<u>269,988,849</u>	<u>283,568,582</u>	<u>278,545,252</u>
Total Assets and Deferred Outflows	<u>336,839,352</u>	<u>353,856,316</u>	<u>359,153,041</u>
LIABILITIES AND DEFERRED INFLOWS			
Long-Term Liabilities	238,899,505	253,283,574	268,351,777
Other Liabilities and Deferred Inflows	<u>34,235,328</u>	<u>35,521,621</u>	<u>23,369,299</u>
Total Liabilities and Deferred Inflows	<u>273,134,833</u>	<u>288,805,195</u>	<u>291,721,076</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	34,955,626	36,453,083	38,079,451
Restricted	25,515,042	23,922,720	23,348,649
Unrestricted	<u>3,233,851</u>	<u>4,575,318</u>	<u>6,003,865</u>
Total Net Position	<u>\$ 63,704,519</u>	<u>\$ 64,951,121</u>	<u>\$ 67,431,965</u>

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Activities – The following schedule summarizes the Authority's Changes in Net Position for the years ended December 31, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
REVENUES			
Program Revenues			
Charges for Services	\$ 73,981,375	\$ 71,763,045	\$ 71,890,321
Operating Grants and Contributions	600,699	487,533	692,760
Capital Grants and Contributions	-	-	2,599,757
Investment Earnings	242,661	503,995	418,964
Total Revenues	<u>74,824,735</u>	<u>72,754,573</u>	<u>75,601,802</u>
EXPENSES			
Water Pollution Control	67,753,760	67,392,313	64,041,588
Solid Waste	8,317,577	7,759,406	10,164,890
Total Expenses	<u>76,071,337</u>	<u>75,151,719</u>	<u>74,206,478</u>
Changes in Net Assets	<u>(1,246,602)</u>	<u>(2,397,146)</u>	<u>1,395,324</u>
Net Position, Beginning of Year	65,034,819	67,431,965	65,761,763
Prior Period Adjustment	<u>(83,698)</u>	<u>-</u>	<u>274,878</u>
Net Position, as Restated	<u>64,951,121</u>	<u>67,431,965</u>	<u>66,036,641</u>
Net Position, End of Year	<u>\$ 63,704,519</u>	<u>\$ 65,034,819</u>	<u>\$ 67,431,965</u>

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

OPERATING ACTIVITIES

Collection of accounts billed to governmental customers continues at almost 100% of water pollution control revenues through the use of consistent quarterly billing and collection processes. Solid Waste accounts receivable represent approximately two months' billing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets at December 31, 2012, 2011 and 2010

Water Pollution Control Fund

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land and Land Improvements	\$ 2,515,837	\$ 2,515,837	\$ 2,515,837
Utility Plant and Infrastructure	368,338,145	366,869,760	360,163,625
Vehicles, Machinery and Equipment	145,641,051	144,925,566	118,118,244
Construction in Progress	<u>25,592,845</u>	<u>26,532,171</u>	<u>41,108,825</u>
Sub-Total	542,087,878	540,843,334	521,906,531
Less Accumulated Depreciation	<u>(272,099,029)</u>	<u>(257,274,752)</u>	<u>(243,361,279)</u>
Capital Assets, Net	<u>\$ 269,988,849</u>	<u>\$ 283,568,582</u>	<u>\$ 278,545,252</u>

The Authority sold the Solid Waste transfer station in 2002; consequently, no capital assets are reported in the Solid Waste Management Division in 2012, 2011 and 2010. Depreciation expense in the Water Pollution Control Division was \$14,824,277, \$13,913,473 and \$10,662,362 in 2012, 2011 and 2010, respectively.

Additional information on the BCUA's capital assets can be found in the Notes to the Basic Financial Statements.

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-Term Debt

The following schedule summarizes the long-term capital debt as of December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Water Pollution Control Fund			
Revenue Bonds Payable, Net	\$ 142,684,769	\$ 149,704,496	\$ 155,733,406
NJ EDA Loan Payable	322,223	644,446	966,668
NJ EIT Loan Payable, Net	<u>98,171,755</u>	<u>105,455,340</u>	<u>115,068,992</u>
	<u>\$ 241,178,747</u>	<u>\$ 255,804,282</u>	<u>\$ 271,769,066</u>

Additional information on the BCUA's long-term debt can be found in the Notes to the Basic Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Bergen County, New Jersey citizens and ratepayers and our customers, investors and creditors, with a general overview of the Authority's finances to demonstrate the BCUA's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the office of the Chief Financial Officer at BCUA, Mehrhof Road, Little Ferry, New Jersey, 07643.

BASIC FINANCIAL STATEMENTS

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Unrestricted Current Assets:		
Cash and Cash Equivalents	\$ 26,068,976	\$ 24,509,937
Accrued Interest Receivable	1,225	9,819
Accounts Receivable - (net of allowance)	1,757,454	1,950,441
Inventory	3,897,222	3,747,533
Prepaid Items	<u>231,589</u>	<u>212,128</u>
Total Unrestricted Current Assets	<u>31,956,466</u>	<u>30,429,858</u>
Restricted Current Assets:		
Revenue Account		
Cash and Cash Equivalents	1,000,538	67,192
General Account		
Cash and Cash Equivalents	-	1,479
Bond Reserve Account		
Cash and Cash Equivalents	14,946,491	14,890,712
Accrued Interest Receivable	130,789	100,245
Bond Issuance Account		
Cash and Cash Equivalents	93,546	93,516
Bond Service Account		
Cash and Cash Equivalents	265,546	77,601
Construction Account		
Cash and Cash Equivalents	8,063,409	10,888,945
Renewal and Replacement Account		
Cash and Cash Equivalents	1,000,344	1,000,604
Unemployment Claims Account		
Cash and Cash Equivalents	262,409	222,440
Solid Waste Escrow		
Cash and Cash Equivalents	3,880,568	3,862,119
State Loans Receivable - NJEIT	<u>3,699,449</u>	<u>6,730,073</u>
Total Restricted Current Assets	<u>33,343,089</u>	<u>37,934,926</u>
Total Current Assets	<u>65,299,555</u>	<u>68,364,784</u>
Noncurrent Assets:		
Capital Assets:		
Land and Land Improvements	2,515,837	2,515,837
Utility Plant and Infrastructure	368,338,145	366,869,760
Vehicles, Machinery and Equipment	145,641,051	144,925,566
Construction in Progress	25,592,845	26,532,171
less: Accumulated Depreciation	<u>(272,099,029)</u>	<u>(257,274,752)</u>
Total Capital Assets (net of accumulated depreciation)	<u>269,988,849</u>	<u>283,568,582</u>
Total Noncurrent Assets	<u>269,988,849</u>	<u>283,568,582</u>
Total Assets	<u>335,288,404</u>	<u>351,933,366</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Losses on Refunding	<u>1,550,948</u>	<u>1,922,950</u>
Total Deferred Outflow of Resources	<u>1,550,948</u>	<u>1,922,950</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 336,839,352</u>	<u>\$ 353,856,316</u>

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 4,237,701	\$ 2,683,888
Accrued Expenses	1,104,627	1,994,438
Compensated Absences	369,137	396,900
Unearned Revenue	1,770,723	1,820,321
Accrued Liability for Insurance Claims	2,508,836	2,397,501
Claims Payable	972,406	517,842
Other Liabilities	<u>133,404</u>	<u>100,279</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>11,096,834</u>	<u>9,911,169</u>
Current Liabilities (Payable from Restricted Assets)		
Revenue Bonds Payable, Current Portion	7,805,000	6,500,000
Loans Payable, Current Portion	6,894,619	6,757,096
Accrued Interest Payable	830,543	865,171
Contracts Payable	<u>7,490,295</u>	<u>11,488,185</u>
Total Current Liabilities Payable from Restricted Assets	<u>23,020,457</u>	<u>25,610,452</u>
Non-Current Liabilities		
Revenue Bonds Payable	134,879,769	143,204,496
Loans Payable	91,599,359	99,342,690
Compensated Absences	3,322,228	3,572,098
Post-Employment Benefits	<u>9,098,149</u>	<u>7,264,290</u>
Total Non-Current Liabilities	<u>238,899,505</u>	<u>253,383,574</u>
Total Liabilities	<u>273,016,796</u>	<u>288,905,195</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Gains on Refunding	<u>118,037</u>	<u>-</u>
Total Deferred Outflow of Resources	<u>118,037</u>	<u>-</u>
Total Liabilities and Deferred Inflow of Resources	<u>273,134,833</u>	<u>288,905,195</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	34,955,626	36,453,083
Restricted For:		
Operating Reserve	2,666,587	1,174,824
Debt Service	2,970,676	2,928,535
Debt Reserve	14,734,802	14,734,802
Renewal and Replacement	1,000,000	1,000,000
Solid Waste Escrow	3,880,568	3,862,119
Unemployment Insurance	262,409	222,440
Unrestricted	<u>3,233,851</u>	<u>4,575,318</u>
Total Net Position	<u>\$ 63,704,519</u>	<u>\$ 64,951,121</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
User Charges and Fees	\$ 71,504,365	\$ 68,619,992
Miscellaneous	<u>2,477,010</u>	<u>3,143,053</u>
Total Operating Revenues	<u>73,981,375</u>	<u>71,763,045</u>
OPERATING EXPENSES		
Allocated Administration	5,440,615	5,941,877
Cost of Operations	43,817,962	44,793,114
Insurance Claims	558,986	298,049
Post-Employment Benefits- Annual Required Contribution	1,833,858	1,767,326
Depreciation	<u>14,824,277</u>	<u>13,913,473</u>
Total Operating Expenses	<u>66,475,698</u>	<u>66,713,839</u>
OPERATING INCOME	<u>7,505,677</u>	<u>5,049,206</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	242,661	503,995
Interest Expense	(7,752,431)	(8,437,880)
Bad Debt Expense	(10,778)	-
Natural Disaster - Hurricane Sandy Expenses	(1,784,944)	-
Costs of Issuance Expense	(47,486)	-
Intergovernmental Grants	<u>600,699</u>	<u>487,533</u>
Total Non-Operating Income (Expenses)	<u>(8,752,279)</u>	<u>(7,446,352)</u>
CHANGE IN NET POSITION	<u>(1,246,602)</u>	<u>(2,397,146)</u>
Total Net Position, January 1,	65,034,819	67,431,965
Prior Period Adjustment	<u>(83,698)</u>	<u>-</u>
Total Net Position, January 1, as restated	<u>64,951,121</u>	<u>67,431,965</u>
Total Net Position, December 31	<u>\$ 63,704,519</u>	<u>\$ 65,034,819</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 74,134,392	\$ 71,119,068
Cash Paid to Suppliers	(24,153,133)	(24,699,593)
Cash Paid for Salaries and Benefits	(24,818,994)	(24,898,183)
	<u>25,162,265</u>	<u>21,521,292</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Intergovernmental Grants	551,100	910,000
Natural Disaster - Hurricane Sandy Expenses	(1,784,944)	-
	<u>(1,233,844)</u>	<u>910,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
NJ EIT Loan Proceeds	4,344,145	4,200,473
Principal Payment - Refunded Loans	(1,948,650)	(430,381)
Payment of Debt Issuance Costs - Refunding Bonds	-	(188,506)
Proceeds for Issuance of Refunding Bonds	-	8,151,843
Principal Payment - Refunded Bonds	-	(7,975,000)
Principal Payment - Revenue Bonds	(6,500,000)	(5,785,000)
Principal Payment - Loans	(6,790,109)	(6,683,781)
Payment of Debt Issuance Costs	(47,486)	
Acquisition of Capital Assets	(5,242,434)	(8,758,378)
Interest Paid - Bonds, Notes and Leases	(7,997,317)	(8,466,757)
	<u>(24,181,851)</u>	<u>(25,935,487)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	<u>220,712</u>	<u>414,661</u>
	<u>220,712</u>	<u>414,661</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(32,718)</u>	<u>(3,089,534)</u>
Cash and Cash Equivalents, January 1	<u>55,614,545</u>	<u>58,704,079</u>
Cash and Cash Equivalents, December 31,	<u>\$ 55,581,827</u>	<u>\$ 55,614,545</u>
Analysis of Balance at December 31,		
Unrestricted - Cash and Equivalents	\$ 26,068,976	\$ 24,509,937
Restricted - Cash and Equivalents	<u>29,512,851</u>	<u>31,104,608</u>
	<u>\$ 55,581,827</u>	<u>\$ 55,614,545</u>

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating Income	<u>\$ 7,505,677</u>	<u>\$ 5,049,206</u>
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	14,824,277	13,913,473
Provision for Uncollectible Accounts	(10,778)	
(Increase)/Decrease in Accounts Receivable	192,987	(642,814)
(Increase)/Decrease in Inventory	(149,689)	(216,812)
(Increase)/Decrease in Prepaid Items	(19,461)	(1,268)
Increase/(Decrease) in Accounts Payable	1,553,813	1,218,581
Increase/(Decrease) in Accrued Expenses	(889,811)	89,315
Increase/(Decrease) in Accrued Compensated Absences	(277,633)	19,520
Increase/(Decrease) in Other Liabilities	33,125	27,879
Increase/(Decrease) in Claims Payable	454,564	23,296
Increase/(Decrease) in Accrued Liability for Insurance Claims	111,335	273,590
Increase/(Decrease) in Post-Employment Benefits	<u>1,833,859</u>	<u>1,767,326</u>
 Total Adjustments	 <u>17,656,588</u>	 <u>16,472,086</u>
 Net Cash Provided by Operating Activities	 <u>\$ 25,162,265</u>	 <u>\$ 21,521,292</u>
Noncash Investing, Capital and Financing Activities:		
Purchase of Capital Assets on Account	\$ 7,490,295	\$ 11,488,185
Original Issue Discount	-	10,544
Original Issue Premium	(582,260)	(493,830)
Deferred Loss on Refunding	372,002	499,604
Issuance of Long-Term Debt - NJEIT Loan	1,273,907	
Original Issue Premium - NJEIT Loan	39,614	

NOTES TO BASIC FINANCIAL STATEMENTS

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bergen County Utilities Authority, successor agency to the 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 February 19, 1947. The Authority commenced operations in 1951 by providing water pollution control services to twelve municipalities. Currently, the Authority services through its Water Pollution Control Division a population of approximately one half million in forty-seven municipalities as well as several commercial entities.

Additionally, pursuant to a resolution adopted October 1, 1979 by the Board of Chosen Freeholders of the County, the Authority created the Division of Solid Waste Management Division for the purpose of implementing the Bergen County District Solid Waste Management Plan (the "Plan") for proper management of solid waste within Bergen County. The Plan has evolved through the years to reflect the dramatic changes to solid waste management throughout the State of New Jersey. The current plan incorporates a hierarchy of management practices that emphasizes recycling and source reduction as the preferred method of managing Bergen County's solid waste stream.

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. 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. A Chief Financial Officer is appointed by the Board and oversees the fiscal affairs of the Authority.

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

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounting records that comprise its assets, liabilities, fund equity, revenues and expenses. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority has two major funds that are grouped into one general fund, as follows:

Proprietary Fund Types

Enterprise Funds - The Enterprise Funds are used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the board 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 a water pollution control enterprise fund and a solid waste management enterprise fund.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets, all deferred outflows and all liabilities associated with these 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's Water Pollution Control and Solid Waste Management Enterprise Funds are charges to customers for services. 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. State grants for the operation of the Water Pollution Control and Solid Waste Management Systems are considered nonoperating revenues.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows, Liabilities and Net Position

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit and all short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at fair value and are limited by the 1992 Bond Resolution as amended and supplemented thereto. See Note 4 for specific disclosures on cash and investments. In addition, certain operating account investments are limited by NJSA 40A:5-15.1 et seq.

2. Inventory

The Authority utilizes the consumption method of accounting for inventories whereas they report the inventories purchased as assets and defer the recognition of an expenditure until the period in which the inventories are actually consumed. The value of the reported inventories is stated at cost or estimated cost if actual cost is not available.

3. Prepaid Items

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

4. Accounts Receivable

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

5. Interfunds Receivable and Payable

During the course of its operations, the Authority has numerous transactions between funds (accounts) to finance operations, provide services, construct assets, and retire debt. To the extent that certain transactions between the accounts had not been paid or received as of the balance sheet dates, balances of interfund amounts receivable and payable have not been recorded.

6. Restricted Assets

Certain assets are classified as restricted on the statement of net position because they are maintained in separate bank accounts held by a trustee and their use is limited by the 1992 Bond Resolution as amended and supplemented thereto.

7. Capital Assets

All capital assets acquired or constructed by the Authority are reported in the proprietary fund financial statements. Capital assets are defined by the Authority as assets with an individual cost of \$2,000 and an estimated useful life of at least two years. Such assets are recorded at historical cost if purchased or estimated historical cost of constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows, Liabilities and Net Position (Continued)

7. *Capital Assets* (Continued)

Construction costs are charged to construction in progress until such time as they are completed and certified by the Authority's consulting engineers, at which time they are transferred to their respective asset category and are then depreciated over their useful lives.

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

<u>Class</u>	<u>Life</u>
Land Improvements	40 Years
Utility Plant and Infrastructure	40 Years
Machinery and Equipment	5-15 Years
Vehicles	5 Years

8. *Effective for Deferred Outflows/Inflows of Resources*

In addition to Authority assets, the statement of net 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) until then. The Authority has one item that qualifies for reporting in this category; the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of 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 government has only one type of item that qualifies for reporting in this category. The item is the deferred gain on refunding reported in the statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

9. *Compensated Absences*

Sick leave and in certain instances vacation benefits are accrued as a liability as the benefits are accrued 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.

10. *Long-Term Obligations*

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and refunding gains or losses.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Deferred Outflows, Liabilities and Net Position (Continued)

11. Net Position

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

12. 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 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.

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 reclassifications have been made to the December 31, 2011 balances to conform to the December 31, 2012 presentation. The revenues and expenses for the self- insurance and unemployment insurance have been presented net for the year ended December 31, 2012. The presentation of the revenues and expenses for self-insurance and unemployment insurance for the year ended December 31, 2011 have been reclassified to conform with the December 31, 2012 presentation.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Accounting

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

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

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

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

1. Budgetary Accounting (Continued)

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received, are classified to expenses and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are cancelled. 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 reappropriations.

2. Revenues

After the operating budgets are adopted, a sewer user rate is approved by the Board. Sewer user charges are directly imposed on users through quarterly bills based on each user's pro-rata share of flow to the Authority. Revenue is recognized in the year that the user is billed.

Solid waste fees are imposed on users through monthly bills based on a set contractual transportation fee, if applicable, tipping fees based upon actual tonnage disposed and a per ton administrative fee. Revenue is recognized in the year the services are rendered.

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, 2012 and 2011, the Authority has not designated any of its unrestricted net position.

NOTE 3 CREATION OF FUNDS

Under the Bond Resolution dated December 12, 1992, the following funds are required to be created and held by the Authority's Trustee:

- A) Revenue Fund (Restricted)
- B) Operating Fund (Unrestricted)
- C) Bond Service Fund (Restricted)
- D) Bond Sinking Fund (Restricted)
- E) Bond Reserve Fund (Restricted)
- F) Renewal and Replacement Fund (Restricted)
- G) Subordinated Indebtedness Fund (Restricted)
- H) General Fund (Restricted)
- I) Construction Fund (Restricted)
- J) Rebate Fund (Restricted)

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

The funds are described as follows:

Revenue Fund - To account for all revenues and deficiency advances received by the Authority. All revenues and deficiency advances 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.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 3 CREATION OF FUNDS (Continued)

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

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

Bond Sinking Fund - To account for the accumulation of resources required to pay principal on all term bonds in accordance with the Sinking Fund requirements.

Bond Reserve Fund - To account for funds held in accordance with the Bond Resolution to meet the Bond Reserve requirement which is, an amount equal to the maximum annual debt service on outstanding bonds, exclusive of the subordinated indebtedness.

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 major repairs, renewals, replacements, maintenance items, equipment or operating expenses.

Subordinated Indebtedness Fund - To account for funds held for any bonds, notes or other obligations of the Authority that is issued under a separate bond resolution. The subordinated indebtedness fund was created pursuant to the bond resolution for the Water Pollution Control Subordinated ERI Refunding Bonds, Series 2004.

General Fund - To account for the accumulation of resources resulting from excess monies, which are not required to be maintained in any of the above funds.

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 that are on deposit in the Construction Account are pledged to secure the payment of the principal of, redemption premium, if any, and the interest on the Bonds.

Rebate Account - To account for financial resources and payments as determined by the Authority for interest earnings which are subject to arbitrage rebate to the United States Government.

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits - The Authority's deposits are insured through the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (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 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. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, temporary unlimited deposit insurance coverage was provided for non-interest bearing accounts from December 31, 2010 through December 31, 2012. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2012 and 2011, the book value of the Authority's deposits was \$51,159,131 and \$38,207,423 and bank balances of the Authority's cash and deposits amounted to \$53,582,795 and \$40,549,329, respectively.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

The Authority's deposits which are displayed on the statement of net assets as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2012</u>	<u>2011</u>
Insured	\$ 53,146,985	\$ 40,113,765
Uninsured and Collateralized	<u>435,810</u>	<u>435,564</u>
	<u>\$ 53,582,795</u>	<u>\$ 40,549,329</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, 2012 and 2011, the Authority's bank balance of \$435,810 and \$435,564 were exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>2012</u>	<u>2011</u>
Uninsured and Collateralized:		
Collateral held by pledging financial institutions' trust department or agent but not in the Authority's name	<u>\$ 435,810</u>	<u>\$ 435,564</u>

Investments – The Authority is required by its Bond Resolutions to maintain each of its investments in the Fund (account) in which the investment is made. In all accounts, except the operating, unemployment insurance and solid waste escrow accounts, 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 various Bond Resolution.

The Authority is permitted to invest unrestricted operating funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include but are not limited to, bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds.

As of December 31, 2012 and 2011, the Authority had the following investments:

<u>Investment:</u>	<u>Fair and Reported Value</u>	
	<u>2012</u>	<u>2011</u>
U.S. Government Securities - Money Market Funds	<u>\$ 4,422,696</u>	<u>\$ 17,407,122</u>
Cash and Cash Equivalents	<u>\$ 4,422,696</u>	<u>\$ 17,407,122</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial Credit Risk – Investments - For an investment, this is the risk, that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Board does have a policy for custodial risk. As of December 31, 2012 and 2011 \$4,422,696 and \$17,407,122 of the Authority’s investments was exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>2012</u>	<u>2011</u>
Uninsured and Collateralized:		
Collateral held by pledging financial institutions' trust department or agent but not in the Authority name	<u>\$ 4,422,696</u>	<u>\$ 17,407,122</u>

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

Concentration of Credit Risk – The Authority places no limit in the amount the Authority may invest in any one issuer. 100% of the Authority’s investments are in U.S. Government Security Funds.

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

NOTE 5 RESTRICTED ASSETS

Bond covenants of the Authority require portions of the debt proceeds as well as other resources to be set-aside for various purposes. These amounts are reported as restricted assets and are described as follows.

- 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 “Bond Issuance Fund” account segregates funds that are to be used to pay for various professional and miscellaneous costs incurred with the issuance of Authority debt.
- 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.
- The “General Fund” is used to account for the accumulation of resources resulting from excess monies which are not required to be maintained in any of the above funds.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2012 and 2011:

	Balance, January 1, <u>2012</u>	<u>Increases</u>	Adjustments/ <u>Decreases</u>	Balance, December 31, <u>2012</u>
Land and Land Improvements	\$ 2,515,837			\$ 2,515,837
Utility Plant and Infrastructure	366,869,760	\$ -	1,468,385	368,338,145
Vehicles, Machinery and Equipment	144,925,566	129,664	\$ 585,821	145,641,051
Construction in Progress	26,532,171	1,114,880	\$ (2,054,206)	25,592,845
	540,843,334	1,244,544	-	542,087,878
Less Accumulated Depreciation	<u>(257,274,752)</u>	<u>(14,824,277)</u>	<u>-</u>	<u>(272,099,029)</u>
Capital Assets, Net	<u>\$ 283,568,582</u>	<u>\$ (13,579,733)</u>	<u>\$ -</u>	<u>\$ 269,988,849</u>

	Balance, January 1, <u>2011</u>	<u>Increases</u>	Adjustments/ <u>Decreases</u>	Balance, December 31, <u>2011</u>
Land and Land Improvements	\$ 2,515,837			\$ 2,515,837
Utility Plant and Infrastructure	360,163,625	\$ 6,706,135		366,869,760
Vehicles, Machinery and Equipment	118,118,244	26,807,322		144,925,566
Construction in Progress	41,108,825	18,912,545	\$ 33,489,199	26,532,171
	521,906,531	52,426,002	33,489,199	540,843,334
Less Accumulated Depreciation	<u>(243,361,279)</u>	<u>(13,913,473)</u>	<u>-</u>	<u>(257,274,752)</u>
Capital Assets, Net	<u>\$ 278,545,252</u>	<u>\$ 38,512,529</u>	<u>\$ 33,489,199</u>	<u>\$ 283,568,582</u>

NOTE 7 LONG-TERM LIABILITIES

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 1992 (Series B), the 2001 (Series A), the 2004 (Series A), the 2005 (Series A), the 2004 (Series B, federally taxable) and 2006 (Series A), 2007 Refunding (Series A), 2007 Refunding (Series B) and 2007 Edgewater System Acquisition and Series 2008, Water Pollution Control System Revenue Bonds are special obligations of the Water Pollution Control System and are payable from and secured by a pledge of revenues of the Authority derived principally from payments paid by various municipalities pursuant to service contracts and subject to the Authority’s right to pay operating expenses and to pay a rebate to the United States Government.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM LIABILITIES (Continued)

Payment of the principal and interest on the 2004 Series A Bonds are guaranteed by the Financial Guaranty Insurance Company (FGIC) should the Authority default in the payment thereof. On August 4, 2010 Financial Guaranty Insurance Corporation filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. On October 1, 2010 FGIC and MBIA Insurance Corporation (“MBIA”) closed on the reinsurance of a U.S. public finance bonds portfolio. In the event of a default, claims would be presented to MBIA for payment. As of the date of this report there is no indication that MBIA would be unable to meeting its obligations pursuant to FGIC’s municipal bond insurance policies issued concurrently with this issue.

The 2005 Series A Bonds, the 2006 Series A Bonds and the 2007 Edgewater System Acquisition Bonds are guaranteed by Ambac Assurance Corporation should the Authority default in the payment thereof. On November 8, 2010 Ambac Financial Group, Inc. filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. On March 14, 2012 the United States Bankruptcy Court entered an order confirming the Fifth Amended Plan of Reorganization of Ambac. On May 1, 2013 Ambac announced that it had emerged from bankruptcy. As of the date of this report there is no indication that in the event of a default, Ambac would be unable to meet its obligations pursuant to its municipal bond insurance policies issued concurrently with these issues.

The Subordinated ERI Refunding Bonds (Series 2004, Federally Taxable) are not insured or otherwise guaranteed. The 2007 Refunding Bonds (Series A and Series B), 2008 Revenue Bonds and 2012 Refunding Bonds are not insured, but are guaranteed as specified in the Bergen County guarantee ordinance.

Revenue Bonds outstanding at December 31, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Water Pollution Control Revenue Bonds, Series 2004A, Serial Bonds, 3.00% to 5.00% due December 15, 2010 to 2021	\$ 5,545,000	\$ 6,035,000
Water Pollution Control Subordinated ERI Refunding Bonds, (Federally Taxable, Series 2004B) 5.75% due December 15, 2010 to 2014	440,000	635,000
Water Pollution Control Revenue Bonds, Series 2005A, 3.25% to 5.00%, due December 15, 2010 to 2013	1,030,000	2,210,000
Water Pollution Control Revenue Bonds, Series 2006A, 4.00% to 5.00%, due December 15, 2010 to 2031	24,865,000	25,255,000
Water Pollution Control BCIA Refunding Bonds, Series 2007A, 4.00%, due December 15, 2018 to 2021	31,855,000	31,855,000
Water Pollution Control BCIA Refunding Bonds, Series 2007B, 4.00% to 5.00%, due December 15, 2010 to 2017	25,730,000	27,590,000
Water Pollution Control System Acquisition Revenue Bonds, Series 2007, 4.00% to 5.00%, due December 15, 2010 to 2027	15,740,000	16,450,000

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM LIABILITIES (Continued)

Revenue Bonds (Continued)

Water Pollution Control BCIA Revenue Bonds, Series 2008, 3.00% to 5.00%, due December 15, 2011 to 2029	\$ 29,140,000	\$ 29,500,000
Water Pollution Control Revenue Bonds, Series 2011A, Serial Bonds, 2.00% to 4.00%, due December 15, 2012 to 2016	<u>6,395,000</u>	<u>7,710,000</u>
 Total Revenue Bonds Payable	 <u>\$ 140,740,000</u>	 <u>\$ 147,240,000</u>

The Authority has entered into several loan agreements with the State of New Jersey for the financing relating to various wastewater projects. The Authority pledges revenue from operations to pay debt service on loans issued. Intergovernmental loans outstanding at December 31 are as follows:

New Jersey Economic Development Authority Loans, Interest Free	\$ 322,223	\$ 644,446
New Jersey Environmental Infrastructure Trust		
Trust Loan, Series 2005	2,522,613	2,707,613
Fund Loan, Series 2005	5,645,758	6,260,596
Trust Loan, Series 2006	17,721,314	19,070,000
Fund Loan, Series 2006	43,658,980	48,524,030
Trust Loan, Series 2007	355,000	370,000
Fund Loan, Series 2007	898,138	955,098
Trust Loan, Series 2008	6,420,000	6,675,000
Fund Loan, Series 2008	16,759,666	17,806,054
Trust Loan, Series 2010	1,230,000	1,275,000
Fund Loan, Series 2010	1,183,818	1,253,454
Trust Loan, Series 2012	300,000	-
Fund Loan, Series 2012	<u>940,893</u>	<u>-</u>
 Total Loans Payable	 <u>\$ 97,958,403</u>	 <u>\$ 105,541,291</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities (Continued)

The Authority's long-term liabilities are reported net of any unamortized premium or discount and net of unamortized loss on refunding. Long-term liability activity for the years ended December 31, 2012 and 2011 was as follows:

	Balance, <u>January 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance, <u>December 31, 2012</u>	Due Within <u>One Year</u>
Revenue Bonds					
Serial Bonds	\$ 147,240,000	-	\$ 6,500,000	\$ 140,740,000	\$ 7,805,000
Add: Unamortized Premium-Bonds	<u>2,464,496</u>	<u>-</u>	<u>519,727</u>	<u>1,944,769</u>	<u>-</u>
Total Revenue Bonds - Net	<u>149,704,496</u>	<u>-</u>	<u>7,019,727</u>	<u>142,684,769</u>	<u>7,805,000</u>
Loans Payable					
NJ EDA Loan Payable	644,446		322,223	322,223	322,223
NJ EIT Loan Payable	104,896,845	\$(1,240,893)	8,501,558	97,636,180	6,572,396
Add: Unamortized Premium	<u>558,495</u>	<u>(39,614)</u>	<u>62,534</u>	<u>535,575</u>	<u>-</u>
Total Loans Payable - Net	<u>106,099,786</u>	<u>(1,280,507)</u>	<u>8,886,315</u>	<u>98,493,978</u>	<u>6,894,619</u>
Accrued Compensated Absences					
Post-Retirement Benefits	3,968,998	-	277,633	3,691,365	369,137
	<u>7,264,290</u>	<u>1,833,859</u>	<u>-</u>	<u>9,098,149</u>	<u>-</u>
Total Long-Term Liabilities, Net	<u>\$ 267,037,570</u>	<u>\$ 553,352</u>	<u>\$ 16,183,675</u>	<u>\$ 253,968,261</u>	<u>\$ 15,068,756</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 LONG-TERM LIABILITIES (Continued)

Changes in Long-Term Liabilities (Continued)

	Balance, <u>January 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance, <u>December 31, 2011</u>	Due Within <u>One Year</u>
Revenue Bonds					
Serial Bonds	\$ 148,210,000	\$ 7,710,000	\$ 8,680,000	\$ 147,240,000	\$ 6,500,000
Term Bonds	5,080,000		5,080,000		
Add: Unamortized Premium-Bonds	2,453,950	441,843	431,297	2,464,496	
Less: Unamortized Discount	<u>(10,544)</u>	<u>-</u>	<u>(10,544)</u>	<u>-</u>	<u>-</u>
Total Revenue Bonds - Net	<u>155,733,406</u>	<u>8,151,843</u>	<u>14,180,753</u>	<u>149,704,496</u>	<u>6,500,000</u>
Loans Payable					
NJ EDA Loan Payable	966,668		322,222	644,446	322,223
NJ EIT Loan Payable	114,447,963	(3,189,559)	6,361,559	104,896,845	6,434,873
Add: Unamortized Premium	<u>621,029</u>	<u>-</u>	<u>62,534</u>	<u>558,495</u>	<u>-</u>
Total Loans Payable - Net	<u>116,035,660</u>	<u>(3,189,559)</u>	<u>6,746,315</u>	<u>106,099,786</u>	<u>6,757,096</u>
Accrued Compensated Absences	3,949,478	19,520		3,968,998	396,900
Post-Retirement Benefits	<u>5,496,964</u>	<u>1,767,326</u>	<u>-</u>	<u>7,264,290</u>	<u>-</u>
Total Long-Term Liabilities, Net	<u>\$ 281,215,508</u>	<u>\$ 6,749,130</u>	<u>\$ 20,927,068</u>	<u>\$ 267,037,570</u>	<u>\$ 13,653,996</u>

The Authority's schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2012 is as follows:

Year Ending <u>December 31,</u>	<u>Revenue Bonds</u>		<u>Loans Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013	\$ 7,805,000	\$ 6,361,223	\$ 6,894,619	\$ 1,357,179	\$ 22,418,021
2014	8,585,000	6,039,148	6,653,499	1,282,704	22,560,351
2015	8,965,000	5,655,985	6,732,573	1,204,434	22,557,992
2016	9,395,000	5,233,170	6,803,319	1,123,934	22,555,423
2017	9,920,000	4,789,351	6,886,440	1,039,634	22,635,425
2018-2022	48,240,000	16,883,045	35,221,529	3,962,069	104,306,643
2023-2027	21,800,000	9,382,988	26,536,586	1,455,319	59,174,893
2028-2032	16,785,000	4,402,000	2,229,838	46,670	23,463,508
2033-2037	<u>9,245,000</u>	<u>1,284,750</u>	<u>-</u>	<u>-</u>	<u>10,529,750</u>
	<u>\$ 140,740,000</u>	<u>\$ 60,031,660</u>	<u>\$ 97,958,403</u>	<u>\$ 11,471,943</u>	<u>\$ 310,202,006</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 8 USER CHARGES RECEIVABLES

User charges receivable at December 31, 2012 and 2011, including the applicable allowance for doubtful accounts, consisted of the following:

	Water Pollution <u>Control</u>	Solid Waste <u>Management</u>	<u>Total</u>
<u>December 31, 2012</u>			
Gross User Charges Receivable	\$ 269,927	\$ 1,430,345	\$ 1,700,272
Other Accounts Receivable	<u>57,182</u>	<u>-</u>	<u>57,182</u>
	327,109	1,430,345	1,757,454
Less: Allowance for Doubtful Accounts	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable (Net)	<u>\$ 327,109</u>	<u>\$ 1,430,345</u>	<u>\$ 1,757,454</u>

	Water Pollution <u>Control</u>	Solid Waste <u>Management</u>	<u>Total</u>
<u>December 31, 2011</u>			
Gross User Charges Receivable	\$ 1,022,621	\$ 1,168,525	\$ 2,191,146
Less: Allowance for Doubtful Accounts	<u>(240,705)</u>	<u>-</u>	<u>(240,705)</u>
Accounts Receivable (Net)	<u>\$ 781,916</u>	<u>\$ 1,168,525</u>	<u>\$ 1,950,441</u>

NOTE 9 COMPENSATED ABSENCES

Under the existing policies of the Authority, employees are allowed to accumulate (with certain restrictions) unused sick leave and vacation 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 as of that the current cost of such unpaid compensation and salary related payments would approximate \$3,691,365 and \$3,968,998 December 31, 2012 and 2011, respectively. Of this amount \$369,137 and \$396,900 is accrued as a current liability and the balances of \$3,322,228 and \$3,572,098 are reported as a long-term liability as of December 31, 2012 and 2011, respectively.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 10 CONSTRUCTION COMMITMENTS

As of December 31, 2012 and 2011, the Authority had the following commitments with respect to unfinished capital projects:

2012

<u>Project</u>	<u>Construction Commitment</u>	<u>Estimated Date of Completion</u>
Edgewater WPCF Outfall Extension	\$ 1,601,275	2013
RD I&I and SSO Elimination	437,307	2013
Maywood I&I Reduction Plan	344,313	2013
Palisades Park I&I Reduction Plan	366,465	2013
Teaneck Borough Redction of Rain Ind.	570,467	2013
Tenaflly Borough Redction of Rain Ind.	321,679	2013
Lower Hackensack River Nutrient TMD	1,608,127	2013
Surface Water Modification Permit	248,925	2013
SSO Eleimination Project Management	248,020	2013
Sludge Digester Improvements	799,917	2013

2011

Hackensack River Anti-Degradation Program	\$ 2,801,186	2012
Sludge Thickening/Dewatering Improvements	1,001,503	2012
Tank #4 Improvements	141,866	2012
Infiltration and Inflow Remediation	2,664,849	2012
Edgewater Plant Security, SCADA & Facility Improvements	2,219,733	2012
CSO Improvements	250,933	2012
Sludge Digester Improvements	825,512	2012
Rehabilitation of Barge Docking Facilities	1,369,102	2012

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 11 AMOUNTS REQUIRED BY BOND RESOLUTION COVENANTS

The Authority's bond covenants require certain restricted funds to be on deposit at year-end. The balances required to be on deposit at December 31, 2012 and 2011 are as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	Water Pollution Control	Water Pollution Control
<u>Bond Service Fund</u>		
Required Balances	\$ 2,970,676	\$ 2,928,535
Cash and Investments	<u>265,546</u>	<u>77,601</u>
(Deficit)	<u>\$ (2,705,130)</u>	<u>\$ (2,850,934)</u>
<u>Bond Reserve Fund</u>		
Required Balances	\$ 14,734,802	\$ 14,734,802
Cash and Investments	<u>14,946,491</u>	<u>14,890,712</u>
Excess Funds	<u>\$ 211,689</u>	<u>\$ 155,910</u>
<u>Renewal and Replacement Fund</u>		
Required Balances	\$ 1,000,000	\$ 1,000,000
Cash and Investments	<u>1,000,344</u>	<u>1,000,604</u>
Excess Funds	<u>\$ 344</u>	<u>\$ 604</u>

Operating Reserve – Under the provisions of the Bond Resolution, the Authority is permitted to reserve in the Operating Fund an amount estimated to be necessary for operating expenses which is consistent with the annual budget for the one month period commencing on the first day of each calendar month during the year. Such amount must be on deposit for operating expenses along with the required balances for the Bond Service Fund, Sinking Fund, Bond Reserve Fund, Renewal and Replacement Fund and Subordinated Indebtedness Fund. As of December 31, 2012 and 2011, the net amounts available for the Operating Reserve were \$2,666,587 and \$1,174,824, respectively. These amounts are less than the one month annual budgeted operating expenses permitted to be reserved under the provisions of the Bond Resolution.

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement system (retirement system) 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 25 years for post-retirement healthcare coverage.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Other Pension Funds

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

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

According to state law, all obligations of the 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 the above system, funds, and trust. The financial report may be accessed via the New Jersey Division of Pensions and Benefits website at www.state.nj.us/treasury/pension.

Basis of Accounting

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

Investment Valuation

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

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

Significant Legislation

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

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Significant Legislation (Continued)

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

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and to attain age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- Active member contribution rates will increase. 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 Fiscal Year 2012, the member contribution rates increase in October 2011. 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 is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS is 67.5 percent with an unfunded actuarial accrued liability of \$41.7 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 60.8 percent and \$30.1 billion, and the aggregate funded ratio and unfunded accrued liability, including PERS is 77.5 percent and \$11.6 billion, respectively.

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

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

Actuarial Methods and Assumptions

In the July 1, 2011 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) revised rate of return from 8.25 percent to 7.95 percent; and (2) 4.52 percent for projected salary increases for PERS system.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

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% for PERS of employees' annual compensation.

Annual Pension Cost (APC)

For PERS, which is a cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

During the years ended December 31, 2012 and 2011, 2010, the Authority was required to contribute for normal cost pension contributions the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2012	\$1,235,504
2011	1,190,838
2010	954,612

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS

Plan Description

The Authority provides a post employment healthcare plan for its eligible retirees and their dependents (as defined by the Authority). The plan is a single-employer defined benefit healthcare plan administered by the Authority. In accordance with Authority contracts and/or policies, the Authority provides health and prescription coverage to eligible retirees after completion of twenty-five years of service with the Authority.

Funding Policy

The required contribution is funded on a pay-as-you-go basis with an additional amount to prefund benefits as determined annually by the Authority. For the years 2012 and 2011, the Authority contributed \$2,178,681 and \$2,196,672, respectively to the Plan, to fund its current claims but did not fund any future benefits based upon the actuarially determined Annual Required Contribution (ARC).

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the plan.

Annual Required Contribution	\$ 3,340,231
Interest on Net OPEB Obligation	363,215
Adjustment to Annual Required Contribution	<u>309,094</u>
Annual OPEB Cost (Expense)	4,012,540
Contributions Made	<u>(2,178,681)</u>
Increase in Net OPEB Obligation	1,833,859
Net OPEB Obligation - January 1, 2012	<u>7,264,290</u>
Net OPEB Obligation - December 31, 2012	<u>\$ 9,098,149</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years 2012, 2011 and 2010 were as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligations</u>
2012	\$4,012,540	54.30%	\$9,098,149
2011	3,963,998	44.58%	7,264,290
2010	3,604,287	48.12%	5,496,964

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The projected actuarial accrued liability for benefits was \$83,850,266. The Authority has no plan assets, resulting in a projected unfunded actuarial accrued liability (UAAL) of \$83,850,266. The covered payroll (annual payroll of active employees covered by the plan) was \$14,654,776, and the ratio of the projected UAAL to the covered payroll was 572.2 percent.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the December 31, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent discount rate. The UAAL is being amortized as a level percentage of projected payroll over 30 years. The remaining amortization period at December 31, 2012 was twenty-four years.

NOTE 14 OTHER INFORMATION

A. 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 is self-insured to guard against these events to minimize exposure to the Authority should they occur.

The Authority retains risk of workmen's compensation, employee benefits and residual environmental liability of the Kingsland Park Sanitary Landfill. The Authority has a solid waste escrow account to fund up to \$3 million of environmental liabilities of this landfill.

The Authority has established a worker's compensation plan and a health benefits plan for its employees. Transactions related to the plans are accounted for in the self-insurance internal service fund. The Authority funds the entire cost of the plans. Claims are paid directly by the plans up to a maximum of \$500,000 for any one accident or occurrence for worker's compensation and \$95,000 for health benefits, with any excess benefit being reimbursed through a re-insurance agreement. A contingent liability exists with respect to reinsurance, which would become an actual liability in the event the reinsuring company may not be able to meet their obligations to the Authority under existing reinsurance agreements.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 14 OTHER INFORMATION (Continued)

A. Risk Management (Continued)

Estimates of claims payable and of claims incurred, but not reported (IBNR) at December 31, 2012 and 2011, are reported as claims payable and accrued liability for insurance claims. These estimates were determined based on claim information supplied by the claims administrator and actuary. The unpaid claims liability of \$3,481,242 and \$2,915,343 reported at December 31, 2012 and 2011, respectively, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the balances of claims liabilities for the years ended December 31, 2012 and 2011 and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Unpaid Claims, January 1	\$ 2,915,343	\$ 2,618,457	\$ 2,588,879
Incurred Claims	5,931,555	7,123,701	4,982,280
Less Claim Payments	<u>(5,365,656)</u>	<u>(6,826,815)</u>	<u>(4,952,702)</u>
Unpaid Claims, December 31	<u>\$ 3,481,242</u>	<u>\$ 2,915,343</u>	<u>\$ 2,618,457</u>

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's unemployment compensation trust fund for the current and previous two years:

<u>Year Ended</u> <u>December 31</u>	<u>Employee</u> <u>Contributions</u>	<u>Employer</u> <u>Contributions</u>	<u>Amount</u> <u>Reimbursed</u>	<u>Ending</u> <u>Balance</u>
2012	\$ 20,132	\$ 20,133	\$ 252	\$ 262,409
2011	17,568	17,569	291	222,440
2010	18,919	18,920	317	187,574

B. Provision for Landfill Closure/Sale of Transfer Station

On May 31, 2002, in connection with the sale of the Transfer Station as discussed herein, the New Jersey Meadowlands Commission assumed closure and post-closure responsibilities for the Kingsland Park Sanitary Landfill.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 14 OTHER INFORMATION (Continued)

B. Provision for Landfill Closure/Sale of Transfer Station (Continued)

On October 26, 2000, the New Jersey Meadowland Commission (NJMC) and EnCap Golf, LLC ("EnCap") executed a Landfill Closure and Development Agreement that proposed the remediation of six landfills and the subsequent development of golf course(s) within the Hackensack Meadowlands District. As part of this redevelopment project, the NJMC has committed to purchase the BCUA transfer station located at One Disposal Road, North Arlington, New Jersey. The NJMC has also committed to acquiring the Kingsland Park Sanitary Landfill (KPSL) from the County of Bergen and assume the KPSL closure and post-closure responsibilities. The redevelopment project also provides for additional funding from EnCap and the State of New Jersey for utilization in the defeasance of the BCUA Solid Waste System Revenue Bonds, Refunding Series A issued in May of 1992.

On January 17, 2002, the Commissioners of the BCUA adopted a Resolution, subject to the execution of agreements satisfactory to the BCUA, for the sale of the BCUA transfer station and appurtenances thereto and the initiative to permanently defease BCUA's outstanding solid waste debt.

On February 14, 2002, the BCUA executed an Intergovernmental Agreement ("IGA") by and among the New Jersey Meadowlands Commission ("NJMC"); the County of Bergen ("County"), and the BCUA (collectively, the "Parties") for the defeasance of BCUA Solid Waste Bonds and Transfer of Solid Waste Facilities. The agreement called for the Parties to make contributions to defease the outstanding debt of the BCUA, and upon the defeasance of the outstanding debt, the conveyance by the BCUA of its Transfer Station to the NJMC, which Transfer Station has financed with BCUA tax-exempt bonds that were refunded by the outstanding debt, and the conveyance by the County to the NJMC of its interest in the Kingsland Park Sanitary Landfill ("KPSL"), which was improved with the proceeds of tax-exempt BCUA bonds that have been refunded by the outstanding debt.

On February 21, 2002, the Commissioners of the BCUA adopted a Resolution to effectuate a reduction in force, due to the closing of the transfer station located in North Arlington, and to submit the layoff plan to the New Jersey Department of Personnel for review and approval.

On May 31, 2002, the entire amount \$91,125,000, of the 1992 Solid Waste Bonds was defeased. Per the terms of the IGA the following deposited funds totaling \$92,269,967 into a Defeasance Escrow Account: NJMC \$42,000,000 (includes \$18,500,000 for the Transfer Station purchase), County of Bergen \$20,000,000, State of New Jersey \$11,500,000 and the BCUA \$22,769,967 from its restricted and unrestricted cash reserves. As required by the IGA, the BCUA transferred \$4,440,000 into a Solid Waste Escrow Fund. Of this amount, \$3,000,000 is to be used for environmental liabilities relating to BCUA's use and or operation of KPSL or the Transfer Station including environmental insurance and \$1,440,000 for long-term BCUA employee benefits, including retiree benefits. In addition, in consideration for NJMC assumption of the closure and post-closure responsibilities for KPSL, the KPSL Closure Fund escrow agreements between the BCUA and the New Jersey Department of Environmental Protection ("DEP") were amended to delete the BCUA and substitute NJMC, and NJMC may receive disbursements from these funds for approved expenses as determined by DEP in accordance with applicable law.

C. Contingent Liabilities

The Authority is a party defendant in some lawsuits, none of a kind unusual for an Authority of its size and scope of operation. In the opinion of the Attorney, the potential claims against the Authority not covered by insurance policies would not materially affect the financial condition of the Authority.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 14 OTHER INFORMATION (Continued)

D. Federal Arbitrage Regulations

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2012 and 2011, the Authority had no estimated arbitrage earnings due to the IRS.

E. Interlocal Services Agreement

On February 14, 2002, the Authority entered into a Memorandum of Understanding (“MOU”) with the County of Bergen to defease certain outstanding debt of the Authority. In accordance with the MOU, the Authority was required to establish a *Solid Waste Escrow Fund*, which will include two sub-accounts. Sub-Account A will finance expenses of \$3 million for environmental liabilities relating to the Authority’s use and/or operation of the Kingsland Park Sanitary Landfill on the transfer station; Sub-Account B will finance expenses of \$1,440,000 for long-term Authority employee benefits, including retiree benefits.

NOTE 15 PRIOR PERIOD ADJUSTMENT

The financial statements for the Solid Waste Management have been adjusted in the amount of \$83,698 for costs previously charged to recycling grants that should have been expensed in the operating budget.

NOTE 16 HURRICANE SANDY

On October 29, 2012 Hurricane Sandy, the largest Atlantic hurricane on record made landfall in New Jersey and resulted in severe damage in numerous communities and a federal disaster was declared throughout the State. The Borough has incurred significant costs in the clean up and recovery from this federal disaster. The Federal Emergency Management Agency (“FEMA”) provides emergency grant assistance (voluntary nonexchange transaction) to help government’s cope with losses. Although the Authority has applied for reimbursement from FEMA, the total amount to be received in conjunction with this event is not considered to be measurable with sufficient reliability and therefore has not been recognized in the financial statements as of December 31, 2012. As of December 31, 2012, the Authority has not received any FEMA reimbursements relating to Hurricane Sandy.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 17 RESTATEMENT

The financial statements for the year ended December 31, 2011 have been restated as follows:

Statement of Net Position - Water Pollution Control - December 31, 2011

	As Originally Reported	As Adjusted	Effect of Change
ASSETS			
Noncurrent Assets			
Deferred Charges			
Debt Issuance Costs	\$ 3,894,402	-	\$(3,894,402)
Total Noncurrent Assets	287,462,984	\$ 283,568,582	(3,894,402)
Total Assets	343,558,388	339,663,986	(3,894,402)
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts of Refunding	-	1,922,950	1,922,950
Total Deferred Outflows of Resources	-	1,922,950	1,922,950
Total Assets and Deferred Outflows of Resources	343,558,388	341,586,936	(1,971,452)
LIABILITIES			
Noncurrent Liabilities			
Revenue Bonds Payable	141,281,546	143,204,496	1,922,950
Total Noncurrent Liabilities	251,192,216	253,115,166	1,922,950
Total Liabilities	283,156,976	285,079,926	1,922,950
NET POSITION			
Investment in Capital Assets, Net of Related Debt	40,347,485	36,453,083	(3,894,402)
Total Net Position	60,401,412	56,507,010	(3,894,402)

**Statement of Revenues, Expenses and Changes in Net Position -
Water Pollution Control- 2011**

	As Originally Reported	As Adjusted	Effect of Change
NON-OPERATING REVENUE (EXPENSES)			
Amortization of Costs of Issuance	\$ (469,116)	-	\$ 469,116
Total Non-Operating Revenue (Expenses)	(8,496,934)	\$ (8,027,818)	469,116
CHANGE IN NET POSITION	(1,828,528)	(1,359,412)	469,116
NET POSITION, January 1, 2011	62,229,940	57,866,422	(4,363,518)
NET POSITION, December 31, 2011	60,401,412	56,507,010	(3,894,402)

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

SUPPLEMENTARY SCHEDULES

**THE BERGEN COUNTY UTILITIES AUTHORITY
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u> <u>December 31,</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
2012	-	\$ 83,850,266	\$ 83,850,266	0%	\$ 14,654,776	572.2%
2011	-	76,455,316	76,455,316	0%	14,275,064	535.6%
2010	-	69,254,121	69,254,121	0%	13,749,654	503.7%
2009	-	61,855,751	61,855,751	0%	13,290,722	465.4%
2008	-	63,916,310	63,916,310	0%	12,961,068	493.1%
2007	\$ 229,562	3,855,279	3,625,717	6.0%	12,060,061	30.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2012	\$ 4,012,540	54.30%
2011	3,963,998	44.58%
2010	3,604,287	48.12%
2009	2,343,190	53.64%
2008	2,540,658	19.62%
2007	361,263	100.00%

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF NET POSITION
AS OF DECEMBER 31, 2012

	Water Pollution Control	Solid Waste Management	Total
ASSETS			
Current Assets:			
Unrestricted Current Assets:			
Cash and Cash Equivalents	\$ 20,572,367	\$ 5,496,609	\$ 26,068,976
Accrued Interest Receivable	1,225		1,225
Accounts Receivable - (net of allowance)	269,927	1,430,345	1,700,272
Other Accounts Receivable	57,182		57,182
Internal Balances	(220,643)	220,643	
Inventory	3,897,222		3,897,222
Prepaid Items	210,504	21,085	231,589
Total Unrestricted Current Assets	<u>24,787,784</u>	<u>7,168,682</u>	<u>31,956,466</u>
Restricted Current Assets:			
Revenue Account			
Cash and Cash Equivalents	1,000,538		1,000,538
Bond Reserve Account			
Cash and Cash Equivalents	14,946,491		14,946,491
Accrued Interest Receivable	130,789		130,789
Bond Issuance Account			
Cash and Cash Equivalents	93,546		93,546
Bond Service Account			
Cash and Cash Equivalents	265,546		265,546
Construction Account			
Cash and Cash Equivalents	8,063,409		8,063,409
Renewal and Replacement Account			
Cash and Cash Equivalents	1,000,344		1,000,344
Unemployment Insurance Account			
Cash and Cash Equivalents	254,536	7,873	262,409
Solid Waste Escrow			
Cash and Cash Equivalents		3,880,568	3,880,568
State Loans Receivable - NJEIT	3,699,449	-	3,699,449
Total Restricted Current Assets	<u>29,454,648</u>	<u>3,888,441</u>	<u>33,343,089</u>
Total Current Assets	<u>54,242,432</u>	<u>11,057,123</u>	<u>65,299,555</u>
Noncurrent Assets:			
Capital Assets:			
Land and Land Improvements	2,515,837		2,515,837
Utility Plant and Infrastructure	368,338,145		368,338,145
Vehicles, Machinery and Equipment	145,641,051		145,641,051
Construction in Progress	25,592,845		25,592,845
less: Accumulated Depreciation	(272,099,029)	-	(272,099,029)
Total Capital Assets (Net of Accumulated Depreciation)	<u>269,988,849</u>	<u>-</u>	<u>269,988,849</u>
Total Noncurrent Assets	<u>269,988,849</u>	<u>-</u>	<u>269,988,849</u>
Total Assets	<u>324,231,281</u>	<u>11,057,123</u>	<u>335,288,404</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Losses on Refunding	1,550,948	-	1,550,948
Total Deferred Outflow of Resources	<u>1,550,948</u>	<u>-</u>	<u>1,550,948</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 325,782,229</u>	<u>\$ 11,057,123</u>	<u>\$ 336,839,352</u>

Continued

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF NET POSITION
AS OF DECEMBER 31, 2012

	<u>Business-Type Activities- Enterprise Funds</u>		
	<u>Water Pollution Control</u>	<u>Solid Waste Management</u>	<u>Total</u>
LIABILITIES			
Current Liabilities (Payable from Unrestricted Assets)			
Accounts Payable	\$ 2,525,641	\$ 1,712,060	\$ 4,237,701
Accrued Expenses	1,090,728	13,899	1,104,627
Compensated Absences	363,460	5,677	369,137
Unearned Revenue		1,770,723	1,770,723
Accrued Liability for Insurance Claims	2,433,571	75,265	2,508,836
Claims Payable	943,234	29,172	972,406
Other Liabilities	129,402	4,002	133,404
Total Current Liabilities Payable from Unrestricted Assets	<u>7,486,036</u>	<u>3,610,798</u>	<u>11,096,834</u>
Current Liabilities (Payable from Restricted Assets)			
Revenue Bonds Payable, Current Portion	7,805,000		7,805,000
Loans Payable, Current Portion	6,894,619		6,894,619
Accrued Interest Payable	830,543		830,543
Contracts Payable	7,490,295	-	7,490,295
Total Current Liabilities Payable from Restricted Assets	<u>23,020,457</u>	<u>-</u>	<u>23,020,457</u>
Non-Current Liabilities			
Revenue Bonds Payable (net of unamortized premiums)	134,879,769		134,879,769
Loans Payable	91,599,359		91,599,359
Compensated Absences	3,271,139	51,089	3,322,228
Post-Employment Benefits	8,825,205	272,944	9,098,149
Total Non-Current Liabilities	<u>238,575,472</u>	<u>324,033</u>	<u>238,899,505</u>
Total Liabilities	<u>269,081,965</u>	<u>3,934,831</u>	<u>273,016,796</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Gains on Refunding	118,037	-	118,037
Total Deferred Outflow of Resources	<u>118,037</u>	<u>-</u>	<u>118,037</u>
Total Liabilities and Deferred Inflow of Resources	<u>269,200,002</u>	<u>3,934,831</u>	<u>273,134,833</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	34,955,626		34,955,626
Restricted For:			
Operating Reserve	2,666,587		2,666,587
Debt Service	2,970,676		2,970,676
Debt Reserve	14,734,802		14,734,802
Renewal and Replacement	1,000,000		1,000,000
Solid Waste Escrow		3,880,568	3,880,568
Unemployment Insurance	254,536	7,873	262,409
Unrestricted	-	3,233,851	3,233,851
Total Net Position	<u>\$ 56,582,227</u>	<u>\$ 7,122,292</u>	<u>\$ 63,704,519</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Water Pollution Control	Solid Waste Management	Total
OPERATING REVENUES			
User Charges and Fees	\$ 65,198,052	\$ 6,306,313	\$ 71,504,365
Miscellaneous	<u>2,446,643</u>	<u>30,367</u>	<u>2,477,010</u>
Total Operating Revenues	<u>67,644,695</u>	<u>6,336,680</u>	<u>73,981,375</u>
OPERATING EXPENSES			
Cost of Operations	35,744,686	8,073,276	43,817,962
Allocated Administration	5,268,099	172,516	5,440,615
Insurance Claims	542,216	16,770	558,986
Post-Employment Benefits- Annual Required Contribution	1,778,843	55,015	1,833,858
Depreciation	<u>14,824,277</u>	<u>-</u>	<u>14,824,277</u>
Total Operating Expenses	<u>58,158,121</u>	<u>8,317,577</u>	<u>66,475,698</u>
OPERATING INCOME (LOSS)	<u>9,486,574</u>	<u>(1,980,897)</u>	<u>7,505,677</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment Income	184,282	58,379	242,661
Interest Expense	(7,752,431)	-	(7,752,431)
Costs of Issuance Expense	(47,486)	-	(47,486)
Bad Debt Expense	(10,778)	-	(10,778)
Natural Disaster - Hurricane Sandy Expenses	(1,784,944)	-	(1,784,944)
Intergovernmental Grants	<u>-</u>	<u>600,699</u>	<u>600,699</u>
Total Non-Operating Income (Expenses)	<u>(9,411,357)</u>	<u>659,078</u>	<u>(8,752,279)</u>
CHANGE IN NET POSITION	<u>75,217</u>	<u>(1,321,819)</u>	<u>(1,246,602)</u>
Total Net Position, January 1, 2012	56,507,010	8,527,809	65,034,819
Prior Period Adjustment	<u>-</u>	<u>(83,698)</u>	<u>(83,698)</u>
Total Net Position, January 1, 2012, as restated	<u>56,507,010</u>	<u>8,444,111</u>	<u>64,951,121</u>
Total Net Position, December 31, 2012	<u>\$ 56,582,227</u>	<u>\$ 7,122,292</u>	<u>\$ 63,704,519</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Water Pollution Control	Solid Waste Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 68,060,731	\$ 6,073,661	\$ 74,134,392
Cash Paid to Suppliers	(17,255,380)	(6,897,753)	(24,153,133)
Cash Paid for Salaries and Benefits	(23,558,111)	(1,260,883)	(24,818,994)
	<u>27,247,240</u>	<u>(2,084,975)</u>	<u>25,162,265</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Transactions	41,833	(41,833)	-
Natural Disaster - Hurricane Sandy Expenses	(1,784,944)		(1,784,944)
Proceeds from Intergovernmental Grants	-	551,100	551,100
	<u>(1,743,111)</u>	<u>509,267</u>	<u>(1,233,844)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
NJ EIT Loan Proceeds	4,344,145		4,344,145
Principal Payment - Refunded Loans	(1,948,650)		(1,948,650)
Principal Payment - Revenue Bonds	(6,500,000)		(6,500,000)
Principal Payment - Loans	(6,790,109)		(6,790,109)
Payment of Debt Issuance Costs	(47,486)		(47,486)
Acquisition of Capital Assets	(5,242,434)		(5,242,434)
Interest Paid - Bonds, Notes and Loans	(7,997,317)	-	(7,997,317)
	<u>(24,181,851)</u>	<u>-</u>	<u>(24,181,851)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	156,478	64,234	220,712
	<u>156,478</u>	<u>64,234</u>	<u>220,712</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	1,478,756	(1,511,474)	(32,718)
Cash and Cash Equivalents, January 1, 2012	44,718,021	10,896,524	55,614,545
Cash and Cash Equivalents, December 31, 2012	<u>\$ 46,196,777</u>	<u>\$ 9,385,050</u>	<u>\$ 55,581,827</u>
Analysis of Balance at December 31, 2012			
Unrestricted - Cash and Equivalents	\$ 20,572,367	\$ 5,496,609	\$ 26,068,976
Restricted - Cash and Equivalents	25,624,410	3,888,441	29,512,851
	<u>\$ 46,196,777</u>	<u>\$ 9,385,050</u>	<u>\$ 55,581,827</u>

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Water Pollution Control	Solid Waste Management	Total
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 9,486,574	\$ (1,980,897)	\$ 7,505,677
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided by (Used for) Operating Activities:			
Depreciation	14,824,277		14,824,277
Provision for Uncollectible Accounts	(10,778)		(10,778)
(Increase)/Decrease in Accounts Receivable	454,807	(261,820)	192,987
(Increase)/Decrease in Inventory	(149,689)	-	(149,689)
(Increase)/Decrease in Prepaid Items	(18,043)	(1,418)	(19,461)
Increase/(Decrease) in Accounts Payable	(39,563)	1,593,376	1,553,813
Increase/(Decrease) in Accrued Expenses	618,069	(1,507,880)	(889,811)
Increase/(Decrease) in Compensated Absences	(278,311)	678	(277,633)
Increase/(Decrease) in Other Liabilities	32,131	994	33,125
Increase/(Decrease) in Claims Payable	440,927	13,637	454,564
Increase/(Decrease) in Accrued Liability for Insurance Claim	107,995	3,340	111,335
Increase/(Decrease) in Post-Employment Benefits	1,778,844	55,015	1,833,859
Total Adjustments	17,760,666	(104,078)	17,656,588
Net Cash Provided by (Used for) Operating Activities	\$ 27,247,240	\$ (2,084,975)	\$ 25,162,265
Noncash Investing, Capital and Financing Activities:			
Purchase of Capital Assets on Account	\$ 7,490,295		\$ 7,490,295
Original Issue Premium	(582,260)		(582,260)
Deferred Loss on Refunding	372,002		372,002
Issuance of Long-Term Debt - NJEIT Loan	1,273,907		1,273,907
Original Issue Premium - NJEIT Loan	39,614		39,614

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 Modified Budget	2012 Actual	Variance Excess (Deficit)	2011 Actual
OPERATING REVENUES				
Service Agreements	\$ 63,866,441	\$ 63,660,839	\$ (205,602)	\$ 61,679,120
Sewer Connection Fees	500,000	1,537,213	1,037,213	834,866
Standard Offer Payments	-	-	-	567,726
Edgewater Debt Service Contribution	1,465,000	1,469,217	4,217	1,469,217
IPP Permits	290,000	289,926	(74)	314,633
Miscellaneous	232,537	648,730	416,193	723,716
	<u>66,353,978</u>	<u>67,605,925</u>	<u>1,251,947</u>	<u>65,589,278</u>
NON-OPERATING REVENUES				
Interest on Investments	310,000	184,282	(125,718)	409,804
Miscellaneous	245,000	246,586	1,586	600,000
	<u>555,000</u>	<u>430,868</u>	<u>(124,132)</u>	<u>1,009,804</u>
Total Water Pollution Revenues	<u>66,908,978</u>	<u>68,036,793</u>	<u>1,127,815</u>	<u>66,599,082</u>
OPERATING APPROPRIATIONS				
Operations & Maintenance				
Salaries and Wages	7,337,459	6,868,010	469,449	6,782,358
Engineering				
Salaries and Wages	1,048,566	930,911	117,655	940,528
Other Expenses	2,205,000	1,845,859	359,141	1,824,312
Collection				
Salaries and Wages	2,033,837	2,067,031	(33,194)	2,095,921
Other Expenses	865,000	666,526	198,474	720,028
Compliance				
Salaries and Wages	1,614,573	1,519,060	95,513	1,507,071
Other Expenses	270,000	262,256	7,744	240,023
Facilities Cost				
Telephone	5,000	2,629	2,371	1,913
Water	350,000	441,466	(91,466)	311,341
Electric	1,950,000	1,552,225	397,775	2,107,055
Gas	1,950,000	1,794,504	155,496	1,284,115
Fuel Oil	150,000	112,159	37,841	239,326

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 Modified <u>Budget</u>	2012 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2011 <u>Actual</u>
Direct Processing				
Other Expenses	\$ 1,460,000	\$ 1,484,228	\$ (24,228)	\$ 1,581,795
Waste Disposal				
Other Expenses	5,753,000	4,830,582	922,418	5,683,128
Contract Maintenance				
Other Expenses	200,000	143,719	56,281	208,020
Replacement Parts				
Other Expenses	1,745,000	1,898,772	(153,772)	1,890,586
Supplies				
Other Expenses	744,000	850,291	(106,291)	650,048
Safety Programs				
Other Expenses	180,000	146,017	33,983	189,809
Insurance				
Multi-Peril	730,000	680,775	49,225	656,831
Employee Benefits				
Public Employees Retirement System	1,137,964	1,137,964	-	1,096,838
Social Security	920,634	958,464	(37,830)	894,957
Unemployment Insurance	270,000	195,319	74,681	228,320
Workers Compensation	423,000	581,204	(158,204)	628,295
Prescription/Vision Insurance	887,312	1,041,184	(153,872)	935,096
Health Insurance	4,409,674	3,715,472	694,202	3,996,832
Dental Insurance	320,508	191,984	128,524	291,017
Compensated Absences				
Salaries and Wages	<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>93,153</u>
Total Operating Appropriations	39,310,527	35,918,611	3,391,916	37,078,716
Capital Outlay				
Miscellaneous	<u>100,000</u>	<u>136,538</u>	<u>(36,538)</u>	<u>24,258</u>
Total Appropriations	<u>39,410,527</u>	<u>36,055,149</u>	<u>3,355,378</u>	<u>37,102,974</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 Modified Budget	2012 Actual	Variance Excess (Deficit)	2011 Actual
NON-OPERATING APPROPRIATIONS				
Bond and Loan Principal	\$ 12,969,872	\$ 12,967,887	\$ 1,985	\$ 12,146,559
Bond and Loan Interest	8,043,721	8,021,730	21,991	8,466,757
Repayment of Port Authority Loan	322,222	322,222	-	322,222
Bad Debt Expense		10,778	(10,778)	
Natural Disaster - Hurricane Sandy Expenses	-	1,784,944	(1,784,944)	
Trustee Fees	275,000	247,200	27,800	429,993
	<u>21,610,815</u>	<u>23,354,761</u>	<u>(1,743,946)</u>	<u>21,365,531</u>
Allocated Appropriations				
Inter-Dept. Costs				
Salaries and Wages	2,576,560	2,452,535	124,025	2,546,663
Fringe Benefits	2,009,530	1,898,974	110,556	2,202,166
Other Expenses	1,301,546	916,590	384,956	996,821
	<u>5,887,636</u>	<u>5,268,099</u>	<u>619,537</u>	<u>5,745,650</u>
Total Allocated Appropriations	<u>5,887,636</u>	<u>5,268,099</u>	<u>619,537</u>	<u>5,745,650</u>
Total Appropriations	<u>66,908,978</u>	<u>64,678,009</u>	<u>2,230,969</u>	<u>64,214,155</u>
Budgetary Income (Loss)	<u>\$ -</u>	<u>3,358,784</u>	<u>\$ 3,358,784</u>	<u>2,384,927</u>
RECONCILIATION TO GAAP BASIS:				
Adjustments				
Depreciation Expense		(14,824,277)		(13,913,473)
Budgetary Capital Outlay - Capitalized		129,663		24,258
Change in Inventory		149,689		216,812
Principal Paid on Debt		13,290,109		12,468,781
Interest Earnings - NJEIT		24,413		
Change in Accrued Interest Payable, net		34,628		45,195
Change in Accrued Compensated Absences		278,311		
Change in Net Position				
OPEB		(1,778,843)		(1,714,306)
Self Insurance		(542,216)		(289,108)
Unemployment Claims		38,770		33,820
Excess Bond Reserve Funds Realized as Revenue		(246,586)		(600,000)
Payment of Costs of Issuance		(47,486)		
Amortization of Bonds, Loans Premium, Discount and				
Deferred Loss on Refunding		<u>210,258</u>		<u>(16,318)</u>
Change in Net Position - GAAP Basis		<u>\$ 75,217</u>		<u>\$ (1,359,412)</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
SOLID WASTE MANAGEMENT DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 <u>Budget</u>	2012 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2011 <u>Actual</u>
OPERATING REVENUES				
Cooperative Marketing Program	\$ 8,197,975	\$ 6,253,093	\$ (1,944,882)	\$ 6,054,823
Cooperative Recycling Program	-	8,407	8,407	14,257
Program Admin. Fees	58,750	44,813	(13,937)	36,926
Miscellaneous	<u>30,000</u>	<u>29,168</u>	<u>(832)</u>	<u>33,162</u>
Total Operating Revenues	<u>8,286,725</u>	<u>6,335,481</u>	<u>(1,951,244)</u>	<u>6,139,168</u>
NON-OPERATING REVENUES				
Recycling & Solid Waste Grants	843,850	600,699	(243,151)	487,533
Interest on Investments	40,000	39,930	(70)	62,734
Retained Earnings Appropriations	<u>1,320,942</u>	<u>1,320,942</u>	<u>-</u>	<u>1,252,805</u>
Total Non-Operating Revenues	<u>2,204,792</u>	<u>1,961,571</u>	<u>(243,221)</u>	<u>1,803,072</u>
Total Solid Waste Revenues	<u>10,491,517</u>	<u>8,297,052</u>	<u>(2,194,465)</u>	<u>7,942,240</u>
OPERATING APPROPRIATIONS				
Planning and Administration				
Salaries and Wages	71,970	76,366	(4,396)	-
Other Expenses	130,500	43,176	87,324	81,734
Cooperative Marketing	8,197,975	6,266,378	1,931,597	6,089,531
Recycling				
Salaries and Wages	444,410	413,499	30,911	400,050
Other Expenses	30,000	15,670	14,330	29,225
Entitlements	843,850	607,642	236,208	459,440
Insurance				
Other Expenses	80,000	75,642	4,358	73,484

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
SOLID WASTE MANAGEMENT DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2011)

	2012 <u>Budget</u>	2012 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2011 <u>Actual</u>
Employee Benefits				
Public Employees Retirement System	\$ 97,540	\$ 97,540		\$ 94,000
Social Security	39,503	27,846	\$ 11,657	27,618
Unemployment Insurance	12,000	9,050	2,950	10,634
Workers Compensation	40,000	24,406	15,594	7,936
Health Insurance	190,369	288,157	(97,788)	201,782
Prescription/Vision Insurance	88,193	92,125	(3,932)	75,314
Compensated Absences	13,000	678	12,322	(73,633)
Dental Insurance	30,115	35,101	(4,986)	24,102
	<u>10,309,425</u>	<u>8,073,276</u>	<u>2,236,149</u>	<u>7,501,217</u>
Total Operating Appropriations				
Allocated Appropriations				
Inter-Department Costs				
Salaries and Wages	79,687	70,954	8,733	78,763
Fringe Benefits	62,151	71,031	(8,880)	87,015
Other Expenses	40,254	30,531	9,723	30,449
	<u>182,092</u>	<u>172,516</u>	<u>9,576</u>	<u>196,227</u>
Total Allocated Appropriations				
	<u>10,491,517</u>	<u>8,245,792</u>	<u>2,245,725</u>	<u>7,697,444</u>
Total Appropriations				
Budgetary Income (Loss)	<u>\$ -</u>	51,260	<u>\$ (4,440,190)</u>	244,796
RECONCILIATION TO GAAP BASIS:				
Adjustments				
Change in Net Position				
OPEB		(55,015)		(53,020)
Self Insurance		(16,770)		(8,942)
Unemployment Claims		1,199		1,047
Solid Waste Escrow		18,449		31,190
Retained Earnings Appropriated		<u>(1,320,942)</u>		<u>(1,252,805)</u>
Change in Net Position, GAAP Basis		<u>\$ (1,321,819)</u>		<u>\$ (1,037,734)</u>

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

THE BERGEN COUNTY UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2012

<u>Authority Members</u>	<u>Position</u>	<u>Surety Coverage</u>
Andrew "Chuck" Vaccaro	Commissioner – Chairman	
Ronald Phillips	Commissioner – Vice Chairman	
Paul A. Juliano	Commissioner	
George P. Zilocchi	Commissioner	
Louis J. DeLisio	Commissioner	
James L. Cassella	Commissioner	
David J. Lorenzo	Commissioner	
Richard D. Schooler	Commissioner	
Cathy Bentz	Commissioner	
Robert E. Laux	Executive Director	
Richard Wierer	Deputy Executive Director	
	Director of Solid Waste Administration and Planning	
	Acting Secretary	
Wallace Nowosielecki	Chief Financial Officer	(1)
Eric Andersen	Chief Engineer	
E. Neal Zimmerman, Esq.	General Counsel	

Surety Coverage

(1) Western Surety Company Bond No. 141834510 in the amount of \$500,000, 7/1/12-6/30/13.

Employee blanket bond issued by the Continental Insurance Company in the amount of \$250,000 covers all personnel of the Purchasing and Finance Departments.

GOVERNMENT AUDITING STANDARDS

AND

SINGLE AUDIT

LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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

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
The Bergen County Utilities Authority
Little Ferry, 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 Bergen County Utilities Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, as listed in the table of contents which collectively comprise the Bergen County Utilities Authority's basic financial statements, and have issued our report thereon dated May 16, 2013.

Internal Control over Financial Reporting

Management of the Bergen County Utilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Bergen County Utilities Authority's internal control over financial reporting 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 Bergen County Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

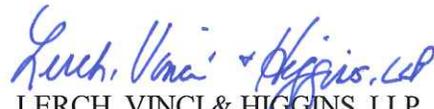
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

We noted certain other matters that we have reported to management of the Bergen County Utilities Authority in the Section of our 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 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 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


Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411

Fair Lawn, New Jersey
May 16, 2013

LERCH, VINCI & HIGGINS, LLP

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
U.S. OMB CIRCULAR A-133 AND SCHEDULE OF EXPENDITURES OF STATE FINANCIAL
ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 04-04**

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Board of Commissioners
The Bergen County Utilities Authority
Little Ferry, New Jersey

Report on Compliance for Each Major State Program

We have audited the Bergen County Utilities Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the Bergen County Utilities Authority's major state programs for the year ended December 31, 2012. The 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 federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and Circulars 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 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 federal and state program. However, our audit does not provide a legal determination of the Bergen County Utilities Authority's compliance.

Opinion on Each Major State Program

In our opinion, the 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, 2012.

Report on Internal Control Over Compliance

Management of the 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 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 OMB Circular A-133 and New Jersey OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bergen County Utilities Authority's internal control over compliance.

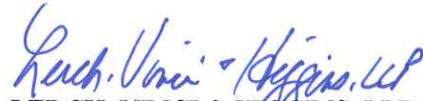
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or 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 federal or 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 federal or 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 OMB Circular A-133 and New Jersey OMB Circular 04-04. 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 04-04

We have audited the financial statements of the Bergen County Utilities Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Bergen County Utilities Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 16, 2013, 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 schedules of expenditures of federal awards and expenditures of state financial assistance are presented for purposes of additional analysis as required by OMB Circular A-133 and New Jersey OMB Circular 04-04 and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 schedules of expenditures of federal awards and expenditures of state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.


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


Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411

Fair Lawn, New Jersey
May 16, 2013

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 1 GENERAL

The accompanying schedule presents the activity of all federal awards and state financial assistance programs of The Bergen County Utilities Authority. The Authority is defined in Note 1 to the Authority's financial statements. All federal financial assistance received directly from federal agencies, as well as federal and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule is presented using accrual 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 is described in Note 1 to the Authority's financial statements.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with amounts reported in the Authority's financial statements. Financial assistance is reported in the Authority's financial statements described above as follows:

	<u>Operating Revenue</u>	<u>Waste-Water Capital</u>	<u>Total Assistance</u>
Solid Waste Management Enterprise Fund	\$ 600,700		\$ 600,700
Water Pollution Control Enterprise Fund	<u>223,277</u>	<u>\$ 2,566,595</u>	<u>2,789,872</u>
	<u>\$ 823,977</u>	<u>\$ 2,566,595</u>	<u>\$ 3,390,572</u>

NOTE 4 STATE LOANS OUTSTANDING

The Authority's state loans outstanding at December 31, 2012, which are not required to be reported on the schedule of expenditures of state financial assistance, are as follows:

<u>Loan Program</u>	<u>State Account Number</u>	<u>State</u>
NJ Economic Development Authority	N/A	<u>\$322,223</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part I – Summary of Auditor's Results

Financial Statement Section

- A) Type of auditors' report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? yes X no
- 2) Significant deficiency(ies) identified that are 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

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part I – Summary of Auditor’s Results

State Awards

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: Unqualified _____

Internal Control over major programs:

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

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

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

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
42-4860-510-022-10/11	NJ Environmental Infrastructure Trust Loan (NJ DEP)
42-4860-510-046-10/11	NJ Environmental Infrastructure Trust Loan (NJ DEP)
42-4860-711-001-10/11	NJ Environmental Infrastructure Trust Loan (NJ DEP)
SWST-06, SWST-07, SWST-09	NJ Department of Environmental Protection:
	Solid Waste Administration

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

THERE ARE NONE.

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 Circular 04-04.

CURRENT YEAR FEDERAL AWARDS

Not Applicable

CURRENT YEAR STATE AWARDS

There Are None

**THE BERGEN COUNTY UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

STATUS OF PRIOR YEAR FINDINGS

Not Applicable.

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS AND RECOMMENDATIONS

Finding – While all debt payments are timely made and the Authority maintains adequate cash balances to sustain them, the cash balance in the Authority’s Debt Service Account for NJEIT Funding is below the required debt service funding amount.

Recommendation – The Authority should allocate funds to the NJEIT Debt Service Account to comply with the required debt service funding amount.

Finding – Our audit indicated that periodic physical inventory counts are performed and updated by Authority personnel. However, the Authority has not conducted a complete independent physical inventory count.

Recommendation – The Authority should consider hiring an independent contractor to perform a complete physical count of its inventory.

Finding – The Authority contracts with a third party administrator (the “TPA”) for the processing of their worker’s compensation and medical benefits claims and a service provider for the processing of the payroll. The Authority’s service providers did not submit a 2012 Report on Internal Controls (SSAE No. 16) to the Authority.

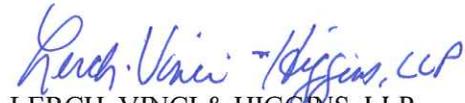
Recommendation – Consideration be given to obtain from their required service providers a current Report on Internal Controls (SSAE No. 16).

Appreciation

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

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


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


Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411