

THE BERGEN COUNTY UTILITIES AUTHORITY

(A Component Unit of the County of Bergen)

REPORT OF AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2016

**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, 2016 and 2015, 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.

Opinion

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, 2016 and 2015, 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 and pension information 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 U.S. Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and schedule of expenditures of state financial assistance as required by New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2017 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
June 13, 2017

**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, 2016. Please read it in conjunction with the Authority's financial statements and accompanying notes. Certain comparative information between the current year (2016) and the previous two years (2015 and 2014) are required to be presented in the MD&A.

MAJOR RESPONSIBILITIES

- 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 increased \$4,732,073.
- Cash and Investments increased \$700,585.
- Operating Revenues were \$80,806,986, an increase of \$887,856 from 2015.
- Operating Expenses were \$76,174,153, an increase of \$5,855,641 from 2015.
- Operating Income was \$4,632,833, as compared to the prior year operating income of \$9,600,618.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of four parts: The Independent Auditor's 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 Management Systems; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

These statements offer short and long-term financial information about the activities and operations of the Authority. These statements are presented in the Government Accounting Standards Board ("GASB") prescribed manner. The financial statements also include Notes that explain certain information in the financial statements and provide more detailed data.

THE BERGEN COUNTY UTILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The financial statements report the Authority's net position and how it has changed. Net position—the difference between the Authority's assets, deferred inflows of resources and liabilities and deferred outflows of resources—is one way to measure the Authority's financial health or position.

- Over time, increases or decreases in the Authority's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the Authority's customer base, its major suppliers of goods and services, regulatory changes and the condition of the Authority buildings, other facilities and equipment used in water pollution control and solid waste management operations.

Notes To The Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following the financial statements.

Other Information

In addition to the financial statements and accompanying notes (the basic financial statements), this report also presents certain required supplementary information concerning the Authority's employee retirement system and pension plan. The required supplementary information can be found following the notes to the financial statements.

Other supplementary information concerning the Authority's operation segments and budget process is presented as supplementary schedules. The Authority operates separate water pollution control and solid waste management. Combining statements of net position, revenues, expenses and changes in net position; and cash flows present individual financial information for each system are provided as supplementary information. The Authority adopts an annual revenue and expense budget for each system on the budgetary basis. Budget to actual schedules—budgetary basis have been provided for both systems as supplementary information. The supplementary schedules can be found following the required supplementary information on the Authority's employee pension plan.

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, 2016, 2015 and 2014 is presented below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Assets</u>			
Current and Other Assets	\$ 74,785,902	\$ 72,160,986	\$ 64,676,252
Capital Assets (Net of Accumulated Depreciation)	<u>228,832,044</u>	<u>240,213,926</u>	<u>251,646,369</u>
Total Assets	<u>303,617,946</u>	<u>312,374,912</u>	<u>316,322,621</u>
Deferred Outflows of Resources	<u>20,315,810</u>	<u>8,289,198</u>	<u>4,166,147</u>
Total Assets and Deferred Outflows of Resources	<u>323,933,756</u>	<u>320,664,110</u>	<u>320,488,768</u>
<u>Liabilities</u>			
Non-Current Liabilities	249,726,299	243,166,232	250,650,834
Other Liabilities	<u>36,008,593</u>	<u>43,595,720</u>	<u>39,291,504</u>
Total Liabilities	<u>285,734,892</u>	<u>286,761,952</u>	<u>289,942,338</u>
Deferred Inflows of Resources	<u>1,403,464</u>	<u>1,838,831</u>	<u>3,115,768</u>
Total Liabilities and Deferred Inflows of Resources	<u>287,138,356</u>	<u>288,600,783</u>	<u>293,058,106</u>
Net Position			
Net Investment in Capital Assets	49,054,902	40,154,694	41,335,411
Restricted	18,584,320	19,130,564	24,157,779
Unrestricted	<u>(30,843,822)</u>	<u>(27,221,931)</u>	<u>(38,062,528)</u>
Total Net Position	<u>\$ 36,795,400</u>	<u>\$ 32,063,327</u>	<u>\$ 27,430,662</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, 2016, 2015 and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES			
User Charges and Fees	\$ 77,789,900	\$ 76,736,120	\$ 76,253,457
Miscellaneous	<u>3,017,086</u>	<u>3,183,010</u>	<u>3,109,019</u>
Total Operating Revenues	<u>80,806,986</u>	<u>79,919,130</u>	<u>79,362,476</u>
OPERATING EXPENSES			
Cost of Providing Services	54,043,638	49,323,619	48,549,074
Administration	5,757,161	5,653,175	5,580,291
Insurance Claims	96,778	552,391	192,813
Other Post-Employment Benefits - Annual Required Contribution	3,733,139	2,406,676	1,979,413
Depreciation	<u>12,543,437</u>	<u>12,382,651</u>	<u>13,570,851</u>
Total Operating Expenses	<u>76,174,153</u>	<u>70,318,512</u>	<u>69,872,442</u>
Operating Income	<u>4,632,833</u>	<u>9,600,618</u>	<u>9,490,034</u>
NON-OPERATING REVENUES (EXPENSES)			
Revenues	6,060,402	1,591,166	628,836
Expenses	<u>(5,961,162)</u>	<u>(6,559,119)</u>	<u>(7,971,521)</u>
Total Non-Operating Income (Expenses)	<u>99,240</u>	<u>(4,967,953)</u>	<u>(7,342,685)</u>
Change in Net Position	<u>4,732,073</u>	<u>4,632,665</u>	<u>2,147,349</u>
Net Position, January 1	<u>32,063,327</u>	<u>27,430,662</u>	<u>25,283,313</u>
Net Position, December 31	<u>\$ 36,795,400</u>	<u>\$ 32,063,327</u>	<u>\$ 27,430,662</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 one months' billing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the capital assets for the years ended December 31, 2016, 2015 and 2014.

Water Pollution Control Fund

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land and Site Improvements	\$ 5,728,514	\$ 5,728,514	\$ 5,728,514
Utility Plant and Infrastructure	374,218,002	370,036,761	369,347,489
Vehicles, Machinery and Equipment	157,151,895	147,367,683	147,037,580
Construction in Progress	<u>16,970,159</u>	<u>29,774,057</u>	<u>29,898,221</u>
Sub-Total	554,068,570	552,907,015	552,011,804
Less Accumulated Depreciation	<u>(325,236,526)</u>	<u>(312,693,089)</u>	<u>(300,365,435)</u>
Capital Assets, Net	<u>\$ 228,832,044</u>	<u>\$ 240,213,926</u>	<u>\$ 251,646,369</u>

The Authority sold the Solid Waste transfer station in 2002; consequently, there are no capital assets reported in the Solid Waste Management Division. Depreciation expense in the Water Pollution Control Division was \$12,543,437, \$12,382,651 and \$13,570,851 in 2016, 2015 and 2014, respectively.

Additional information on the BCUA's capital assets can be found in the Notes to the 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, net of unamortized premiums, as of December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Water Pollution Control Fund			
Revenue Bonds Payable, Net	\$ 114,229,643	\$ 123,891,329	\$ 133,410,551
NJ EIT Loan Payable, Net	<u>72,751,645</u>	<u>73,869,545</u>	<u>80,617,019</u>
	<u>\$ 186,981,288</u>	<u>\$ 197,760,874</u>	<u>\$ 214,027,570</u>

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

OTHER FINANCIAL INFORMATION

Economic Factors And Next Year's Rates

- Funding of increased costs in the budget for capital outlay.
- Pressure to control escalating cost of employee health insurance, liability and worker's compensation insurance, and the funding of post-retirement benefits.
- Funding of increased facilities costs and replacement parts.

All of these factors were considered in preparing the Authority's 2017 budget.

The Water Pollution Control service charges budgeted for 2017 reflects an increase of approximately 1.8% over the existing user rates.

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 Acting Treasurer at BCUA, Mehrhof Road, Little Ferry, New Jersey, 07643.

FINANCIAL STATEMENTS

THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Unrestricted Current Assets		
Cash and Cash Equivalents	\$ 36,166,003	\$ 32,708,040
Accrued Interest Receivable	194,847	32,422
Accounts Receivable	2,594,645	1,485,117
Other Accounts Receivable	1,445,631	74,710
Inventory	4,086,393	4,306,180
Prepaid Items	255,321	275,489
	<hr/>	<hr/>
Total Unrestricted Current Assets	44,742,840	38,881,958
Restricted Current Assets		
Revenue Account		
Cash and Cash Equivalents	1,059,904	1,052,898
General Account		
Cash and Cash Equivalents	490,260	490,210
Bond Reserve Account		
Cash and Cash Equivalents	14,450,748	14,919,538
Accrued Interest Receivable	105,099	86,678
Bond Issuance Account		
Cash and Cash Equivalents	30	15,102
Bond Service Account		
Cash and Cash Equivalents	3,603,091	4,345,974
Construction Account		
Cash and Cash Equivalents	8,901,350	10,484,550
Renewal and Replacement Account		
Cash and Cash Equivalents	1,000,021	1,000,021
Accrued Interest Receivable	14,738	2,830
Unemployment Claims Account		
Cash and Cash Equivalents	417,821	372,310
State Loans Receivable - NJEIT	-	508,917
	<hr/>	<hr/>
Total Restricted Current Assets	30,043,062	33,279,028
	<hr/>	<hr/>
Total Current Assets	74,785,902	72,160,986
Non-Current Assets		
Capital Assets		
Land and Site Improvements	5,728,514	5,728,514
Utility Plant and Infrastructure	374,218,002	370,036,761
Vehicles, Machinery and Equipment	157,151,895	147,367,683
Construction in Progress	16,970,159	29,774,057
less: Accumulated Depreciation	<u>(325,236,526)</u>	<u>(312,693,089)</u>
	<hr/>	<hr/>
Total Capital Assets (net of accumulated depreciation)	228,832,044	240,213,926
	<hr/>	<hr/>
Total Noncurrent Assets	228,832,044	240,213,926
	<hr/>	<hr/>
Total Assets	303,617,946	312,374,912
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts on Refunding of Debt	4,010,916	1,641,914
Deferred Amounts on Net Pension Liability	<u>16,304,894</u>	<u>6,647,284</u>
	<hr/>	<hr/>
Total Deferred Outflow of Resources	20,315,810	8,289,198
	<hr/>	<hr/>
Total Assets and Deferred Outflow of Resources	\$ 323,933,756	\$ 320,664,110

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current Liabilities (Payable from Unrestricted Assets)		
Accounts Payable	\$ 4,291,640	\$ 3,817,438
Escrow Deposits Payable	25,539	\$ 17,588
Accrued Expenses	2,258,420	1,903,161
Compensated Absences	279,576	294,171
Unearned Revenue	1,997,070	2,008,271
Accrued Liability for Insurance Claims	4,163,039	3,995,409
Claims Payable	688,833	761,436
Other Liabilities	146,232	138,214
	<hr/>	<hr/>
Total Current Liabilities Payable from Unrestricted Assets	13,850,349	12,935,688
Current Liabilities (Payable from Restricted Assets)		
Revenue Bonds Payable	9,830,000	9,320,000
Long Term Loans Payable	6,840,153	6,650,490
Temporary Loan - EIT	-	7,952,494
Accrued Interest Payable	1,018,122	673,615
Contracts Payable	4,469,969	6,063,433
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets	22,158,244	30,660,032
Non-Current Liabilities		
Revenue Bonds Payable	104,399,643	114,571,329
Long Term Loans Payable	65,911,492	67,219,055
Compensated Absences	2,516,181	2,647,540
Post-Employment Benefits	18,223,115	14,489,976
Net Pension Liability	58,675,868	44,238,332
	<hr/>	<hr/>
Total Non-Current Liabilities	249,726,299	243,166,232
	<hr/>	<hr/>
Total Liabilities	285,734,892	286,761,952
DEFERRED INFLOWS OF RESOURCES		
Deferred Gains on Refunding of Debt	1,238,151	917,812
Deferred Amounts on Net Pension Liability	165,313	921,019
	<hr/>	<hr/>
Total Deferred Outflow of Resources	1,403,464	1,838,831
	<hr/>	<hr/>
Total Liabilities and Deferred Inflow of Resources	287,138,356	288,600,783
NET POSITION		
Net Investment in Capital Assets	49,054,902	40,154,694
Restricted For:		
Debt Service	2,768,404	3,032,760
Debt Reserve	14,402,575	14,729,974
Renewal and Replacement	1,000,000	1,000,000
Unemployment Insurance	413,341	367,830
Unrestricted	(30,843,822)	(27,221,931)
	<hr/>	<hr/>
Total Net Position	\$ 36,795,400	\$ 32,063,327

THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
User Charges and Fees	\$ 77,789,900	\$ 76,736,120
Miscellaneous	<u>3,017,086</u>	<u>3,183,010</u>
Total Operating Revenues	<u>80,806,986</u>	<u>79,919,130</u>
OPERATING EXPENSES		
Cost of Operations	54,043,638	49,323,619
Administration	5,757,161	5,653,175
Insurance Claims	96,778	552,391
Other Post-Employment Benefits- ARC	3,733,139	2,406,676
Depreciation	<u>12,543,437</u>	<u>12,382,651</u>
Total Operating Expenses	<u>76,174,153</u>	<u>70,318,512</u>
OPERATING INCOME	<u>4,632,833</u>	<u>9,600,618</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	551,586	441,498
Interest Expense	(5,376,928)	(6,300,901)
Bad Debt Expense	-	(675)
FEMA Reimbursements	857,832	445,626
Hurricane Expenses	(69,554)	(257,543)
Costs of Issuance	(514,680)	-
Intergovernmental Grants	<u>4,650,984</u>	<u>704,042</u>
Total Non-Operating Income (Expenses)	<u>99,240</u>	<u>(4,967,953)</u>
CHANGE IN NET POSITION	4,732,073	4,632,665
Total Net Position, January 1,	<u>32,063,327</u>	<u>27,430,662</u>
Total Net Position, December 31	<u>\$ 36,795,400</u>	<u>\$ 32,063,327</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 79,150,058	\$ 80,893,098
Cash Paid to Suppliers	(27,919,164)	(28,906,889)
Cash Paid for Salaries and Benefits	<u>(26,919,735)</u>	<u>(26,637,705)</u>
Net Cash Provided by Operating Activities	<u>24,311,159</u>	<u>25,348,504</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Intergovernmental Grants	738,098	564,300
Natural Disaster - Hurricane Reimbursements	34,311	445,626
Natural Disaster - Hurricane Expenses	<u>(69,554)</u>	<u>(257,543)</u>
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>702,855</u>	<u>752,383</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Intergovernmental Grants	3,901,685	
Revenue Bond Proceeds	38,943,492	-
NJ EIT Temporary Loan Proceeds	508,917	7,443,577
NJ EIT Loan Proceeds	5,961,262	-
Payment to Escrow Account - Refunded Bonds	(41,025,279)	-
Principal Payment - Refunded Loans	(7,952,494)	
Principal Payment - Revenue Bonds	(9,620,000)	(8,925,000)
Principal Payment - Loans	(6,650,491)	(6,657,475)
Payment of Costs of Issuance	(514,680)	-
Acquisition of Capital Assets	(2,755,019)	(3,767,337)
Interest Paid - Bonds, Notes and Leases	<u>(5,469,654)</u>	<u>(6,693,885)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(24,672,261)</u>	<u>(18,600,120)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	<u>358,832</u>	<u>371,629</u>
Net Cash Provided by Investing Activities	<u>358,832</u>	<u>371,629</u>
Net Change in Cash and Cash Equivalents	700,585	7,872,396
Cash and Cash Equivalents, January 1	<u>65,388,643</u>	<u>57,516,247</u>
Cash and Cash Equivalents, December 31,	<u>\$ 66,089,228</u>	<u>\$ 65,388,643</u>
Analysis of Balance at December 31,		
Cash and Equivalents		
Unrestricted	\$ 36,166,003	\$ 32,708,040
Restricted	<u>29,923,225</u>	<u>32,680,603</u>
	<u>\$ 66,089,228</u>	<u>\$ 65,388,643</u>

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating Income	\$ 4,632,833	\$ 9,600,618
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	12,543,437	12,382,651
(Increase)/Decrease in Accounts Receivable	(1,109,528)	900,463
(Increase)/Decrease in Other Accounts Receivable	(547,400)	73,505
(Increase)/Decrease in Inventory	219,787	2,721
(Increase)/Decrease in Prepaid Items	20,168	(10,916)
(Increase)/Decrease in Deferred Outflows - Net Pension Liability	(9,657,610)	(4,448,773)
Increase/(Decrease) in Accounts Payable	474,202	(1,417,114)
Increase/(Decrease) in Escrow Deposits Payable	7,951	(32,946)
Increase/(Decrease) in Accrued Expenses	355,259	(254,447)
Increase/(Decrease) in Accrued Compensated Absences	(145,954)	(367,464)
Increase/(Decrease) in Other Liabilities	8,018	84,579
Increase/(Decrease) in Claims Payable	(72,603)	(93,015)
Increase/(Decrease) in Accrued Liability for Insurance Claims	167,630	720,387
Increase/(Decrease) in Other Post-Employment Benefits	3,733,139	2,406,676
Increase/(Decrease) in Net Pension Liability	14,437,536	7,094,151
Increase/(Decrease) in Deferred Inflows - Net Pension Liability	(755,706)	(1,292,572)
	<u>19,678,326</u>	<u>15,747,886</u>
Total Adjustments		
Net Cash Provided by Operating Activities	\$ 24,311,159	\$ 25,348,504
Noncash Investing, Capital and Financing Activities:		
Purchase of Capital Assets on Account	\$ 4,469,969	\$ 6,063,433
Original Issue Premium	(795,358)	(649,221)
Deferred Amount on Refunding of Debt	414,787	325,722
Deferred Gain on Refunding of Debt	(56,661)	19,365
Issuance of Long-Term Debt - NJEIT Loan	-	7,952,494

**THE BERGEN COUNTY UTILITIES AUTHORITY
STATEMENT OF PLAN NET POSITION
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ -	\$ -
	<hr/>	<hr/>
Total Assets	-	-
	<hr/>	<hr/>
NET POSITION		
Assets Held in Trust for Other Post-Employment Benefits	\$ -	\$ -
	<hr/>	<hr/>

**THE BERGEN COUNTY UTILITIES AUTHORITY
STATEMENT OF CHANGES IN PLAN NET POSITION
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ADDITIONS		
Contributions		
Employer	\$ 2,171,868	\$ 2,267,264
Total Additions	<u>2,171,868</u>	<u>2,267,264</u>
DEDUCTIONS		
Benefits	<u>2,171,868</u>	<u>2,267,264</u>
Total Deductions	<u>2,171,868</u>	<u>2,267,264</u>
Change in Plan Assets	<u>-</u>	<u>-</u>
NET POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS		
Net Position, January 1	<u>-</u>	<u>-</u>
Net Position, December 31	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

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 Authority 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. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing 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, however, the Authority would be includable as a component unit of the County of Bergen.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards

During fiscal year 2016, the Authority adopted the following GASB statements:

- GASB No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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

- GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- GASB No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective beginning with the year ending December 31, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pension*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

- GASB 85, *Omnibus 2017*, will be effective beginning with the year ending December 31, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.
- GASB 86, *Certain Debt Extinguishment Issues*, will be effective beginning with the year ending December 31, 2018. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

C. Basis of Presentation – Financial Statements

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of the Water Pollution Control and Solid Waste Management Funds are accounted for with a separate set of self-balancing accounting records that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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:

The Authority reports the following major proprietary fund:

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.

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 or intrafund amounts receivable and payable have been eliminated and therefore are not reported in the financial statements.

Reclassifications

Certain reclassifications may have been made to the December 31, 2015 balances to conform to the December 31, 2016 presentation.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting

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 of resources and all liabilities, deferred inflows of resources 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).

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.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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, deferred outflows/inflows of resources, 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.

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

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit 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.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Prepaid Items

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

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. Changes in the allowance for uncollectibles is recorded as an adjustment to revenue or as bad debt expenses depending on its effect on current year or prior year allowance amounts and the results of those changes.

5. 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. In addition, certain amounts are held by Fiscal Agent (NJEIT) for future debt refundings and/or defeasances.

6. 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.

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>
Machinery and Equipment	5-15 Years
Vehicles	5 Years
Site Improvements	40 Years
Utility Plant and Improvements	40 Years

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to 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 and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. One item is the deferred amounts on refunding of debt which results from the loss on a debt refunding reported in the Statement of Net Position. A deferred charge on refunding of debt results from the loss on the transaction when the debt's reacquisition price is greater than the carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the effective interest method. The other item that qualifies for reporting in this category is the deferred amounts on net pension liability. Deferred amounts on net pension liability are reported in the authority-wide statement of net position and result from: (1) differences between expected and actual experience; (2) changes in assumptions; (3) net difference between projected and actual investment earnings on pension plan investments; (4) changes in proportion and differences between employer contributions and proportionate share of contributions; and (5) contributions made subsequent to the measurement date. These amounts are deferred and amortized over future years.

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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two types of item that qualify for reporting in this category. The first 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. The other item is the deferred amounts on net pension liability. Deferred amounts on net pension liability are reported in the district-wide statement of net position and result from: (1) differences between expected and actual experience; (2) changes in assumptions; (3) net difference between projected and actual investment earnings on pension plan investments; and (4) changes in proportion and differences between employer contributions and proportionate share of contributions. These amounts are deferred and amortized over future years.

8. 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. Each year, employees who have unused sick time for the present year may elect to receive equivalent pay in exchange for said unused sick time up to one hundred and twenty (120) hours.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement Systems (PERS) sponsored and administered by the State of New Jersey and additions to/deductions from this retirement system's fiduciary net position have been determined on the same basis as they are reported by the retirement system. For this purpose, benefit payments (including refunds of employee contributions) are recognized for the period incurred in accordance with the benefit terms. Investments are reported at fair value.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Long-Term Obligations

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

11. Net Position

There are three classes of net position:

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

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. 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.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgets and 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.

Five 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.

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.

Designated for Subsequent Year's Budget – This designation was established to designate net position as an item of revenue in the subsequent year's budget. At December 31, 2016 and 2015 the Board designated \$995,541 and \$1,077,871 of the unrestricted Solid Waste Management Fund net position to balance the 2017 and 2016 Authority budget, respectively.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

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.

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.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 3 CREATION OF FUNDS (Continued)

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 CASH DEPOSITS AND INVESTMENTS

Cash Deposits – The Authority’s cash deposits are insured through the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), 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 at December 31, 2016 and 2015 are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2016 and 2015, the book value of the Authority's deposits was \$57,793,134 and \$62,423,707 and bank balances of the Authority's cash and deposits amounted to \$61,619,721 and \$63,749,205, respectively.

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

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2016</u>	<u>2015</u>
Insured	<u>\$ 61,619,721</u>	<u>\$ 63,749,205</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, 2016 and 2015, none of the Authority’s bank balances were exposed to custodial risk.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 4 CASH DEPOSITS AND INVESTMENTS (Continued)

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.

Investments permitted under the Authority’s Bond Resolution include deposits or certificates of deposit with public depositories under the provisions of the Governmental Unit Deposit Protection Act, bonds or other obligations of the United States of America or obligations guaranteed by the United States of America., bond of any federal intermediate credit bank, federal home loan bank, federal land bank, federal national mortgage association, United States Bank for Cooperatives, export-import bank, Tennessee Valley Authority, government national mortgage association, farmer’s home administration, federal financing bank, student loan marketing association, U.S. Postage Service and Resolution Funding Corporation, bonds or other obligations of the Authority or other obligations of school districts of which the district of the Authority is a part, in either case having a credit rating of at least “A” by Standard & Poor’s Corporation and/or Moody’s Investors Service, bonds or other obligations having a maturity date of not more than 397 days from the date of purchase that are approved by the Division of Investments of the Department of Treasury, the New Jersey Cash Management Fund, negotiable or non-negotiable certificates of deposit issued by any bank, savings and loan association, trust company or national banking association, full faith and credit obligation of any state, which is rated in either of the two highest rating categories, any obligations which are expressly authorized as permissible investments for municipal utilities authorities under the laws of the State of New Jersey.

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, 2016 and 2015, the Authority had the following investments which are reported on the Statements of Net Position as cash and cash equivalents.

	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
<u>Investment:</u>		
U.S. Government Securities - Money Market Funds	<u>\$ 8,296,094</u>	<u>\$ 2,964,936</u>

Custodial Credit Risk – Investments - For an investment, this is the risk, that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Board does have a policy for custodial risk. As of December 31, 2016 and 2015, \$8,296,094 and \$2,964,936, respectively, of the Authority’s investments was exposed to custodial credit risk as follows:

	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
<u>Uninsured and Collateralized:</u>		
Collateral held by pledging financial institutions' trust department or agent but not in the Authority name	<u>\$ 8,296,094</u>	<u>\$ 2,964,936</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 4 CASH DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

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

The fair value of the above-listed investments were based on market prices and values provided by the respective financial institution.

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.
- Cash deposits and investments reserved to meet future debt service contingencies are segregated in "Bond Reserve Fund" accounts.
- 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.
- Cash deposits and investments restricted for debt service payment on bonds are segregated in the "Bond Service Fund" account.
- The "Construction Fund" account segregates cash and investments that are restricted for use in construction.
- Cash deposits 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 FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 6 USER CHARGES AND OTHER ACCOUNTS RECEIVABLES

Management has determined that the year end receivables are collectible, thus, an allowance for doubtful accounts is not required. User charges and other accounts receivable at December 31, 2016 and 2015, consisted of the following:

	Water Pollution Control	Solid Waste Management	Total
<u>December 31, 2016</u>			
Gross User Charges Receivable	\$ 1,405,413	\$ 1,189,232	\$ 2,594,645
Other Accounts Receivable	<u>1,445,625</u>	<u>6</u>	<u>1,445,631</u>
Accounts Receivable	<u>\$ 2,851,038</u>	<u>\$ 1,189,238</u>	<u>\$ 4,040,276</u>
<u>December 31, 2015</u>			
Gross User Charges Receivable	\$ 324,580	\$ 1,160,537	\$ 1,485,117
Other Accounts Receivable	<u>74,704</u>	<u>6</u>	<u>74,710</u>
Accounts Receivable	<u>\$ 399,284</u>	<u>\$ 1,160,543</u>	<u>\$ 1,559,827</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 7 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 are as follows:

	Balance, January 1, <u>2016</u>	<u>Increases</u>	Adjustments/ <u>Decreases</u>	Balance, December 31, <u>2016</u>
Land and Site Improvements	\$ 5,728,514			\$ 5,728,514
Utility Plant and Infrastructure	370,036,761	\$ 65,751	\$ 4,115,490	374,218,002
Vehicles, Machinery and Equipment	147,367,683	20,064	9,764,148	157,151,895
Construction in Progress	<u>29,774,057</u>	<u>1,075,740</u>	<u>(13,879,638)</u>	<u>16,970,159</u>
	552,907,015	1,161,555	-	554,068,570
Less Accumulated Depreciation	<u>(312,693,089)</u>	<u>(12,543,437)</u>	<u>-</u>	<u>(325,236,526)</u>
Capital Assets, Net	<u>\$ 240,213,926</u>	<u>\$ (11,381,882)</u>	<u>\$ -</u>	<u>\$ 228,832,044</u>
	Balance, January 1, <u>2015</u>	<u>Increases</u>	Adjustments/ <u>Decreases</u>	Balance, December 31, <u>2015</u>
Land and Site Improvements	\$ 5,728,514			\$ 5,728,514
Utility Plant and Infrastructure	369,347,489		\$ 689,272	370,036,761
Vehicles, Machinery and Equipment	147,037,580	\$ 196,874	133,229	147,367,683
Construction in Progress	<u>29,898,221</u>	<u>753,334</u>	<u>(877,498)</u>	<u>29,774,057</u>
	552,011,804	950,208	(54,997)	552,907,015
Less Accumulated Depreciation	<u>(300,365,435)</u>	<u>(12,382,651)</u>	<u>54,997</u>	<u>(312,693,089)</u>
Capital Assets, Net	<u>\$ 251,646,369</u>	<u>\$ (11,432,443)</u>	<u>\$ -</u>	<u>\$ 240,213,926</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 8 LONG-TERM LIABILITIES

A. 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 2007 Refunding (Series A), 2007 Refunding (Series B) and 2007 Edgewater System Acquisition and Series 2008, Water Pollution Control System Revenue Bonds and Series 2014, Water Pollution Control Revenue Refunding 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 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 2007 Refunding Bonds (Series A and Series B), 2008 Revenue Bonds, 2011 Refunding Bonds, 2014 BCIA Revenue Bonds, 2014 BCIA Refunding Bonds and 2016 BCIA Refunding Bonds are not insured, but are guaranteed as specified in the County of Bergen guarantee ordinances.

Revenue Bonds outstanding at December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
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, 5.00%, due December 15, 2017	7,505,000	12,895,000
Water Pollution Control System Acquisition Revenue Bonds, Series 2007, 5.00%, due December 15, 2017	895,000	13,415,000
Water Pollution Control BCIA Revenue Bonds, Series 2008, 4.75% , due December 15, 2017 to 2018	1,265,000	28,000,000
Water Pollution Control Revenue Bonds, Series 2011A, Serial Bonds, 4.00%, due December 15, 2016	-	1,695,000
Water Pollution Control BCIA Revenue Bonds, Series 2014, 5.00%, due December 15, 2015 to 2026	5,950,000	5,950,000
Water Pollution Control BCIA Refunding Bonds, Series 2014, 4.00% to 5.00%, due December 15, 2017 to 2021	3,110,000	3,650,000
Water Pollution Control Revenue Refunding Bonds, Series 2014, 3.00% to 5.00%, due December 15, 2017 to 2031	22,285,000	22,715,000
Water Pollution Control BCIA Refunding Bonds 4.00% to 5.00%, due December 15, 2018 to 2027	10,250,000	
Water Pollution Control BCIA Refunding Bonds 3.00% to 5.00%, due December 15, 2019 to 2037	<u>23,565,000</u>	<u>-</u>
Total Revenue Bonds Payable	<u>\$ 106,680,000</u>	<u>\$ 120,175,000</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 8 LONG-TERM LIABILITIES (Continued)

B. Intergovernmental Loans

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:

	<u>2016</u>	<u>2015</u>
New Jersey Environmental Infrastructure Trust		
Trust Loan, Series 2005	\$ 1,571,084	\$ 1,714,345
Fund Loan, Series 2005	3,187,042	3,796,698
Trust Loan, Series 2006	12,900,551	13,939,462
Fund Loan, Series 2006	30,959,526	34,196,616
Trust Loan, Series 2007	245,000	265,000
Fund Loan, Series 2007	654,092	715,119
Trust Loan, Series 2008	4,138,000	4,825,000
Fund Loan, Series 2008	9,949,137	10,995,525
Trust Loan, Series 2010	1,020,000	1,075,000
Fund Loan, Series 2010	905,272	974,909
Trust Loan, Series 2012	260,000	270,000
Fund Loan, Series 2012	690,507	740,028
Temporary Loan, 2015	-	7,952,494
Trust Loan, Series 2016	1,750,000	
Fund Loan, Series 2016	4,057,596	-
Total Loans Payable	<u>\$ 72,287,807</u>	<u>\$ 81,460,196</u>

C. Accrued 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 that the current cost of such unpaid compensation and salary related payments would approximate \$2,795,757 and \$2,941,711 as of December 31, 2016 and 2015, respectively. Of this amount \$279,576 and \$294,171 is accrued as a current liability and the balances of \$2,516,181 and \$2,647,540 are reported as a long-term liability as of December 31, 2016 and 2015, respectively.

THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

NOTE 8 LONG-TERM LIABILITIES (Continued)

D. Changes in Long-Term Liabilities

The Authority's long-term liability activity for the years ended December 31, 2016 and 2015 was as follows:

	Balance, January 1, 2016	Additions	Reductions	Balance, December 31, 2016	Due Within One Year
Revenue Bonds					
Serial Bonds	\$ 120,175,000	34,115,000	\$ 47,610,000	\$ 106,680,000	\$ 9,830,000
Add: Unamortized Premium-Bonds	3,716,329	4,828,492	995,178	7,549,643	-
Total Revenue Bonds - Net	<u>123,891,329</u>	<u>38,943,492</u>	<u>48,605,178</u>	<u>114,229,643</u>	<u>9,830,000</u>
Loans Payable					
NJ EIT Loan Payable	73,507,703	\$ 5,807,596	7,027,492	72,287,807	6,840,153
Add: Unamortized Premium	361,842	153,666	51,670	463,838	-
Total Loans Payable - Net	<u>73,869,545</u>	<u>5,961,262</u>	<u>7,079,162</u>	<u>72,751,645</u>	<u>6,840,153</u>
Accrued Compensated Absences	2,941,711	-	145,954	2,795,757	279,576
Net Pension Liability	44,238,332	\$ 16,197,558	1,760,022	58,675,868	-
Other Post-Retirement Benefits	14,489,976	3,733,139	-	18,223,115	-
Total Long-Term Liabilities, Net	<u>\$ 259,430,893</u>	<u>\$ 64,835,451</u>	<u>\$ 57,590,316</u>	<u>\$ 266,676,028</u>	<u>\$ 16,949,729</u>
	Balance, January 1, 2015	Additions	Reductions	Balance, December 31, 2015	Due Within One Year
Revenue Bonds					
Serial Bonds	\$ 129,100,000	-	\$ 8,925,000	\$ 120,175,000	\$ 9,320,000
Add: Unamortized Premium-Bonds	4,310,551	-	594,222	3,716,329	-
Total Revenue Bonds - Net	<u>133,410,551</u>	<u>-</u>	<u>9,519,222</u>	<u>123,891,329</u>	<u>9,320,000</u>
Loans Payable					
NJ EIT Loan Payable	80,200,178	-	6,692,475	73,507,703	6,650,490
Add: Unamortized Premium	416,841	-	54,999	361,842	-
Total Loans Payable - Net	<u>80,617,019</u>	<u>-</u>	<u>6,747,474</u>	<u>73,869,545</u>	<u>6,650,490</u>
Accrued Compensated Absences	3,309,175	-	367,464	2,941,711	294,171
Net Pension Liability	37,144,181	\$ 8,788,427	1,694,276	44,238,332	-
Other Post-Retirement Benefits	12,083,300	2,406,676	-	14,489,976	-
Total Long-Term Liabilities, Net	<u>\$ 266,564,226</u>	<u>\$ 11,195,103</u>	<u>\$ 18,328,436</u>	<u>\$ 259,430,893</u>	<u>\$ 16,264,661</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 8 LONG-TERM LIABILITIES (Continued)

D. Changes in Long-Term Liabilities (Continued)

The Authority's schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2016 is as follows:

Year Ending December 31,	Revenue Bonds		Loans Payable		Total
	Principal	Interest	Principal	Interest	
2017	\$ 9,830,000	\$ 4,572,575	\$ 6,840,153	\$ 1,091,302	\$ 22,334,030
2018	10,215,000	4,087,788	7,049,267	1,037,585	22,389,640
2019	10,595,000	3,622,338	7,087,614	954,735	22,259,687
2020	11,030,000	3,170,588	7,173,607	867,860	22,242,055
2021	11,490,000	2,700,238	7,248,620	774,160	22,213,018
2022-2026	25,475,000	8,648,988	32,531,495	2,276,718	68,932,201
2027-2031	18,610,000	3,427,375	2,725,459	299,213	25,062,047
2032-2036	7,735,000	1,011,950	1,631,592	74,000	10,452,542
2037	1,700,000	51,000	-	-	1,751,000
	<u>\$ 106,680,000</u>	<u>\$ 31,292,840</u>	<u>\$ 72,287,807</u>	<u>\$ 7,375,573</u>	<u>\$ 217,636,220</u>

NOTE 9 SHORT-TERM LIABILITIES

The Authority's short-term debt activity for the years ended December 31, 2016 and 2015 were as follows:

Purpose	Balance, January 1, 2016	Issued	Retired	Balance, December 31, 2016
<u>Intergovernmental Loans</u>				
New Jersey Environmental Infrastructure Trust - Temporary Loan	<u>\$ 7,952,494</u>	<u>\$ -</u>	<u>\$ 7,952,494</u>	<u>\$ -</u>

Purpose	Balance, January 1, 2015	Issued	Retired	Balance, December 31, 2015
<u>Intergovernmental Loans</u>				
New Jersey Environmental Infrastructure Trust - Temporary Loan	<u>\$ -</u>	<u>\$ 7,952,494</u>	<u>\$ -</u>	<u>\$ 7,952,494</u>

The Temporary Loan provided resources for capital construction, acquisitions or improvement projects and other purposes permitted by State Local Bond Law NJSA 40A:2 et. seq.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 10 CONSTRUCTION COMMITMENTS

As of December 31, 2016 and 2015, the Authority had the following commitments with respect to unfinished capital projects:

<u>Project</u>	<u>Construction Commitment</u>		<u>Estimated Date of Completion</u>
	<u>2016</u>	<u>2015</u>	
Maywood I&I Reduction Plan		\$ 142,294	2016
Palisades Park I&I Reduction Plan		189,322	2016
Teaneck Reduction of Rain Ind.		15,784	2016
Tenafly Reduction of Rain Ind.		321,679	2016
Lower Hackensack River Nutrient TMD	\$ 544,151	772,779	2017
I&I Work Plan Preparation - E. Rutherford		24,844	2016
Surface Water Modification Permit	50,000	20,690	2017
SSO Elimination Project Management		24,173	2016
Sludge Digester Improvements	799,917	799,917	2017
Wastewater Management Plan Amendment	40,911	40,911	2017
Special Environmental Consulting Services	52,323		2017
Assessment of Sewage Force Mains	610,241	690,512	2017
Replacement of Feeders		43,960	2016
Land Surveying for Edgewater	29,636	69,992	2017
Expansion of Gas Fired Combined Heat and Power Cogeneration Project	1,073,135	2,085,429	2017
Biopower Expansion Project	378,452		2017
Cresskill Reduction of Rain Ind.		241	2016
Harrington Park Surge Protector	32,416	34,516	2017
Edgewater Force Main Preliminary Design	144,023	505,000	2017
Edgewater Sewage Pump Station	25,026	281,390	2017
Air Pollution Control Operating Permit	160,000		2017
Furnish and Deliver Telog Meter and Parts	790,966	-	2017
	<u>\$ 4,731,197</u>	<u>\$ 6,063,433</u>	

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

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, 2016 and 2015 in the Water Pollution Control Funds are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>Bond Reserve Fund</u>		
Required Balances	\$ 14,402,575	\$ 14,729,974
Cash and Investments	<u>14,450,748</u>	<u>14,919,538</u>
Excess Funds	<u>\$ 48,173</u>	<u>\$ 189,564</u>
<u>Bond Service Fund</u>		
Required Balances	\$ 2,768,404	\$ 3,032,760
Cash and Investments	<u>3,603,091</u>	<u>4,345,974</u>
Excess Funds/(Deficiency)	<u>\$ 834,687</u>	<u>\$ 1,313,214</u>
<u>Renewal and Replacement Fund</u>		
Required Balances	\$ 1,000,000	\$ 1,000,000
Cash and Investments	<u>1,000,021</u>	<u>1,000,021</u>
Excess Funds	<u>\$ 21</u>	<u>\$ 21</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, 2016 and 2015, the Authority did not have any amounts available for the Operating Reserve. 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 AND PENSION PLANS

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

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

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

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

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 State also administers the Pensions Adjustment Fund (PAF). Prior to the adoption of pension reform legislation, P.L. 2011, C.78, it provided cost of living increases equal to 60 percent of the change in the average consumer price index, to eligible retirees in some State-sponsored pension systems which includes the CPFPPF. Cost-of-living increases provided under the State's pension adjustment program are currently suspended as a result of the reform legislation. This benefit is funded by the State as benefit allowances become payable.

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

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

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

Basis of Accounting

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

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Investment Valuation

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

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290, or at www.state.nj/treasury/doinvest.

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, which was rolled forward to June 30, 2016, the aggregate funded ratio for all the State administered retirement systems is 45.7 percent with an unfunded actuarial accrued liability of \$50.3 billion. The aggregate funded ratio and unfunded accrued liability for the local PERS system is 40.14 percent and \$29.6 billion, respectively and the aggregate funded ratio.

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

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

Actuarial Methods and Assumptions

In the July 1, 2015 actuarial valuations, the date of the most recent actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as asset valuation method for pension trust funds. The actuarial assumptions included (a) 7.65% for investment rate of return for all the retirement systems and (b) changes to projected salary increases applied through the year 2026 of 1.65-5.15 percent based on age for PERS.

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2016 AND 2015**

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 7.06% for PERS and 5.50% for DCRP of employee’s annual compensation for fiscal year 2016.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employees, for the years ended December 31, 2016 and 2015, for PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended December 31, 2016, 2015 and 2014, the Authority, was required to contribute for normal cost pension contributions, accrued liability pension contributions and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2016	\$ 1,760,022
2015	1,694,276
2014	1,446,739

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS)

At December 31, 2016 and 2015, the Authority reported a liability of \$58,675,868 and \$44,238,332, respectively, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014, respectively. The Authority’s proportionate share of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2016, the Authority’s proportionate share was .198114 percent, which was an increase of .001044 percent from its proportionate share measured as of June 30, 2015 of .197070 percent.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 14 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

For the year ended December 31, 2016 and 2015, the pension system has determined the Authority's pension expense to be \$5,784,242 and \$3,047,082, respectively, for PERS based on the actuarial valuation which is more than the actual contributions reported in the Authority's financial statements of \$1,760,022 and \$1,694,276, respectively. At December 31, 2016 and 2015, the Authority's deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the Authority's financial statements are from the following sources:

	2016		2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 1,091,193		\$ 1,055,371	
Changes of Assumptions	12,154,506		4,750,844	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,237,364			\$ 711,267
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	<u>821,831</u>	<u>\$ 165,313</u>	<u>841,069</u>	<u>209,752</u>
Total	<u>\$ 16,304,894</u>	<u>\$ 165,313</u>	<u>\$ 6,647,284</u>	<u>\$ 921,019</u>

At December 31, 2016 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2017	\$ 3,666,907
2018	3,666,907
2019	4,220,305
2020	3,481,314
2021	1,104,148
Thereafter	<u>-</u>
	<u>\$ 16,139,581</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The Authority's total pension liability reported for the year ended December 31, 2016 was based on the June 30, 2016 measurement date as determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The total pension liability reported for the year ended December 31, 2015 was based on the June 30, 2015 measurement date as determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

	<u>2016</u>	<u>2015</u>
Inflation Rate	3.08%	3.04%
Salary Increases:		
2012-2021		2.15-4.40%
Through 2026	1.65-4.15%	Based on Age
Thereafter	2.65-5.15%	3.15-5.40%
	Based on Age	Based on Age
Investment Rate of Return	7.65%	7.90%
Mortality Rate Table	RP-2000	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial study for the period July 1, 2008 to June 30, 2011.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 and 2015, as reported for the years ended December 31, 2016 and 2015, respectively, are summarized in the following table:

<u>Asset Class</u>	<u>2016</u>		<u>2015</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad US Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equity	9.00%	12.40%	9.25%	12.41%
Hedge Funds/Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2016	June 30, 2016	3.98%
2015	June 30, 2015	4.90%

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

Period of Projected Benefit Payments for which the Following Rates were Applied:	
Long-Term Expected Rate of Return	Through June 30, 2034
Municipal Bond Rate *	From July 1, 2034 and Thereafter

* The municipal bond return rate used is 2.85% and 3.80% as of the measurement dates of June 30, 2016 and 2015, respectively. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the Authority's proportionate share of the PERS net pension liability as of December 31, 2016 and 2015 calculated using the discount rate of 3.98% and 4.90%, respectively, as well as what the Authority's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98% and 3.90%, respectively) or 1-percentage-point higher (4.98% and 5.90%, respectively) than the current rate:

	1% Decrease <u>(2.98%)</u>	Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
<u>2016</u>			
Authority's Proportionate Share of the PERS Net Pension Liability	\$ <u>71,900,428</u>	\$ <u>58,675,868</u>	\$ <u>47,757,847</u>
	1% Decrease <u>(3.90%)</u>	Current Discount Rate <u>(4.90%)</u>	1% Increase <u>(5.90%)</u>
<u>2015</u>			
Authority's Proportionate Share of the PERS Net Pension Liability	\$ <u>54,982,834</u>	\$ <u>44,238,332</u>	\$ <u>35,230,219</u>

The sensitivity analysis was based on the proportionate share of the Authority's net pension liability at December 31, 2016 and 2015. A sensitivity analysis specific to the Authority's net pension liability was not provided by the pension system.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

NOTE 13 OTHER 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 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. For the years 2016, 2015, and 2014 the Authority contributed \$2,171,868, \$2,267,264, and \$1,713,682, respectively to the Plan.

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	\$ 4,366,555
Interest on Net OPEB Obligation	579,599
Adjustment to Annual Required Contribution	<u>958,853</u>
Annual OPEB Cost (Expense)	5,905,007
Contributions Made	<u>(2,171,868)</u>
Increase in Net OPEB Obligation	3,733,139
Net OPEB Obligation, January 1, 2016	<u>14,489,976</u>
Net OPEB Obligation, December 31, 2016	<u>\$ 18,223,115</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 13 OTHER POST-RETIREMENT MEDICAL BENEFITS (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years 2016, 2015 and 2014 were as follows:

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligations</u>
2016	\$5,905,007	36.78%	\$18,223,118
2015	4,673,940	48.51%	14,489,976
2014	3,693,095	46.40%	12,083,300

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$104,540,913. The Authority has no plan assets, resulting in an unfunded actuarial accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was \$13,705,167 and \$13,659,984 and the ratio of the UAAL to the covered payroll was 762.8% and 663.4%.

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, 2016, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 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, 2016 was twenty years.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

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 worker'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 also offers the option of a traditional premium based health insurance plan. 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.

Estimates of claims payable and of claims incurred, but not reported (IBNR) at December 31, 2016 and 2015, 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 \$4,851,872 and \$4,756,845 reported at December 31, 2016 and 2015, 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, 2016 and 2015 and 2014 are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Unpaid Claims, January 1	\$ 4,129,473	\$ 4,129,473	\$ 4,019,176
Incurred Claims	<u>8,662,801</u>	<u>8,357,913</u>	<u>5,812,326</u>
	12,792,274	12,487,386	9,831,502
Less Claim Payments	<u>(7,940,402)</u>	<u>(7,730,541)</u>	<u>(5,702,029)</u>
Unpaid Claims, December 31	<u>\$ 4,851,872</u>	<u>\$ 4,756,845</u>	<u>\$ 4,129,473</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>
2016	\$ 22,892	\$ 22,892	\$ 291	\$ 413,341
2015	23,130	23,130	4,563	367,830
2014	20,204	20,205	12,940	330,591

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 14 OTHER INFORMATION (Continued)

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

On May 31, 2002, the New Jersey Meadowlands Commission assumed closure and post-closure responsibilities for the Kingsland Park Sanitary Landfill. The entire amount \$91,125,000, of the 1992 Solid Waste Bonds was defeased. Funds totaling \$96,269,967 were deposited 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, 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 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. NJMC may receive disbursements from these funds for approved expenses as determined by DEP in accordance with applicable law.

On October 22, 2015, the Authority received permission from the County to transfer the balance in the Escrow account to the sole ownership and possession of the BCUA.

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.

In addition, the Authority participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor government. As of December 31, 2016 and 2015, significant amounts of grant expenditures have not been audited by the various grantor agencies but the Authority believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Authority.

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, 2016 and 2015, the Authority had no estimated arbitrage earnings due to the IRS.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

NOTE 14 OTHER INFORMATION (Continued)

E. 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. A federal disaster was declared throughout the State. The Authority 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 in excess of \$4 million 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, 2015. As of December 31, 2016, the Authority has received to date \$1,921,506 of FEMA reimbursements relating to Hurricane Sandy.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

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

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2016	-	\$ 104,540,913	\$ 104,540,913	0%	\$ 13,705,167	762.8%
2015	-	90,624,171	90,624,171	0%	13,659,984	663.4%
2014	-	80,108,857	80,108,857	0%	15,082,997	531.1%
2013	-	82,100,786	82,100,786	0%	14,555,003	564.1%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2016	\$ 4,366,555	49.74%
2015	3,845,495	58.96%
2014	3,320,696	51.61%
2013	3,118,555	66.14%
2012	3,340,231	65.23%
2011	3,410,290	64.41%
2010	2,893,445	59.94%
2009	2,664,595	47.17%
2008	2,875,130	19.62%

**THE BERGEN COUNTY UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Last Four Years *

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Position Liability (Asset)	0.198114%	0.197070%	0.198390%	0.192007%
Authority's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 58,675,868</u>	<u>\$ 44,238,333</u>	<u>\$ 37,144,181</u>	<u>\$ 36,696,492</u>
Authority's Covered-Employee Payroll	<u>\$ 13,705,167</u>	<u>\$ 13,673,436</u>	<u>\$ 13,645,098</u>	<u>\$ 13,347,538</u>
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	428.13%	323.53%	272.22%	274.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	31.20%	47.93%	52.08%	48.72%

* The amounts presented for each year were determined as of June 30 of the respective year.

This schedule is presented to illustrate the requirement to show information for 10 years in accordance with GASB Statement No. 68. However, until a full 10-year trend is compiled, the Authority will only present information for those years for which information is available.

**THE BERGEN COUNTY UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Last Four Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Employer Contribution	\$ 1,760,022	\$ 1,694,276	\$ 1,635,505	\$ 1,446,739
Contributions in Relation to the Contractually Required Contributions	<u>1,760,022</u>	<u>1,694,276</u>	<u>1,635,505</u>	<u>1,446,739</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered- Employee Payroll	<u>\$ 13,705,167</u>	<u>\$ 13,673,436</u>	<u>\$ 13,645,098</u>	<u>\$ 13,347,538</u>
Contributions as a Percentage of Covered-Employee Payroll	12.84%	12.39%	11.99%	10.84%

This schedule is presented to illustrate the requirement to show information for 10 years in accordance with GASB Statement No. 68. However, until a full 10-year trend is compiled, the Authority will only present information for those years for which information is available.

**THE BERGEN COUNTY UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Change of Benefit Terms: None.

Change of Assumptions: Assumptions used in calculating the net pension liability and
statutorily required employer contribution are presented in Note 14.

SUPPLEMENTARY SCHEDULES

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Water Pollution Control	Solid Waste Management	Total
ASSETS			
Unrestricted Current Assets			
Cash and Cash Equivalents	\$ 30,434,968	\$ 5,731,035	\$ 36,166,003
Accrued Interest Receivable	154,786	40,061	194,847
Accounts Receivable	1,405,413	1,189,232	2,594,645
Other Accounts Receivable	1,445,625	6	1,445,631
Internal Balances	(6,133)	6,133	-
Inventory	4,086,393		4,086,393
Prepaid Items	248,780	6,541	255,321
	<u>37,769,832</u>	<u>6,973,008</u>	<u>44,742,840</u>
Total Unrestricted Current Assets			
Restricted Current Assets			
Revenue Account			
Cash and Cash Equivalents	1,059,904		1,059,904
General Account			
Cash and Cash Equivalents	490,260		490,260
Bond Reserve Account			
Cash and Cash Equivalents	14,450,748		14,450,748
Accrued Interest Receivable	105,099		105,099
Bond Issuance Account			
Cash and Cash Equivalents	30		30
Bond Service Account			
Cash and Cash Equivalents	3,603,091		3,603,091
Construction Account			
Cash and Cash Equivalents	8,901,350		8,901,350
Renewal and Replacement Account			
Cash and Cash Equivalents	1,000,021		1,000,021
Accrued Interest Receivable	14,738		14,738
Unemployment Insurance Account			
Cash and Cash Equivalents	405,286	12,535	417,821
	<u>30,030,527</u>	<u>12,535</u>	<u>30,043,062</u>
Total Restricted Current Assets			
Total Current Assets	<u>67,800,359</u>	<u>6,985,543</u>	<u>74,785,902</u>
Non-Current Assets			
Capital Assets:			
Land and Site Improvements	5,728,514		5,728,514
Utility Plant and Infrastructure	374,218,002		374,218,002
Vehicles, Machinery and Equipment	157,151,895		157,151,895
Construction in Progress	16,970,159		16,970,159
less: Accumulated Depreciation	(325,236,526)	-	(325,236,526)
	<u>228,832,044</u>	<u>-</u>	<u>228,832,044</u>
Total Capital Assets (Net of Accumulated Depreciation)			
Total Noncurrent Assets	<u>228,832,044</u>	<u>-</u>	<u>228,832,044</u>
Total Assets	<u>296,632,403</u>	<u>6,985,543</u>	<u>303,617,946</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Refunding of Debt	4,010,916	-	4,010,916
Deferred Amounts on Net Pension Liability	15,535,303	769,591	16,304,894
	<u>19,546,219</u>	<u>769,591</u>	<u>20,315,810</u>
Total Deferred Outflow of Resources			
Total Assets and Deferred Outflow of Resources	<u>\$ 316,178,622</u>	<u>\$ 7,755,134</u>	<u>\$ 323,933,756</u>

Continued

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016

	Water Pollution Control	Solid Waste Management	Total
LIABILITIES			
Current Liabilities (Payable from Unrestricted Assets)			
Accounts Payable	\$ 3,164,491	\$ 1,127,149	\$ 4,291,640
Escrow Deposits Payable	25,539	-	25,539
Accrued Expenses	1,952,615	305,805	2,258,420
Compensated Absences	274,239	5,337	279,576
Unearned Revenue	-	1,997,070	1,997,070
Accrued Liability for Insurance Claims	4,038,148	124,891	4,163,039
Claims Payable	668,168	20,665	688,833
Other Liabilities	141,980	4,252	146,232
	<u>10,265,180</u>	<u>3,585,169</u>	<u>13,850,349</u>
Current Liabilities (Payable from Restricted Assets)			
Revenue Bonds Payable	9,830,000		9,830,000
Long Term Loans Payable	6,840,153		6,840,153
Accrued Interest Payable	1,018,122		1,018,122
Contracts Payable	4,469,969	-	4,469,969
	<u>22,158,244</u>	<u>-</u>	<u>22,158,244</u>
Non-Current Liabilities			
Revenue Bonds Payable (net of unamortized premiums)	104,399,643		104,399,643
Long Term Loans Payable	65,911,492		65,911,492
Compensated Absences	2,468,148	48,033	2,516,181
Post-Employment Benefits	17,676,422	546,693	18,223,115
Net Pension Liability	55,906,368	2,769,500	58,675,868
	<u>246,362,073</u>	<u>3,364,226</u>	<u>249,726,299</u>
Total Liabilities	<u>278,785,497</u>	<u>6,949,395</u>	<u>285,734,892</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Gains on Refunding of Debt	1,238,151	-	1,238,151
Deferred Amounts on Net Pension Liability	157,510	7,803	165,313
	<u>1,395,661</u>	<u>7,803</u>	<u>1,403,464</u>
Total Liabilities and Deferred Inflow of Resources	<u>280,181,158</u>	<u>6,957,198</u>	<u>287,138,356</u>
NET POSITION			
Net Investment in Capital Assets	49,054,902		49,054,902
Restricted For:			
Debt Service	2,768,404		2,768,404
Debt Reserve	14,402,575		14,402,575
Renewal and Replacement	1,000,000		1,000,000
Unemployment Insurance	400,940	12,401	413,341
Unrestricted	(31,629,357)	785,535	(30,843,822)
Total Net Position	<u>\$ 35,997,464</u>	<u>\$ 797,936</u>	<u>\$ 36,795,400</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	Water Pollution Control	Solid Waste Management	Total
OPERATING REVENUES			
User Charges and Fees	\$ 71,150,251	\$ 6,639,649	\$ 77,789,900
Miscellaneous	<u>3,004,409</u>	<u>12,677</u>	<u>3,017,086</u>
Total Operating Revenues	<u>74,154,660</u>	<u>6,652,326</u>	<u>80,806,986</u>
OPERATING EXPENSES			
Cost of Operations	45,804,588	8,239,050	54,043,638
Allocated Administration	5,584,447	172,714	5,757,161
Insurance Claims	93,874	2,904	96,778
Other Post-Employment Benefits- ARC	3,621,145	111,994	3,733,139
Depreciation	<u>12,543,437</u>	<u>-</u>	<u>12,543,437</u>
Total Operating Expenses	<u>67,647,491</u>	<u>8,526,662</u>	<u>76,174,153</u>
OPERATING INCOME (LOSS)	<u>6,507,169</u>	<u>(1,874,336)</u>	<u>4,632,833</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment Income	501,574	50,012	551,586
Interest Expense	(5,376,928)		(5,376,928)
FEMA Reimbursements	857,832		857,832
Hurricane Expenses	(69,554)		(69,554)
Costs of Issuance	(514,680)		(514,680)
Intergovernmental Grants	<u>3,901,685</u>	<u>749,299</u>	<u>4,650,984</u>
Total Non-Operating Income (Expenses)	<u>(700,071)</u>	<u>799,311</u>	<u>99,240</u>
CHANGE IN NET POSITION	5,807,098	(1,075,025)	4,732,073
Total Net Position, January 1, 2016	<u>30,190,366</u>	<u>1,872,961</u>	<u>32,063,327</u>
Total Net Position, December 31, 2016	<u>\$ 35,997,464</u>	<u>\$ 797,936</u>	<u>\$ 36,795,400</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Water Pollution Control	Solid Waste Management	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 72,526,427	\$ 6,623,631	\$ 79,150,058
Cash Paid to Suppliers	(20,732,785)	(7,186,379)	(27,919,164)
Cash Paid for Salaries and Benefits	(26,127,538)	(792,197)	(26,919,735)
	<u>25,666,104</u>	<u>(1,354,945)</u>	<u>24,311,159</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund Transactions	(289,409)	289,409	-
Natural Disaster - Hurricane Reimbursements	34,311		34,311
Natural Disaster - Hurricane Expenses	(69,554)		(69,554)
Proceeds from Intergovernmental Grants	-	738,098	738,098
	<u>(324,652)</u>	<u>1,027,507</u>	<u>702,855</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Intergovernmental Grants	3,901,685		3,901,685
Revenue Bond Proceeds	38,943,492		38,943,492
NJ EIT Temporary Loan Proceeds	508,917		508,917
NJ EIT Loan Proceeds	5,961,262		5,961,262
Payment to Escrow Account - Refunded Bonds	(41,025,279)		(41,025,279)
Principal Payment - Refunded NJEIT Temporary Loans	(7,952,494)		(7,952,494)
Principal Payment - Revenue Bonds	(9,620,000)		(9,620,000)
Principal Payment - Loans	(6,650,491)		(6,650,491)
Payment of Costs of Issuance	(514,680)		(514,680)
Acquisition of Capital Assets	(2,755,019)		(2,755,019)
Interest Paid - Bonds, Notes and Loans	(5,469,654)	-	(5,469,654)
	<u>(24,672,261)</u>	<u>-</u>	<u>(24,672,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends Received	341,436	17,396	358,832
	<u>341,436</u>	<u>17,396</u>	<u>358,832</u>
Net Change in Cash and Cash Equivalents	1,010,627	(310,042)	700,585
Cash and Cash Equivalents, January 1, 2016	59,335,031	6,053,612	65,388,643
Cash and Cash Equivalents, December 31, 2016	<u>\$ 60,345,658</u>	<u>\$ 5,743,570</u>	<u>\$ 66,089,228</u>
Analysis of Balance at December 31, 2016			
Cash and Equivalents			
Unrestricted	\$ 30,434,968	\$ 5,731,035	\$ 36,166,003
Restricted	29,910,690	12,535	29,923,225
	<u>\$ 60,345,658</u>	<u>\$ 5,743,570</u>	<u>\$ 66,089,228</u>

Continued

**THE BERGEN COUNTY UTILITIES AUTHORITY
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Water Pollution <u>Control</u>	Solid Waste <u>Management</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to			
Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	\$ 6,507,169	\$ (1,874,336)	\$ 4,632,833
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided by (Used for) Operating Activities:			
Depreciation	12,543,437		12,543,437
(Increase)/Decrease in Accounts Receivable	(1,080,833)	(28,695)	(1,109,528)
(Increase)/Decrease in Other Accounts Receivable	(547,400)	-	(547,400)
(Increase)/Decrease in Inventory	219,787	-	219,787
(Increase)/Decrease in Prepaid Items	2,888	17,280	20,168
(Increase)/Decrease in Deferred Outflows - Net Pension Liability	(9,201,771)	(455,839)	(9,657,610)
Increase/(Decrease) in Accounts Payable	471,621	2,581	474,202
Increase/(Decrease) in Escrow Deposits Payable	7,951		7,951
Increase/(Decrease) in Accrued Expenses	134,028	221,231	355,259
Increase/(Decrease) in Compensated Absences	(147,905)	1,951	(145,954)
Increase/(Decrease) in Other Liabilities	7,763	255	8,018
Increase/(Decrease) in Claims Payable	(70,425)	(2,178)	(72,603)
Increase/(Decrease) in Accrued Liability for Insurance Claim	162,601	5,029	167,630
Increase/(Decrease) in Other Post-Employment Benefits	3,621,145	111,994	3,733,139
Increase/(Decrease) in Net Pension Liability	13,756,085	681,451	14,437,536
Increase/(Decrease) in Deferred Inflows - Net Pension Liability	(720,037)	(35,669)	(755,706)
	<u>19,158,935</u>	<u>519,391</u>	<u>19,678,326</u>
Total Adjustments			
Net Cash Provided by (Used for) Operating Activities	<u>\$ 25,666,104</u>	<u>\$ (1,354,945)</u>	<u>\$ 24,311,159</u>
Noncash Investing, Capital and Financing Activities:			
Purchase of Capital Assets on Account	\$ 4,469,969		\$ 4,469,969
Original Issue Premium	(795,358)		(795,358)
Deferred Amount on Refunding of Debt	414,787		414,787
Deferred Gain on Refunding of Debt	(56,661)		(56,661)

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2016
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 <u>Budget</u>	2016 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2015 <u>Actual</u>
OPERATING REVENUES				
Service Agreements	\$ 70,301,509	\$ 70,272,490	\$ (29,019)	\$ 67,684,777
Sewer Connection Fees	895,000	877,761	(17,239)	2,538,294
Miscellaneous				
Edgewater Debt Service Contribution	1,465,000	1,469,217	4,217	1,469,217
Sale of Treated Effluent	1,000,000	1,187,751	187,751	1,005,638
IPP Permits	240,000	280,717	40,717	241,150
Other	<u>200,000</u>	<u>66,724</u>	<u>(133,276)</u>	<u>408,860</u>
 Total Operating Revenues	 <u>74,101,509</u>	 <u>74,154,660</u>	 <u>53,151</u>	 <u>73,347,936</u>
NON-OPERATING REVENUES				
Interest on Investments	300,000	455,572	155,572	380,667
Intergovernmental Grant		3,901,685	3,901,685	-
FEMA Reimbursements	<u>-</u>	<u>857,832</u>	<u>857,832</u>	<u>445,626</u>
 Total Non-Operating Revenues	 <u>300,000</u>	 <u>5,215,089</u>	 <u>4,915,089</u>	 <u>826,293</u>
 Total Water Pollution Revenues	 <u>74,401,509</u>	 <u>79,369,749</u>	 <u>4,968,240</u>	 <u>74,174,229</u>
OPERATING APPROPRIATIONS				
Operations & Maintenance				
Salaries and Wages	8,259,096	8,369,063	(109,967)	7,767,510
Engineering				
Salaries and Wages	1,002,730	975,219	27,511	931,328
Other Expenses	2,445,000	2,692,145	(247,145)	2,099,984
Collection				
Salaries and Wages	2,104,184	1,538,807	565,377	1,916,346
Other Expenses	765,000	613,981	151,019	597,470
Compliance				
Salaries and Wages	1,332,464	1,263,567	68,897	1,218,054
Other Expenses	250,000	213,327	36,673	299,900
Facilities Cost				
Telephone	1,000	322	678	337
Water	450,000	354,891	95,109	423,514
Electric	3,200,000	3,234,489	(34,489)	3,124,847
Gas	1,050,000	395,666	654,334	704,358
Fuel Oil	200,000	75,324	124,676	124,416

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2016
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 <u>Budget</u>	2016 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2015 <u>Actual</u>
Direct Processing				
Other Expenses	\$ 1,662,000	\$ 1,531,750	\$ 130,250	\$ 1,467,163
Waste Disposal				
Other Expenses	6,837,000	7,883,586	(1,046,586)	6,075,228
Contract Maintenance				
Other Expenses	300,000	66,572	233,428	108,850
Replacement Parts				
Other Expenses	2,555,000	1,460,251	1,094,749	1,927,255
Supplies				
Other Expenses	800,000	347,121	452,879	582,392
Safety Programs				
Other Expenses	220,000	164,780	55,220	183,498
Insurance				
Multi-Peril	920,000	857,803	62,197	848,395
Employee Benefits				
Public Employees Retirement System	1,369,827	1,348,555	21,272	1,304,597
Social Security	971,433	907,134	64,299	926,205
Unemployment Insurance	190,919	130,107	60,812	119,158
Workers Compensation	500,000	552,889	(52,889)	449,593
Prescription/Vision Insurance	1,410,003	2,042,453	(632,450)	1,944,977
Health Insurance	5,224,603	3,998,400	1,226,203	4,328,827
Dental Insurance	334,553	291,393	43,160	283,685
Compensated Absences				
Salaries and Wages	<u>120,000</u>	<u>41,398</u>	<u>78,602</u>	<u>29,698</u>
Total Operating Appropriations	44,474,812	41,350,993	3,123,819	39,787,585
Capital Outlay				
Miscellaneous	<u>450,000</u>	<u>152,434</u>	<u>297,566</u>	<u>141,878</u>
Total Appropriations	<u>44,924,812</u>	<u>41,503,427</u>	<u>3,421,385</u>	<u>39,929,463</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
WATER POLLUTION CONTROL DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2016
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 <u>Budget</u>	2016 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2015 <u>Actual</u>
NON-OPERATING APPROPRIATIONS				
Bond and Loan Principal	\$ 16,335,490	\$ 16,270,491	\$ 64,999	\$ 15,582,475
Bond and Loan Interest	6,369,030	5,469,654	899,376	6,693,885
Repayment of Port Authority Loan			-	
Bad Debt Expense		-	-	271
Natural Disaster - Hurricane Expenses		69,554	(69,554)	257,543
Trustee Fees	<u>280,000</u>	<u>228,581</u>	<u>51,419</u>	<u>234,316</u>
Total Non-Operating Appropriations	<u>22,984,520</u>	<u>22,038,280</u>	<u>946,240</u>	<u>22,768,490</u>
Allocated Appropriations				
Inter-Department Costs				
Salaries and Wages	2,812,775	2,637,730	175,045	2,484,847
Fringe Benefits	2,235,538	1,882,918	352,620	1,741,071
Other Expenses	<u>1,443,864</u>	<u>1,063,799</u>	<u>380,065</u>	<u>1,251,986</u>
Total Allocated Appropriations	<u>6,492,177</u>	<u>5,584,447</u>	<u>907,730</u>	<u>5,477,904</u>
Total Appropriations	<u>74,401,509</u>	<u>69,126,154</u>	<u>5,275,355</u>	<u>68,175,857</u>
Budgetary Income (Loss)	<u>\$ -</u>	10,243,595	<u>\$ 10,243,595</u>	5,998,372
RECONCILIATION TO GAAP BASIS:				
Adjustments				
Depreciation Expense		(12,543,437)		(12,382,651)
Budgetary Capital Outlay - Capitalized		-		141,878
Change in Inventory		(219,787)		(2,721)
Principal Paid on Long-Term Debt		16,270,491		15,582,475
Interest Earnings - NJEIT		-		22,203
Payment of Costs of Issuance		(514,680)		-
Change in Accrued Interest Payable, net		(344,507)		50,120
Change in Deferred Outflows - Net Pension Liability		9,201,771		4,238,791
Change in Accrued Expenses - Pension Obligation		(62,643)		(55,997)
Change in Net Pension Liability		(13,756,084)		(6,759,307)
Change in Deferred Inflows - Net Pension Liability		720,037		1,231,563
Amortization of Bonds, Loans Premium, Discount and				
Deferred Amounts on Refunding of Debt		437,232		342,864
Change in Net Position				
Other Post-Employment Benefits		(3,621,145)		(2,334,476)
Self Insurance		(47,891)		(535,027)
Unemployment Insurance		<u>44,146</u>		<u>40,461</u>
Change in Net Position - GAAP Basis		<u>\$ 5,807,098</u>		<u>\$ 5,578,554</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
SOLID WASTE MANAGEMENT DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2016
BUDGETARY BASIS

(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 <u>Budget</u>	2016 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2015 <u>Actual</u>
OPERATING REVENUES				
Cooperative Marketing/Recycling Program	\$ 6,754,709	\$ 6,590,063	\$ (164,646)	\$ 6,463,272
Program Admin. Fees	54,606	49,586	(5,020)	49,777
Miscellaneous	25,000	12,677	(12,323)	58,145
	<u>6,834,315</u>	<u>6,652,326</u>	<u>(181,989)</u>	<u>6,571,194</u>
NON-OPERATING REVENUES				
Recycling and Solid Waste Grants	710,450	749,299	38,849	704,042
Interest on Investments	15,000	48,589	33,589	20,333
Retained Earnings Anticipated	1,077,871	1,077,871	-	1,368,230
	<u>1,803,321</u>	<u>1,875,759</u>	<u>72,438</u>	<u>2,092,605</u>
Total Non-Operating Revenues	<u>1,803,321</u>	<u>1,875,759</u>	<u>72,438</u>	<u>2,092,605</u>
Total Solid Waste Revenues	<u>8,637,636</u>	<u>8,528,085</u>	<u>(109,551)</u>	<u>8,663,799</u>
OPERATING APPROPRIATIONS				
Planning and Administration				
Salaries and Wages	17,922	-	17,922	-
Other Expenses	48,500	28,760	19,740	50,108
Cooperative Marketing	6,754,709	6,609,371	145,338	6,456,026
Recycling				
Salaries and Wages	329,068	320,590	8,478	341,509
Other Expenses	15,000	630	14,370	12,028
Grant Entitlements	710,450	728,236	(17,786)	704,042
Insurance				
Other Expenses	25,000	26,037	(1,037)	19,126
Employee Benefits				
Public Employees Retirement System	76,101	74,828	1,273	72,478
Social Security	26,545	23,787	2,758	29,936
Unemployment Insurance	7,707	3,582	4,125	4,645
Workers Compensation	85,000	13,678	71,322	12,420
Health Insurance	216,241	93,757	122,484	139,004
Prescription/Vision Insurance	91,313	114,019	(22,706)	88,471
Compensated Absences	10,000	1,951	8,049	1,534
Dental Insurance	23,292	8,142	15,150	7,959
	<u>8,436,848</u>	<u>8,047,368</u>	<u>389,480</u>	<u>7,939,286</u>
Total Operating Appropriations	<u>8,436,848</u>	<u>8,047,368</u>	<u>389,480</u>	<u>7,939,286</u>

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
SOLID WASTE MANAGEMENT DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2016
BUDGETARY BASIS**

(With Comparative Amounts for the Year Ended December 31, 2015)

	2016 <u>Budget</u>	2016 <u>Actual</u>	Variance <u>Excess (Deficit)</u>	2015 <u>Actual</u>
Allocated Appropriations				
Inter-Department Costs				
Salaries and Wages	\$ 86,992	\$ 81,579	\$ 5,413	\$ 76,851
Fringe Benefits	69,140	58,235	10,905	49,538
Other Expenses	<u>44,656</u>	<u>32,901</u>	<u>11,755</u>	<u>38,719</u>
 Total Allocated Appropriations	 <u>200,788</u>	 <u>172,715</u>	 <u>28,073</u>	 <u>165,108</u>
 Total Appropriations	 <u>8,637,636</u>	 <u>8,220,083</u>	 <u>417,553</u>	 <u>8,104,394</u>
 Budgetary Income (Loss)	 <u>\$ -</u>	 308,002	 <u>\$ 308,002</u>	 559,405
RECONCILIATION TO GAAP BASIS:				
Adjustments				
Bad Debt Expense		-		(404)
Change in Deferred Outflows - Net Pension Liability		455,839		209,982
Change in Accrued Expenses - Pension Obligation		(3,103)		(2,774)
Change in Net Pension Liability		(681,451)		(334,844)
Change in Deferred Inflows - Net Pension Liability		35,669		61,009
Change in Net Position				
Other Post-Employment Benefits		(111,994)		(72,200)
Self Insurance		(1,481)		(16,548)
Unemployment Insurance		1,365		1,252
Solid Waste Escrow		-		17,463
Retained Earnings Anticipated		<u>(1,077,871)</u>		<u>(1,368,230)</u>
 Change in Net Position, GAAP Basis		 <u>\$ (1,075,025)</u>		 <u>\$ (945,889)</u>

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE YEAR ENDED DECEMBER 31, 2016

Description	Amount	Maturities of Bonds		Interest Rate	Balance January 1, 2016	Increase	Decrease	Balance December 31, 2016
		Date	Amount					
2007 BCIA Refunding, Series A	\$ 31,855,000	12/15/2018	\$ 7,500,000	4.000	\$ 31,855,000			\$ 31,855,000
		12/15/2019	7,800,000	4.000				
		12/15/2020	8,115,000	4.000				
		12/15/2021	8,440,000	4.000				
2007 BCIA Refunding, Series B	33,955,000	12/15/2017	7,505,000	5.000	12,895,000	-	\$ 5,390,000	7,505,000
2007 Edgewater Acquisition Bonds	18,420,000	12/15/2017	895,000	5.000	13,415,000	-	12,520,000	895,000
2008 Revenue Bonds	29,600,000	12/15/2017	425,000	4.750	28,000,000		26,735,000	1,265,000
		12/15/2018	840,000	4.750				
2011 Refunding Bonds	7,710,000				1,695,000		1,695,000	-
2014 Refunding Bonds	4,175,000	12/15/2017	565,000	4.000	3,650,000		540,000	3,110,000
		12/15/2018	590,000	5.000				
		12/15/2019	620,000	5.000				
		12/15/2020	650,000	5.000				
		12/15/2021	685,000	5.000				
2014 Refunding Bonds	5,950,000	12/15/2022	\$ 1,075,000	5.000	5,950,000			5,950,000
		12/15/2023	1,130,000	5.000				
		12/15/2024	1,190,000	5.000				
		12/15/2025	1,245,000	5.000				
		12/15/2026	1,310,000	5.000				
2014 Revenue Bonds	22,715,000	12/15/2017	440,000	5.000	22,715,000		430,000	22,285,000
		12/15/2018	465,000	5.000				
		12/15/2019	485,000	5.000				
		12/15/2020	510,000	5.000				
		12/15/2021	535,000	5.000				
		12/15/2022	1,615,000	5.000				
		12/15/2023	1,690,000	5.000				
		12/15/2024	1,780,000	5.000				
		12/15/2025	1,870,000	5.000				
		12/15/2026	1,965,000	5.000				
		12/15/2027	2,055,000	3.000				
		12/15/2028	2,120,000	3.000				
		12/15/2029	2,185,000	3.000				
		12/15/2030	2,250,000	3.125				
		12/15/2031	2,320,000	3.125				

Continued

THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Description</u>	<u>Amount</u>	<u>Maturities of Bonds</u>		<u>Interest Rate</u>	<u>Balance January 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2016</u>
		<u>Date</u>	<u>Amount</u>					
2016 BCIA Refunding	\$ 10,320,000	8/15/2018	\$ 820,000	4.000 %				
		8/15/2019	870,000	5.000				
		8/15/2020	900,000	5.000				
		8/15/2021	945,000	5.000				
		8/15/2022	990,000	5.000				
		8/15/2023	1,040,000	5.000				
		8/15/2024	1,095,000	5.000				
		8/15/2025	1,150,000	4.000				
		8/15/2026	1,195,000	4.000				
		8/15/2027	1,245,000	5.000	-	\$ 10,320,000	\$ 70,000	\$ 10,250,000
2016 BCIA Refunding	23,795,000	8/15/2019	820,000	5.000 %				
		8/15/2020	855,000	5.000				
		8/15/2021	885,000	5.000				
		8/15/2022	930,000	5.000				
		8/15/2023	975,000	5.000				
		8/15/2024	1,030,000	5.000				
		8/15/2025	1,080,000	4.000				
		8/15/2026	1,120,000	4.000				
		8/15/2027	1,170,000	5.000				
		8/15/2028	1,225,000	5.000				
		8/15/2029	1,290,000	5.000				
		8/15/2030	1,350,000	3.500				
		8/15/2031	1,400,000	3.500				
		8/15/2032	1,445,000	3.500				
		8/15/2033	1,495,000	3.500				
		8/15/2034	1,545,000	3.500				
		8/15/2035	1,600,000	3.000				
		8/15/2036	1,650,000	3.000				
		8/15/2037	1,700,000	3.000	\$ -	23,795,000	230,000	23,565,000
					<u>\$ 120,175,000</u>	<u>\$ 34,115,000</u>	<u>\$ 47,610,000</u>	<u>\$ 106,680,000</u>
						\$ 34,115,000		
							\$ 37,990,000	
							9,620,000	
						<u>\$ 34,115,000</u>	<u>\$ 47,610,000</u>	
								(9,830,000)
								7,549,643
								<u>\$ 104,399,643</u>

THE BERGEN COUNTY UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2016

Authority Board Members

Ronald Phillips
Louis J. DeLisio
Cathy Bentz
James L. Cassella
Paul A. Juliano
Thomas S. Kelley
Jon Warms
George P. Zilocchi
Bruce Bonaventuro

Position

Commissioner –Chairman
Commissioner – Vice Chairman
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner
Commissioner

Authority Executive Staff

Robert E. Laux
Richard Wierer

Executive Director
Deputy Executive Director
Director of Solid Waste and
Information Technology
Board Secretary
Acting Treasurer
Chief Engineer/Director of Water Pollution Control

Michael Henwood
Matthew McCarter
Dominic DiSalvo

Consultants and Advisors

Paul Kaufman, Esq.

General Counsel

**GOVERNMENT AUDITING STANDARDS AND
SINGLE AUDIT SECTIONS
AND
GENERAL COMMENTS AND RECOMMENDATIONS**



LERCH, VINCI & HIGGINS. LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

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MARK SACO, CPA
SHERYL M. NICOLOSI, CPA, PSA

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

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Board of Commissioners
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, 2016, 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 June 13, 2017.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the 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.

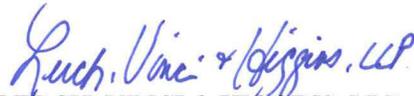
Compliance and Other Matters

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.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
June 13, 2017



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. UNIFORM GUIDANCE AND SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE AS REQUIRED BY NEW JERSEY OMB CIRCULAR 15-08**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal and 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) Compliance Supplement and the New Jersey OMB Circular 15-08 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the Bergen County Utilities Authority's major federal and state programs for the year ended December 31, 2016. The Bergen County Utilities Authority's major federal and 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 federal and state statutes, regulations, and terms and conditions of its federal awards and state financial assistance 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 federal and 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and New Jersey OMB Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, U.S. Uniform Guidance, and New Jersey Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or 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 Federal and 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 federal and state programs for the year ended December 31, 2016.

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 federal and 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 federal and state program and to test and report on internal control over compliance in accordance with U.S. Uniform Guidance and New Jersey OMB Circular 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bergen County Utilities Authority's internal control over compliance.

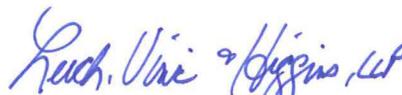
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 U.S. Uniform Guidance and New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by U.S. Uniform Guidance and Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB Circular 15-08

We have audited the financial statements of the Bergen County Utilities Authority as of and for the year ended December 31, 2016, 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 June 13, 2017, 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 U.S. Uniform Guidance and New Jersey OMB Circular 15-08 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
June 13, 2017

THE BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Federal Grant Program</u>	<u>Grant Period</u>	<u>CFDA</u>	<u>State Grant Number</u>	<u>Grant Award Amount</u>	<u>Cash Received</u>	<u>Balance, January 1, 2016</u>	<u>Revenue Realized</u>	<u>Expended</u>	<u>Balance, December 31, 2016</u>	<u>Cumulative Expenditures</u>
United States Department of Homeland Security										
Disaster Grants - Public Assistance	2012	97.036	66-1200-100-A92-14	\$ 4,317,155	\$ 34,311	\$ -	\$ 857,832	\$ 857,832	\$ -	\$ 4,317,155
						\$ -	\$ 857,832	\$ 857,832	\$ -	\$ 4,317,155

THE BERGEN COUNTY UTILITIES AUTHORITY
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2016

State Grant Program	Grant Number	Grant Period	Grant Award Amount	Cash Received	Balance, January 1, 2016	Revenue Realized	Expended	Balance, December 31, 2016	Cumulative Expenditures
New Jersey Department of Environmental Protection									
Solid Waste Administration	SWST-11	1/1/13-12/31/15	\$ 551,100		\$ 266,972		\$ 266,972		\$ 551,100
Solid Waste Administration	SWST-12	1/1/14-12/31/16	566,500		566,500		482,328	\$ 84,172	482,328
Solid Waste Administration	SWST-13	1/1/15-12/31/17	610,500		610,500		-	610,500	-
Solid Waste Administration	SWST-14	1/1/16-12/31/18	564,300		564,300		-	564,300	-
Solid Waste Administration	SWST-15	1/1/17-12/31/19	738,098	\$ 738,098	-	\$ 738,098	-	738,098	-
New Jersey Clean Energy Program:									
Renewable Energy Incentive Program (REIP)	R-12226	8/25/13-4/25/16	2,525,000	2,525,000		2,525,000	2,525,000	-	2,525,000
Environmental Infrastructure Trust Loan Program:									
New Jersey Environmental Infrastructure Trust - Temporary Financing	S340386-17		7,952,494	508,917	508,917	-	508,917	-	7,952,494
					<u>\$ 2,517,189</u>	<u>\$ 3,263,098</u>	<u>\$ 3,783,217</u>	<u>\$ 1,997,070</u>	

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1 GENERAL

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

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedules are prepared and presented using the regulatory basis of accounting as prescribed for municipalities by the Division of Local Government Services, Department of Community Affairs, State of New Jersey which differ in certain respects from 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 schedules agree with amounts reported in the Authority's financial statements. Financial assistance revenues are reported in the Authority's financial statements on a basis of accounting described above as follows:

	<u>Federal</u>	<u>State</u>	<u>Total Assistance</u>
Solid Waste Management Enterprise Fund		\$ 738,098	\$ 738,098
Water Pollution Control Enterprise Fund	\$ 857,832	2,525,000	3,382,832
	<u>\$ 857,832</u>	<u>\$ 3,263,098</u>	<u>\$ 4,120,930</u>

NOTE 4 RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules may not necessarily agree with the amounts reported in the related federal and state financial reports due to timing differences between the Authority's fiscal year and grant program year.

**THE BERGEN COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2016**

NOTE 5 FEDERAL AND STATE LOANS OUTSTANDING

The Authority's federal and state loans outstanding at December 31, 2016, which are not required to be reported on the schedules of expenditures of federal awards and state financial assistance, are as follows:

The Authority's State loans outstanding at December 31, 2016 are as follows:

New Jersey Environmental Infrastructure Trust	
Trust Loan, Series 2005	\$ 1,571,084
Fund Loan, Series 2005	3,187,042
Trust Loan, Series 2006	12,900,551
Fund Loan, Series 2006	30,959,526
Trust Loan, Series 2007	245,000
Fund Loan, Series 2007	654,092
Trust Loan, Series 2008	4,138,000
Fund Loan, Series 2008	9,949,137
Trust Loan, Series 2010	1,020,000
Fund Loan, Series 2010	905,272
Trust Loan, Series 2012	260,000
Fund Loan, Series 2012	690,507
Trust Loan, Series 2016	1,750,000
Fund Loan, Series 2016	<u>4,057,596</u>
Total Loans Payable	<u>\$ 72,287,807</u>

NOTE 6 DE MINIMIS INDIRECT COST RATE

The Authority has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Part I – Summary of Auditor’s Results

Financial Statement Section

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

- D) Internal Control over major programs:
- 1) Material weakness(es) identified? _____ yes X no
- 2) Were significant deficiency(ies) identified that were not considered to be material weaknesses? _____ yes X none reported
- E) Type of auditors' report on compliance for major programs: Unmodified
- F) Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance _____ yes X no
- G) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>97.036</u>	<u>United States Department of</u>
_____	<u>Homeland Security - Disaster Grants</u>
_____	_____
_____	_____

- H) Dollar threshold used to determine Type A programs: \$750,000
- I) Auditee qualified as low-risk auditee?(1) _____ yes X no

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Part I – Summary of Auditor's Results

State Awards

Dollar threshold used to distinguish type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

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

Internal Control over major programs:

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

2) Significant deficiency(ies) identified that 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 15-08? yes X no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
S340386-17	NJ Environmental Infrastructure Trust
R-12226	Renewable Energy Incentive Program
SWST-11, SWST-12	Solid Waste Administration Grants

**THE BERGEN COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016**

Part 3 – Schedule of Federal and State Award Findings and Responses

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 U.S. Uniform Guidance and New Jersey OMB Circular 15-08.

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
FOR THE YEAR ENDED DECEMBER 31, 2016**

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. Uniform Guidance and New Jersey OMB's Circular 15-08.

STATUS OF PRIOR YEAR FINDINGS

There were none.

GENERAL COMMENTS AND RECOMMENDATIONS

**THE BERGEN COUNTY UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS**

Finding – The Authority performs periodic physical inventory counts. The results of the counts indicated certain differences relating to the per unit valuation amounts. In addition, movements and adjustments to the warehouse inventory did not always have supporting documentation.

Recommendation – Internal controls over the safeguarding and valuation of the Authority’s inventory be enhanced.

Finding – The Authority contracts with separate third party administrators (the “TPA”) for the processing of their worker’s compensation and medical benefits claims. The Authority’s service providers did not submit a 2016 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).

Finding – The audit noted that the Water Pollution Control Fund preliminary year end financial statements did not include all of the Authority’s outstanding commitments. An audit adjustment was made to accrue those commitments that remain outstanding.

Recommendation – Procedures be enhanced to ensure all Authority liabilities are accrued at year end.

Appreciation

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

* * * * *

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