

**NORTH BERGEN MUNICIPAL
UTILITIES AUTHORITY
(A Component Unit of the Township of North Bergen)
REPORT OF AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the Board of Commissioners
North Bergen Municipal Utilities Authority
North Bergen, New Jersey

We have audited the accompanying basic financial statements of the North Bergen Municipal Utilities Authority, a component unit of the Township of North Bergen as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

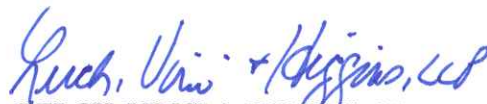
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North Bergen Municipal Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the North Bergen Municipal Utilities Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 23, 2012 on our consideration of the North Bergen Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the North Bergen Municipal Utilities Authority as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the North Bergen Municipal Utilities Authority. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and New Jersey OMB Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid" and are also not a required part of the financial statements of the North Bergen Municipal Utilities Authority. The supplementary schedules and schedules of expenditures of federal awards and 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. The 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 information is fairly stated in all material respects in relation to the basic 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
April 23, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the North Bergen Municipal Utilities Authority's ("NBMUA" or "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements and accompanying notes.

The 1981 creation ordinance for the NBMUA detailed its major responsibilities as:

- Operation and maintenance of the waste water system, four pumping stations and forty-two overflow regulators. These facilities maintain all wastewater flows from the Township of North Bergen, and the Town of Guttenberg and a small area within Union City, New Jersey.
- Collection, recycling and disposal of solid waste from the residential properties within the Township of North Bergen and the North Bergen Board of Education.

FINANCIAL HIGHLIGHTS

- The Authority's assets exceeded its liabilities at December 31, 2011 by \$47,311,914.
- The Authority's total net assets decreased \$1,891,484.
- Cash, Cash Equivalents and Investments increased \$4,345,776.
- Long-Term Liabilities decreased \$2,991,695 (4.2%)
- Operating Revenues increased \$990,978 (5.4%)
- Operating Expenses increased \$4,100,619 (25.6%)
- The Authority ended the year ended December 31, 2011 with an operating loss of \$743,091.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

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 North Bergen Municipal Utilities Authority maintains one proprietary fund for two activities. Enterprise Funds are used to report the same functions presented as business-type activities. The Authority uses Enterprise Funds to account for its Waste Water and Solid Waste operations.

***NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS***

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets – The following table summarizes the Net Assets as of December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 57,897,416	\$ 57,543,529	\$ 56,646,534
Capital Assets (Net of Accumulated Depreciation)	<u>66,416,960</u>	<u>68,705,793</u>	<u>67,690,181</u>
 Total Assets	 <u>124,314,376</u>	 <u>126,249,322</u>	 <u>124,336,715</u>
 Non-Current Liabilities	 67,447,240	 70,438,935	 68,764,440
Other Liabilities	<u>9,555,222</u>	<u>6,606,989</u>	<u>6,451,522</u>
 Total Liabilities	 <u>77,002,462</u>	 <u>77,045,924</u>	 <u>75,215,962</u>
 Net Assets			
Invested in Capital Assets, Net of Related Debt	9,171,341	13,309,486	5,753,319
Restricted	1,447,263	1,381,756	1,357,756
Unrestricted	<u>36,693,310</u>	<u>34,512,156</u>	<u>42,009,678</u>
 Total Net Assets	 <u>\$ 47,311,914</u>	 <u>\$ 49,203,398</u>	 <u>\$ 49,120,753</u>

The Authority's Net Assets decreased \$1,891,484 for the year ended December 31, 2011. The Authority's Net Assets increased \$82,645 for the year ended December 31, 2010, and \$848,828 or 1.8% for the year ended December 31, 2009. The decrease in 2011 is largely attributable to an increase in depreciation expense, an increase in the cost of post retirement benefits and an increase in costs to maintain the wastewater system. The increase in 2010 is largely attributable to an increase in the annual contribution made by the Township for solid waste and the increase in monies paid to the Township from the wastewater operations in 2010. The Township's contribution increased \$300,000 for 2010, and the Authority's payment to the Township from wastewater was \$400,000.

***NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS***

OPERATING ACTIVITIES

The following table summarizes the Changes in Net Assets for the years ended December 31, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OPERATING REVENUES			
User Charges	\$ 12,867,206	\$ 12,105,291	\$ 11,502,411
Connection Fees	434,405	338,054	171,822
Interest on Delinquent Accounts	341,293	320,581	285,300
Contribution - Township of North Bergen	<u>5,712,000</u>	<u>5,600,000</u>	<u>5,300,000</u>
Total Operating Revenues	<u>19,354,904</u>	<u>18,363,926</u>	<u>17,259,533</u>
OPERATING EXPENSES			
Administration	2,441,770	2,176,363	2,155,478
Cost of Providing Services	13,328,011	11,131,347	10,408,796
Depreciation	<u>4,328,214</u>	<u>2,689,666</u>	<u>2,148,336</u>
Total Operating Expenses	<u>20,097,995</u>	<u>15,997,376</u>	<u>14,712,610</u>
Operating Income (Loss)	<u>(743,091)</u>	<u>2,366,550</u>	<u>2,546,923</u>
NON-OPERATING REVENUES (EXPENSES)			
Revenues	1,314,160	5,935,670	486,805
Expenses	(2,462,553)	(2,575,551)	(2,184,900)
Special Items	<u>-</u>	<u>(5,644,024)</u>	<u>-</u>
Total Non-Operating Income (Expenses)	<u>(1,148,393)</u>	<u>(2,283,905)</u>	<u>(1,698,095)</u>
Change in Net Assets	(1,891,484)	82,645	848,828
Net Assets, January 1	<u>49,203,398</u>	<u>49,120,753</u>	<u>48,271,925</u>
Net Assets, December 31	<u>\$ 47,311,914</u>	<u>\$ 49,203,398</u>	<u>\$ 49,120,753</u>

Operating income decreased \$3,109,641 from 2010. Operating expenses increase in excess of \$4.1 million, while operating revenues increased \$990,978. Operating revenues increased with the user/service charges, connection fees and with the contribution from the Township. The cost of providing services increased \$2,196,664 and depreciation expense increased \$1,638,548 due to the full year depreciation in property, plant and equipment. These capital assets were transferred from construction in progress during 2010.

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING ACTIVITIES (Continued)

Operating income decreased \$180,373 or 7.1% in 2010, compared to 2009. This was a result of an increase in operating expenses in the amount of \$1,284,766 which were offset by an increase in operating revenues of \$1,104,393. Operating revenues increased with the user/service charges, connection fees and with the Township's contribution. Expenses for cost of providing services increased \$722,551 and depreciation expense increased \$541,330.

In addition, during 2010, the Authority cancelled \$5,644,024 of construction in progress related to the design and construction of a new Central Treatment Plant. The Authority discontinued the project and instead opted to connect its sewer lines with Jersey City and the Passaic Valley Sewerage Commission.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the changes in capital assets, net of depreciation, for the year ended December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Building and Building Improvements	1,250,169	1,341,939	1,433,711
Sewerage Treatment Plants and Improvements	4,882,689	6,061,579	7,240,469
Pump Stations and Sewer Lines	49,941,333	51,854,590	10,332,462
Vehicles and Equipment	616,248	671,115	366,079
Construction in Progress	<u>7,226,521</u>	<u>6,276,570</u>	<u>45,817,460</u>
Total	<u>\$ 66,416,960</u>	<u>\$ 68,705,793</u>	<u>\$ 67,690,181</u>

The Authority's major capital assets expansion includes the sewer pipeline connection to Jersey City. Additional information on the Authority's capital assets can be found in the Notes to Basic Financial Statements.

Capital Debt

The following table summarizes the gross capital debt for the years ended December 31, 2011, 2010 and 2009 calendar years.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital Leases	\$ 258,347	\$ 358,308	\$ 81,294
Intergovernmental Loans	40,071,365	42,390,643	39,963,738
Revenue Bonds	<u>28,918,028</u>	<u>30,870,753</u>	<u>32,768,595</u>
	<u>\$ 69,247,740</u>	<u>\$ 73,619,704</u>	<u>\$ 72,813,627</u>

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

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHER FINANCIAL INFORMATION

Economic Factors And Next Year's Rates

- Funding of renewal and replacement reserves for future capital programs.
- Pressure to control escalating cost of employee health insurance, liability and worker's compensation insurance, and the funding of post-retirement benefits.
- Increase in Township contribution for the removal of solid waste due to increasing cost of solid waste disposal.

All of these factors were considered in preparing the Authority's 2012 budget.

The Waste Water quarterly service fees budgeted for 2011 reflects an average increase of 2% over the existing quarterly user rates. The Township contribution for solid waste increased \$112,000 or 2% in 2011. This additional revenue will offset the rising costs of the solid waste disposal fees.

On March 6, 2006, the Commissioners of the North Bergen Municipal Utilities Authority approved the decommission of the Central Sewerage Treatment Plant and to convey the sanitary sewage generated in the plant service area to the Passaic Valley Sewerage Commissioners' ("PVSC") sewerage treatment plant located in Newark, New Jersey. The Township of North Bergen and the North Bergen Municipal Utilities Authority have entered into an interlocal service agreement with the City of Jersey City and the Jersey City Municipal Utilities Authority ("JCMUA") to convey the sanitary sewerage through the JCMUA's collection system. The proposed connection with the JCMUA collection system will require the NBMUA to construct and/or modify a pipeline and/or its pump station. The estimated total cost of this project is approximately \$41 million dollars. The NBMUA is financing this project through the New Jersey Environmental Infrastructure Trust. The NBMUA has received an interest free loan of \$28,277,580, a trust loan of \$10,465,000 and a grant of \$2,122,458. During 2010, the NBMUA received an interest free loan of \$2,265,726, a trust loan of \$2,305,000 and an ARRA grant of \$4,531,452. The Authority is currently in the process of applying for additional financing with the New Jersey Environmental Infrastructure Trust to fund the costs associated with the decommission of the Central Treatment Plant.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the North Bergen citizens, ratepayers, customers, investors and creditors, with a general overview of the Authority's finances to demonstrate the Authority's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at 6200 Tonnelle Avenue, North Bergen, New Jersey 07047.

BASIC FINANCIAL STATEMENTS

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010**

ASSETS	<u>2011</u>	<u>2010</u>
UNRESTRICTED CURRENT ASSETS		
Cash and Cash Equivalents	\$ 33,847,324	\$ 26,579,682
Investments-Forward Delivery Agreement	2,300,000	4,600,000
User Charges Receivable (Net of Allowance for Doubtful Accounts)	2,034,424	2,257,500
Other Accounts Receivable	<u>118,946</u>	<u>150,233</u>
Total Unrestricted Current Assets	<u>38,300,694</u>	<u>33,587,415</u>
RESTRICTED CURRENT ASSETS		
Revenue Account		
Cash and Cash Equivalents	636,875	3,153,731
Bond Reserve Account		
Cash and Cash Equivalents	2,030,080	1,786,810
Investments	4,874,789	4,583,314
Renewal and Replacement Account		
Cash and Cash Equivalents	1,891,527	1,826,020
Construction Account		
Cash and Cash Equivalents	3,128,696	
Accrued Interest Receivable	31,411	31,585
Environmental Infrastructure Trust Loan Receivable	1,774,925	4,531,452
Grant Receivable	<u>-</u>	<u>891,796</u>
Total Restricted Current Assets	<u>14,368,303</u>	<u>16,804,708</u>
Total Current Assets	<u>52,668,997</u>	<u>50,392,123</u>
NON-CURRENT ASSETS		
Investments-Forward Delivery Agreement	<u>4,102,499</u>	<u>5,936,457</u>
Deferred Charges		
Debt Issuance Costs (Net of Amortization)	<u>1,125,920</u>	<u>1,214,949</u>
Capital Assets		
Land	2,500,000	2,500,000
Land Improvements	35,875	35,875
Buildings and Building Improvements	2,532,166	2,532,166
Sewerage Treatment Plants and Improvements	26,832,446	26,832,446
Pump Stations and Sewer Lines	65,760,370	64,822,430
Vehicles and Equipment	3,869,830	3,718,342
Construction in Progress	7,226,521	6,276,570
Accumulated Depreciation	<u>(42,340,248)</u>	<u>(38,012,036)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>66,416,960</u>	<u>68,705,793</u>
Total Non-Current Assets	<u>71,645,379</u>	<u>75,857,199</u>
Total Assets	<u>124,314,376</u>	<u>126,249,322</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF NET ASSETS (CONT'D)
AS OF DECEMBER 31, 2011 AND 2010**

LIABILITIES AND NET ASSETS	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES (Payable from Unrestricted Assets)		
Accounts Payable	\$ 433,870	\$ 544,297
Claims and Judgments Payable		10,360
Capital Lease Payable	72,790	99,961
Accrued Salaries and Wages	160,181	188,923
Accrued Interest on Bonds, Notes and Loans	243,976	216,079
Deferred Revenue	374,730	443,836
Intergovernmental Loans Payable	<u>2,391,960</u>	<u>2,319,278</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>3,677,507</u>	<u>3,822,734</u>
CURRENT LIABILITIES (Payable from Restricted Assets)		
Construction Contracts Payable	311,461	464,270
Accrued Interest on Bonds and Notes	49,605	44,985
Project Note Payable	3,161,649	
Revenue Bonds Payable	<u>2,355,000</u>	<u>2,275,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>5,877,715</u>	<u>2,784,255</u>
Total Current Liabilities	<u>9,555,222</u>	<u>6,606,989</u>
NON-CURRENT LIABILITIES		
Accrued Compensated Absences	354,414	290,444
Post Retirement Benefits Payable	3,714,958	2,411,417
Capital Leases Payable	185,557	258,347
Revenue Bonds Payable (Net of Unamortized Loss)	25,205,359	27,067,607
Intergovernmental Loans Payable	<u>37,986,952</u>	<u>40,411,120</u>
Total Non-Current Liabilities	<u>67,447,240</u>	<u>70,438,935</u>
Total Liabilities	<u>77,002,462</u>	<u>77,045,924</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	9,171,341	13,309,486
Restricted For:		
Pre-Treatment Program	44,886	44,886
Renewals and Replacements	1,402,377	1,336,870
Unrestricted	<u>36,693,310</u>	<u>34,512,156</u>
Total Net Assets	<u>\$ 47,311,914</u>	<u>\$ 49,203,398</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
User Charges	\$ 12,657,511	\$ 11,898,138
Service Charges	209,695	207,153
Connection Fees	434,405	338,054
Interest on Delinquent Accounts	341,293	320,581
Contribution - Township of North Bergen	<u>5,712,000</u>	<u>5,600,000</u>
Total Operating Revenues	<u>19,354,904</u>	<u>18,363,926</u>
OPERATING EXPENSES		
Administration		
Salaries and Wages	831,669	791,870
Fringe Benefits	789,079	707,927
Other Expenses	821,022	676,566
Cost of Providing Services		
Salaries and Wages	2,947,224	3,287,146
Fringe Benefits	2,776,390	2,549,508
Other Expenses	7,604,397	5,294,693
Depreciation	<u>4,328,214</u>	<u>2,689,666</u>
Total Operating Expenses	<u>20,097,995</u>	<u>15,997,376</u>
Operating Income (Loss)	<u>(743,091)</u>	<u>2,366,550</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	1,026,159	1,236,191
Grants and Entitlements	193,022	4,544,999
Miscellaneous Revenues	94,979	154,480
Municipal Appropriation	(200,000)	(400,000)
Amortization of Debt Issuance Costs, Premiums, etc.	(260,252)	(256,704)
Interest Expense	<u>(2,002,301)</u>	<u>(1,918,847)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,148,393)</u>	<u>3,360,119</u>
Income Before Extraordinary Items	(1,891,484)	5,726,669
EXTRAORDINARY ITEMS		
Abandoned Capital Projects	<u>-</u>	<u>(5,644,024)</u>
Change in Net Assets	(1,891,484)	82,645
Total Net Assets, January 1	<u>49,203,398</u>	<u>49,120,753</u>
Total Net Assets, December 31	<u>\$ 47,311,914</u>	<u>\$ 49,203,398</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers/Municipality	\$ 19,560,644	\$ 18,199,868
Cash Paid for Goods and Services	(8,546,206)	(5,857,208)
Cash Paid for Employees Salaries, Wages and Benefits	(6,005,593)	(6,431,987)
Net Cash Provided by Operating Activities	<u>5,008,845</u>	<u>5,910,673</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants and Entitlements	172,539	192,246
Municipal Contribution	(200,000)	(400,000)
Miscellaneous	94,979	154,480
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>67,518</u>	<u>(53,274)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Revenue Bonds	(2,275,000)	(2,205,000)
Principal Payments on Intergovernmental Loans	(2,319,278)	(2,143,821)
Principal Payments on Capital Leases	(99,961)	(94,428)
Proceeds of Project Notes	3,163,866	
Payment of Costs of Issuance - Project Notes	(35,170)	
Proceeds of Intergovernmental Loans	2,756,527	4,937,552
Proceeds of Intergovernmental Grants	891,796	3,639,656
Proceeds of Capital Leases		371,442
Interest Paid	(1,647,509)	(1,633,824)
Acquisition of Capital Assets	(2,192,189)	(9,478,314)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,756,918)</u>	<u>(6,606,737)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	268,814	312,051
Proceeds from Forward Delivery Agreement	4,600,000	-
Net Cash Provided by Investing Activities	<u>4,868,814</u>	<u>312,051</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,188,259	(437,287)
Cash and Cash Equivalents, January 1	<u>33,346,243</u>	<u>33,783,530</u>
Cash and Cash Equivalents, December 31	<u>\$ 41,534,502</u>	<u>\$ 33,346,243</u>
Analysis of Cash and Cash Equivalents		
Unrestricted	\$ 33,847,324	\$ 26,579,682
Restricted	7,687,178	6,766,561
	<u>\$ 41,534,502</u>	<u>\$ 33,346,243</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ (743,091)	\$ 2,366,550
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,328,214	2,689,666
(Increase)/Decrease in User Charges Receivable	223,076	(163,287)
(Increase)/Decrease in Other Accounts Receivable	31,287	243,913
Increase/(Decrease) in Deferred Revenue	(48,623)	(244,684)
Increase/(Decrease) in Accounts Payable	(110,427)	114,051
Increase/(Decrease) in Claims and Judgments Payable	(10,360)	
Increase/(Decrease) in Accrued Salaries and Wages	(28,742)	49,003
Increase/(Decrease) in Accrued Compensated Absences	63,970	27,232
Increase/(Decrease) in Post Retirement Benefits Payable	1,303,541	828,229
Total Adjustments	5,751,936	3,544,123
Net Cash Provided by Operating Activities	<u>\$ 5,008,845</u>	<u>\$ 5,910,673</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Amortization of Bond Premium	\$ (60,692)	\$ (60,692)
Amortization of Loan Premium	(32,208)	(29,456)
Amortization of Note Premium	(2,217)	
Amortization of Loss on Refunding	231,169	231,170
Capital Assets on Account and Capitalization of Accrued Interest on Loan	311,461	464,270
Interest Expense/Accreted Value of Capital Appreciation Revenue Bonds	322,275	307,158
Amortization of Debt Issuance Costs	260,252	256,704
Loan Proceeds Not Received		4,531,452

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF PLAN NET ASSETS
POST-EMPLOYMENT BENEFITS TRUST FUND
AS OF DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Investments	\$ -	\$ -
	<u>-</u>	<u>-</u>
Total Assets	<u>-</u>	<u>-</u>
NET ASSETS		
Net Assets Held in Trust for Other Post-Employment Benefits	<u>\$ -</u>	<u>\$ -</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CHANGES IN PLAN NET ASSETS
POST-EMPLOYMENT BENEFITS TRUST FUND
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ADDITIONS		
Contributions		
Employer	\$ 214,305	\$ 150,932
Total Additions	<u>214,305</u>	<u>150,932</u>
DEDUCTIONS		
Benefits	<u>214,305</u>	<u>150,932</u>
Total Deductions	<u>214,305</u>	<u>150,932</u>
Change in Plan Assets	<u>-</u>	<u>-</u>
NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS		
Net Assets, January 1	<u>-</u>	<u>-</u>
Net Assets, December 31	<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of the Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The North Bergen Municipal Utilities Authority (the "Authority"), a public body corporate and politic of the State, was created pursuant to the Municipal and County Utilities Authorities Law (the "Act") by virtue of an ordinance duly adopted on October 15, 1981 by the Board of Commissioners of the Township of North Bergen (the "Township").

Under provisions of the Service Agreement (Note 11), the Authority is responsible for the operation and maintenance of the waste water system which includes the Woodcliff Treatment Plant, four pumping stations and forty-two overflow regulators. These facilities handle all waste water flows from the Township and the Town of Guttenberg (the "Town") and from a small area within Union City, New Jersey. Additionally, the Authority is responsible for the collection, recycling and disposal of solid waste from the residential properties within the Township.

Under terms of the Service Agreement, the Authority charges the users of the waste water system directly, in both the Township and the Town, for the annual operating expenses of the system, including debt service and related reserve and rate coverage requirements. The charges are based on the character and volume of discharge from each user.

The Authority 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 bill 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 five members each of whom is appointed by the Mayor and Commissioners of the Township of North Bergen, for a staggered term of five years. Upon expiration of a member's term, such member continues to serve until a successor has been appointed and qualified. An Executive Director is appointed by the Board and functions as Chief Executive Officer responsible for the daily operations of the Authority. A Chief Financial Officer is appointed by the Board and oversees the fiscal affairs of the Authority.

GASB has issued Statement No. 39 which requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable. 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 such criteria, the Authority has no component units; however, the Authority is considered a component unit of the Township of North Bergen.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounting records that comprise its assets, liabilities, net assets, 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 various activities are grouped into one generic fund and one broad fund category, 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.

Additionally, the Authority also reports the following fund type:

Fiduciary Trust Fund – The Post-Employment Benefits Trust Fund is used to account for the Authority's post retirement benefits funding requirements in accordance with GASB Statement No. 45.

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with these operations (with the exception of the Fiduciary Fund) are included on the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sewer services and an assessment to the Township for solid waste 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.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets

1. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit and all short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at market value and except for the operating accounts are limited by the 1989 Bond Resolution as amended and supplemented thereto. Operating account investments are limited by NJSA 40A:5-15.1 et. seq. See Note 4 for specific disclosures on cash and investments.

2. Inventory

The costs of inventories are deemed immaterial and are recognized as expenses when purchased. The Authority does not record inventory on its statement of net assets.

3. 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.

4. 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.

5. Restricted Assets

Certain assets are classified as restricted on the statement of net assets because they are maintained in separate bank accounts and their use is limited by the 1989 Bond Resolution.

6. Capital Assets

All capital assets acquired or constructed by the Authority are reported as expenses in the account that finances the acquisition of the assets and are capitalized in the Operating Accounts. Capital assets are defined by the Authority as assets with an individual cost of \$2,000 prior to January 1, 2011 and \$5,000 subsequent to January 1, 2011 and an estimated useful life of at least two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

6. *Capital Assets* (Continued)

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

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

<u>Class</u>	<u>Life</u>
Land Improvements	5-10 Years
Building and Building Improvements	5-30 Years
Sewer Plant and Improvements	10-25 Years
Pump Station and Sewer Lines	10-40 Years
Vehicles and Equipment	5-10 Years

7. *Deferred Charges*

Debt Issuance Costs

In connection with the Authority's issuance of debt, the Authority incurred certain professional and miscellaneous expenses. These expenses are deferred and amortized over the respective lives of the debt. Unamortized debt issuance costs pertaining to refunded debt have been written off and included as part of the loss of refunding.

8. *Compensated Absences*

Sick leave and in certain instances vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Authority will compensate the employee for the benefits. Unused sick time shall be paid to employees at 50% of its accumulation cost up to a maximum of \$15,000.

Vacation time shall only be carried over to the succeeding year with approval of the Department Head or Executive Director. Non-union employees with accumulating time exceeding one full year vacation may be compensated monetarily at the rate of pay when earned for up to ten days. Any other days in excess of one year will be forfeited.

9. *Long-Term Obligations*

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Losses resulting from the refunding of debt are amortized over the life of the refunded debt or new debt, which ever is shorter. Bonds payable are reported net of the applicable bond premium or discount and loss on refunding.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Net Assets (Continued)

10. Net Assets

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

11. Reclassifications

Certain reclassifications have been made to the December 31, 2010 balances to conform to the December 31, 2011 presentation.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Accounting

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

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

Six year capital budgets are also prepared for each system. 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 or rendered, 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.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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 water consumption and include a minimum usage charge. Revenue is recognized in the year when the Authority bills the user.

Solid waste fees are remitted by the Township of North Bergen to the Authority through an appropriation provided for in the Township's annual budget. Revenue is recognized in the year the services are rendered.

3. Designated Unrestricted Net Assets

The Authority is permitted under budgetary accounting practices promulgated by the Division of Local Government Services to designate unrestricted net assets. The Board of Commissioners may formally designate net assets to establish reserves of unrestricted net assets to meet policy adopted by the Board. The Authority established the following unrestricted net assets designations:

Designated for Future Capital Projects – This designation was established to designate the Forward Delivery Agreement Investment principal and income for the purpose of funding future debt service requirements for the sanitary sewerage plant expansion and system improvements.

At December 31, 2011 and 2010 the unrestricted net assets balances were as follows:

	<u>2011</u>	<u>2010</u>
Designated for Future Capital Projects	\$ 6,402,499	\$ 10,536,457
Undesignated	<u>30,290,811</u>	<u>23,975,699</u>
	<u>\$ 36,693,310</u>	<u>\$ 34,512,156</u>

NOTE 3 CREATION OF FUNDS

Under the original Bond Resolution dated January 12, 1989 and amended and supplemented at various times, the following funds are required to be created and held by the Authority's Trustee:

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

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 3 CREATION OF FUNDS (Continued)

Each of the funds represents separate accounts held by a trustee, except for the Operating Accounts which are held by the Authority.

Only those funds and accounts that are presently required by the Trustee are described herein.

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

Revenue Fund - To account for all revenues received by the Authority. All revenues deposited into the Revenue Fund are transferred by the Trustee on the first business day of each month to the following funds described below.

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

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

Renewal and Replacement Fund - To account for the accumulation of resources to meet the renewal and replacement reserve requirement, an amount equal to twenty percent (20%) of the operating expenses of the Authority. The Trustee can withdraw from this fund, upon a certification of the consulting engineer, for the use of reasonable and necessary expenses of the Authority with respect to major repairs, renewals, replacements or maintenance items of a type not recurring annually.

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 system. 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.

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

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.

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

NOTE 4 DEPOSITS AND INVESTMENTS

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

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Bank balances at December 31, 2011 and 2010 are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2011 and 2010, the book value of the Authority's deposits were \$41,534,502 and \$33,346,243, respectively, and bank balances of the Authority's cash and deposits amounted to \$41,615,421 and \$33,365,469, respectively.

The Authority's deposits which are displayed on the balance sheet as "cash and cash equivalents" are categorized as:

	<u>2011</u>	<u>2010</u>
Insured		
Restricted	\$ 12,460,757	\$ 6,745,117
Unrestricted	21,411,701	18,885,778
Uninsured and Collateralized		
Unrestricted	<u>7,742,963</u>	<u>7,734,574</u>
	<u>\$ 41,615,421</u>	<u>\$ 33,365,469</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 not have a formal policy for custodial credit risk. As of December 31, 2011 and 2010, the Authority's bank balance of \$7,742,963 and \$7,734,574 was exposed to custodial credit risk as follows:

	<u>2011</u>	<u>2010</u>
Uninsured and collateral held by pledging bank's trust department, in the Authority's name	<u>\$7,742,963</u>	<u>\$7,734,574</u>

Investments – The Authority is required by its Bond Resolutions to maintain each of its investments in the Fund (account) in which the investment is purchased. In all accounts, except the operating account, the securities and the underlying collateral are held by the Bond Trustees and are within their care, custody and control. The type, quality and length of time of investments are regulated by the 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

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 4 DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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 bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Township or bonds or other obligations of the school districts which are a part of the Township or school districts located within the Township, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with NJSA 40A:5-15.1 (8a-8e).

As of December 31, 2011 and 2010, the Authority had the following investments:

	<u>Fair Value</u>	
	<u>2011</u>	<u>2010</u>
Restricted		
U.S. Government Securities		
Treasury Bonds	\$ 4,874,789	\$ 4,583,314
Unrestricted		
Forward Delivery Agreement	<u>6,402,499</u>	<u>10,536,457</u>
	<u>\$ 11,277,288</u>	<u>\$ 15,119,771</u>

Interest Rate Risk – The Authority does not 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.

The fair value of the above-listed investments were based on quoted market prices or in the case of the Forward Delivery Agreement the net present value of future cash flows (i.e., withdrawal amounts).

On March 8, 2001, the Authority entered into a Revenue Fund Forward Delivery Agreement with U.S. Bank (previously Wachovia Bank and First Union National Bank, the Trustee). Under the terms of the agreement, the Authority invested \$14,000,000 with the Trustee, for the purpose of accruing investment income which will fund future debt service requirements for Authority plant expansions. The Authority will withdraw commencing December 15, 2005 through 2014, \$2.3 million annually and \$260,000 on December 15, 2015 to fund the future Authority debt.

The future net present values of the Forward Delivery Agreement are as follows:

December, 2012	\$4,463,581
December, 2013	2,413,297
December, 2014	246,496

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

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 as follows:

- The "Revenue Fund" account reserves all revenues received for future distribution to the various accounts of the Authority in accordance with the Bond Resolution.
- The "Construction Fund" account segregates cash and investments that are restricted for use in construction.
- Cash and investments restricted for debt service payment on bonds are segregated in "Bond Service Fund" and "Debt Service Fund" accounts.
- Cash and investments reserved to meet future debt service contingencies are segregated in "Bond Reserve Fund" accounts.
- Cash and investments reserved for major repairs, renewals, replacements and non-routine maintenance items are segregated in "Renewal and Replacement Fund" accounts.

NOTE 6 USER CHARGES RECEIVABLE

Sewer user charges receivable at December 31, 2011 and 2010, including the applicable allowance for doubtful accounts, consisted of the following:

	<u>2011</u>	<u>2010</u>
Gross User Charges Receivable	\$ 2,769,429	\$ 2,871,743
Less: Allowance for Doubtful Accounts	<u>(735,005)</u>	<u>(614,243)</u>
Net User Charges Receivable	<u>\$ 2,034,424</u>	<u>\$ 2,257,500</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7 CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 was as follows:

	Balance January 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2011</u>
Capital Assets, Not Being Depreciated				
Land	\$ 2,500,000			\$ 2,500,000
Construction in Progress	<u>6,276,570</u>	<u>\$ 1,887,891</u>	<u>\$ 937,940</u>	<u>7,226,521</u>
Total Capital Assets, Not Being Depreciated	<u>8,776,570</u>	<u>1,887,891</u>	<u>937,940</u>	<u>9,726,521</u>
Capital Assets, Being Depreciated				
Land Improvements	35,875			35,875
Buildings and Building Improvements	2,532,166			2,532,166
Sewerage Treatment Plants and Improvements	26,832,446			26,832,446
Pump Stations and Sewer Lines	64,822,430	937,940		65,760,370
Vehicles and Equipment	<u>3,718,342</u>	<u>151,488</u>	<u>-</u>	<u>3,869,830</u>
Total Capital Assets Being Depreciated	<u>97,941,259</u>	<u>1,089,428</u>	<u>-</u>	<u>99,030,687</u>
Less Accumulated Depreciation for				
Land Improvements	(35,875)			(35,875)
Building and Building Improvements	(1,190,227)	(91,770)		(1,281,997)
Sewerage Treatment Plants and Improvements	(20,770,867)	(1,178,890)		(21,949,757)
Pump Stations and Sewer Lines	(12,967,840)	(2,851,197)		(15,819,037)
Vehicles and Equipment	<u>(3,047,227)</u>	<u>(206,355)</u>	<u>-</u>	<u>(3,253,582)</u>
Total Accumulated Depreciation	<u>(38,012,036)</u>	<u>(4,328,212)</u>	<u>-</u>	<u>(42,340,248)</u>
Total Capital Assets, Being Depreciated, Net	<u>59,929,223</u>	<u>(3,238,784)</u>	<u>-</u>	<u>56,690,439</u>
Total Capital Assets, Net	<u>\$ 68,705,793</u>	<u>\$ (1,350,893)</u>	<u>\$ 937,940</u>	<u>\$ 66,416,960</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7 CAPITAL ASSETS (Continued)

	Balance January 1, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2010</u>
Capital Assets, Not Being Depreciated				
Land	\$ 2,500,000			\$ 2,500,000
Construction in Progress	45,817,460	\$ 8,853,968	\$ (48,394,858)	6,276,570
Total Capital Assets, Not Being Depreciated	<u>48,317,460</u>	<u>8,853,968</u>	<u>(48,394,858)</u>	<u>8,776,570</u>
Capital Assets, Being Depreciated				
Land Improvements	35,875			35,875
Buildings and Building Improvements	2,532,166			2,532,166
Sewerage Treatment Plants and Improvements	26,832,446			26,832,446
Pump Stations and Sewer Lines	22,071,596	42,750,834		64,822,430
Vehicles and Equipment	3,223,007	495,335	-	3,718,342
Total Capital Assets Being Depreciated	<u>54,695,090</u>	<u>43,246,169</u>	<u>-</u>	<u>97,941,259</u>
Less Accumulated Depreciation for				
Land Improvements	(35,875)			(35,875)
Building and Building Improvements	(1,098,455)	(91,772)		(1,190,227)
Sewerage Treatment Plants and Improvements	(19,591,977)	(1,178,890)		(20,770,867)
Pump Stations and Sewer Lines	(11,739,134)	(1,228,706)		(12,967,840)
Vehicles and Equipment	(2,856,928)	(190,299)	-	(3,047,227)
Total Accumulated Depreciation	<u>(35,322,369)</u>	<u>(2,689,667)</u>	<u>-</u>	<u>(38,012,036)</u>
Total Capital Assets, Being Depreciated, Net	<u>19,372,721</u>	<u>40,556,502</u>	<u>-</u>	<u>59,929,223</u>
Total Capital Assets, Net	<u>\$ 67,690,181</u>	<u>\$ 49,410,470</u>	<u>\$ (48,394,858)</u>	<u>\$ 68,705,793</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 8 LONG-TERM DEBT

Revenue Bonds

The Authority issued revenue bonds whereby the Authority pledges income from operations to pay debt service.

On October 15, 2003, the Authority issued \$33,760,000 Sewer Revenue Refunding Bonds, Series 2003 (the "2003 Sewer Refunding Bonds"). The 2003 bonds were issued to (1) currently refund a portion of the Authority's outstanding 1993 bonds, (2) satisfy the Bond Reserve Fund Requirement and (3) pay the costs and expenses associated with the issuance of the 2003 bonds.

On December 27, 2007 the Authority issued \$5,676,013 Sewer Revenue Subordinated Capital Appreciation Bonds, Series 2007 (the "2007 Bonds"). The 2007 bonds were issued to provide funds which will be used to (i) fund certain projects of the Authority; and (ii) to pay the costs and expenses associated with the issuance of the 2007 bonds. Revenue Bonds outstanding at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Waste Water System Revenue Bonds, Refunding Series 2003		
Revenue Serial Bonds Payable 2.00% to 5.25% due December 15, 2019	\$ 22,050,000	\$ 24,325,000
Sewer Revenue Subordinated Capital Appreciation Bonds, Series 2007		
Capital Appreciation Bonds Payable Due December 15, 2020 to		
December 15, 2034 (Includes Accretion of \$322,275 and \$307,158		
through December 31, 2011 and 2010, respectively).	<u>6,868,028</u>	<u>6,545,753</u>
Total	<u>\$ 28,918,028</u>	<u>\$ 30,870,753</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8 LONG-TERM DEBT (Continued)

Intergovernmental Loans Payable – The Authority has entered into loan agreements with the New Jersey Environmental Infrastructure Trust and the Township to provide funds for the construction and improvements to the sanitary sewerage system plants, pump stations and sewer lines and the construction of the solid waste system maintenance facility. The Authority has pledged income from operations to retire the debt service.

Loans payable at December 31, 2011 and 2010 are comprised of the following:

	<u>2011</u>	<u>2010</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Waste Water System		
4.50% due in annual installments on August 1 through 2018	\$ 885,000	\$ 990,000
Trust Loan Payable - Waste Water System		
5.50% to 5.70% due in annual installments on August 1 through 2019	100,000	110,000
Trust Loan Payable - Waste Water System		
3.40% to 5.00% due in annual installments on August 1 through 2027	9,330,000	9,725,000
Trust Loan Payable - Waste Water System		
3.50% to 5.00% due in annual installments on August 1 through 2029	2,225,000	2,305,000
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2018	668,760	763,854
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2019	73,306	82,585
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2027	24,173,056	25,680,249
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2029	<u>2,184,808</u>	<u>2,265,726</u>
	39,639,930	41,922,414
Township of North Bergen		
Loan Payable - Solid Waste System		
5.25% due in annual installments on June 1 through 2020	<u>431,435</u>	<u>468,229</u>
Total	<u>\$ 40,071,365</u>	<u>\$ 42,390,643</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8 LONG-TERM DEBT (Continued)

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

<u>Year Ending</u> <u>December 31,</u>	<u>Revenue Bonds</u>		<u>Intergovernmental Loans</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2012	\$ 2,355,000	\$ 1,001,204	\$ 2,391,960	\$ 576,703	\$ 6,324,867
2013	2,435,000	918,779	2,415,305	550,810	6,319,894
2014	2,525,000	831,119	2,441,904	523,645	6,321,668
2015	2,660,000	698,556	2,466,706	494,923	6,320,185
2016	2,800,000	558,906	2,515,060	458,628	6,332,594
2017-2021	11,070,000	801,968	12,297,420	1,717,866	25,887,254
2022-2026	4,905,000		12,381,191	837,162	18,123,353
2027-2031	5,005,000		3,161,819	73,788	8,240,607
2032-2034	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
	36,755,000	<u>\$ 4,810,532</u>	<u>\$ 40,071,365</u>	<u>\$ 5,233,525</u>	<u>\$ 86,870,422</u>
Less: Unaccrued					
Value of Capital					
Appreciation					
Revenue Bonds					
at December 31, 2011	<u>7,836,972</u>				
	<u>\$ 28,918,028</u>				

Capital Lease - In 2010, the Authority entered into an agreement for the lease of two (2) sanitation trucks. The capital lease agreement is for a term of 5 years. The following is a schedule of the future minimum lease payments and the present value of the net minimum lease payments at December 31, 2011.

<u>Year Ended</u>	<u>Amount</u>
2012	\$ 84,708
2013	84,708
2014	84,708
2015	<u>28,236</u>
Total Minimum Lease Payments	282,360
Less: Amounts Representing Interest	<u>24,013</u>
Present Value of Net Minimum Lease Payments	<u>\$ 258,347</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8 LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

The Authority's long-term liability activity for the years ended December 31, 2011 and 2010 are as follows:

	Balance, January 1, 2011	Additions	Reductions	Balance, December 31, 2011	Due Within One Year
Revenue Bonds	\$ 30,870,753	\$ 322,275	\$ 2,275,000	\$ 28,918,028	\$ 2,355,000
Issuance Premium	533,585		60,692	472,893	
Deferred Loss on Refunding	(2,061,731)	-	(231,169)	(1,830,562)	-
Total Revenue Bonds Payable	29,342,607	322,275	2,104,523	27,560,359	2,355,000
Intergovernmental Loans Payable	42,390,643		2,319,278	40,071,365	2,391,960
Issuance Premium	339,755	-	32,208	307,547	-
Total Intergovernmental Loans Payable	42,730,398	-	2,351,486	40,378,912	2,391,960
Capital Leases Payable	358,308		99,961	258,347	72,790
Compensated Absences	290,444	63,970		354,414	
Post Retirement Benefits Payable	2,411,417	1,517,846	214,305	3,714,958	-
	<u>\$ 75,133,174</u>	<u>\$ 1,904,091</u>	<u>\$ 4,770,275</u>	<u>\$ 72,266,990</u>	<u>\$ 4,819,750</u>
	Balance, January 1, 2010	Additions	Reductions	Balance, December 31, 2010	Due Within One Year
Revenue Bonds	\$ 32,768,595	\$ 307,158	\$ 2,205,000	\$ 30,870,753	\$ 2,275,000
Issuance Premium	594,277		60,692	533,585	
Deferred Loss on Refunding	(2,292,901)	-	(231,170)	(2,061,731)	-
Total Revenue Bonds Payable	31,069,971	307,158	2,034,522	29,342,607	2,275,000
Intergovernmental Loans Payable	39,963,738	4,570,726	2,143,821	42,390,643	2,319,278
Issuance Premium	202,238	166,973	29,456	339,755	-
Total Intergovernmental Loans Payable	40,165,976	4,737,699	2,173,277	42,730,398	2,319,278
Capital Leases Payable	81,294	\$ 371,442	94,428	358,308	99,961
Compensated Absences	263,212	27,232		290,444	-
Post Retirement Benefits Payable	1,583,188	979,161	150,932	2,411,417	-
	<u>\$ 73,163,641</u>	<u>\$ 6,422,692</u>	<u>\$ 4,453,159</u>	<u>\$ 75,133,174</u>	<u>\$ 4,694,239</u>

As noted above, the principal amount of bonds outstanding at December 31, 2011 and 2010 of \$28,918,028 and \$30,870,753, respectively, have been increased by the unamortized bond premium on the 2003 refunding bonds in the amounts of \$472,893 and \$533,585. In accordance with GASB No. 23, the bonds outstanding have been reduced by the unamortized deferred loss on the 2003 and 1993 refunding bonds. Also, the principal amount of Intergovernmental Loans outstanding at December 31, 2011 and 2010 have been increased by the unamortized premium on the 2009 Environmental Infrastructure Loans in the amounts of \$307,547 and \$339,755.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 9 SHORT-TERM DEBT

The Authority issued project notes during 2011 to fund the reimbursement of certain capital expenses related to the replacement of the Authority's Central Treatment Plant by a connection of its sewer system to the sewer treatment facilities of the Passaic Valley Sewerage Commission. The Authority's short-term liability activity for the year ended December 31, 2011 is as follows:

	Balance, January 1, 2011	Additions	Reductions	Balance, December, 2011
<u>2011</u>				
Project Notes		\$ 3,155,000		\$ 3,155,000
Issuance Premium	-	8,866	\$ 2,217	6,649
	<u>\$ -</u>	<u>\$ 3,163,866</u>	<u>\$ 2,217</u>	<u>\$ 3,161,649</u>

NOTE 10 CONSTRUCTION AND SIGNIFICANT COMMITMENTS

As of December 31, 2011 and 2010, the Authority had the following commitments with respect to unfinished capital projects:

	<u>2011</u>	<u>2010</u>
Wastewater Conveyance System Force Main	\$ 108,926	\$ 451,525
Rehabilitation of Central Treatment Plant's Pump Station	148,653	196,950
Closure of Central Treatment Plant	4,792	
Pipeline North Bergen Pump Station	216,663	
Rehabilitation of CSO Regulators, Inline Netting Chamber, Plant Mechanical Bar Screens and Comminutors	90,006	433,889
Pipe Replacement		31,833
Pipe Lining	-	1,178,423
	<u>\$ 569,040</u>	<u>\$ 2,292,620</u>
Analysis:		
Contracts Payable	\$ 311,461	\$ 464,270
Outstanding Commitment	257,579	1,828,350
	<u>\$ 569,040</u>	<u>\$ 2,292,620</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 11 SERVICE AGREEMENT

The Authority, the Township of North Bergen, and the Town of Guttenberg have entered into a Service Agreement in order to provide additional security to the holders of the debt obligations of the Authority issued in connection with the Waste Water System. Pursuant to the terms of the Service Agreement, the Township and the Town have severally agreed to make up deficiencies, if any, in revenues of the Authority so that the Authority will have sufficient funds to pay its operating and administrative costs, and debt service on "bonds" (as such term is defined in the Service Agreement). The Service Agreement will remain in full force and effect as long as any obligations of the Authority that are entitled to the benefits thereof shall remain outstanding.

The Authority shall, in any fiscal year that the Authority estimates that the amount of revenues received from operation of the Waste Water System will be insufficient to satisfy all of its costs and expenses related thereto, impose and collect annual charges, as such term is defined in the Service Agreement (the "Annual Charges"), from the Township and the Town, as applicable. Such Annual Charges shall be an amount which is sufficient to provide for (after taking into account all other moneys of the Authority) deficiencies in funds of the Authority which are needed to pay for the Authority's expenses of (1) construction, acquisition, operation and maintenance of the Waste Water System, and the principal of and the interest on "all bonds" as such term is defined in the Service Agreement, as the same become due, (2) maintenance of reserves or sinking funds as may be required by the terms of any contract of the Authority or any bond resolution, or as may be deemed to be necessary or desirable by the Authority, (3) complying with the terms of any bond resolution and with the Act, and (4) making payments which are required by the terms of any contract or agreement executed by the Authority with respect to the Waste Water System.

The Annual Charges, if any, which are charged and which are payable by the Township and the Town under the terms of the Service Agreement will constitute the valid, binding, direct and general obligations of the Township and the Town, as applicable, and will be payable out of the first funds becoming legally available for such purpose. The obligation of the Town is limited to an amount representing the deficiencies in Revenues with respect to the Woodcliff Plant Service Area.

The Authority covenants to repay all Annual Charges paid by the Township and the Town without interest out of the surplus revenues of the Authority. Should the Township or the Town be obligated to pay supplemental Annual Charges due to the collection of inadequate user charges or other fees by the Authority, and then the Authority shall credit the difference against the amount of the next payment due in the succeeding Fiscal Year. As of the date of this audit, neither the Township nor the Town has been required to pay an annual charge to the Authority under the Service Agreement.

The Authority and the Jersey City Municipal Utilities Authority ("JCMUA") have agreed to undertake certain construction projects in furtherance of their agreement entitled Interlocal Sewer Connection and Service Agreement dated March 6, 2006. The JCMUA will realign the Northwest interceptor in the vicinity of Manhattan Avenue through its license agreement with Norfolk Southern Railroad and the NBMUA will construct a sewer line in the vicinity of Manhattan Avenue to facilitate delivery of sewage to the JCMUA sewage system and in turn to the PVSC treatment plant.

The design and construction of the project will be the responsibility of the JCMUA. The project is being funded by an NJEIT loan awarded to the JCMUA. The NBMUA will be responsible for paying its pro-rata share of the semi-annual debt service loan repayments. It is estimated that NBMUA's share of the future principal and interest will be approximately \$2,760,000.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 12 AMOUNTS REQUIRED BY BOND RESOLUTION COVENANTS

The Authority's waste water bond covenants require certain restricted funds to be on deposit at year-end. The balances required to be on deposit as of December 31, 2011 and 2010 are as follows:

	<u>December 31,</u> <u>2011</u>	<u>2010</u>
<u>Bond Reserve Fund</u>		
Required Balances	\$ 3,361,906	\$ 3,361,906
Cash and Investments	<u>6,904,869</u>	<u>6,370,124</u>
Excess	<u>\$ 3,542,963</u>	<u>\$ 3,008,218</u>
<u>Renewal and Replacement Fund</u>		
Required Balances	\$ 1,891,526	\$ 1,802,920
Cash and Investments	<u>1,891,527</u>	<u>1,826,020</u>
Excess	<u>\$ 1</u>	<u>\$ 23,100</u>

NOTE 13 OTHER INFORMATION

A. Employee Retirement System and Pension Plan

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 health care, 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 health care coverage.

Other Pension Funds

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

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

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

A. Employee Retirement System and Pension Plan (Continued)

Other Pension Funds (Continued)

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

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. 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 or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

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

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

Significant Legislation

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

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

- New members of PERS hired on or after June 28, 2011 (Tier 5 members), will need 30 years of creditable service and to attain age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

A. Employee Retirement System and Pension Plan (Continued)

Significant Legislation (Continued)

- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years, PFRS and PERS Prosecutors Part active member rates increase from 8.5 percent to 10 percent. For Fiscal Year 2012, the member contribution rates increase in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

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

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems, including PERS, is 70.5 percent with an unfunded actuarial accrued liability of \$36.3 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 65.2 percent and \$25.6 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 78.5 percent and \$10.7 billion, respectively.

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

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

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate of return for PERS; and (2) 5.45 percent for projected salary increases for PERS.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

A. Employee Retirement System and Pension Plan (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 PERS retirement system requires employee contributions based on 6.50% of employees annual compensation.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2011 for PERS, which is a cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

During the years ended December 31, 2011, 2010 and 2009, the Authority was required to contribute for normal cost pension contributions the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2011	\$ 363,475
2010	278,637
2009	231,771

B. Post Retirement Medical Benefits

Plan Description

The Authority provides a post employment healthcare plan for its eligible retirees and their dependents (as defined by the Authority). The plan is a single-employer defined benefit healthcare plan administered by Horizon Blue Cross Blue Shield. In accordance with Authority resolution, the Authority provides payment of the entire cost of coverage for its employees and their dependents: (a) who have retired on a disability pension; (b) who have retired after 25 years or more of service credit in the Public Employees Retirement System and at least 10 years of service with the Authority; (c) who have retired and reached the age of 62 years or older with at least 15 years of service with the Authority. The coverage shall mirror the coverage provided for active employees. For purposes of establishing years of service with the Authority for this resolution only, any Authority employee who has previously worked for the Township of North Bergen, the years of service with the Township shall be credited to his/her years of service with the Authority. As specified above, "dependents" shall mean an employee's spouse and the employee's unmarried children, including stepchildren, and legally adopted children, under the age of 23 who live with the employees in a regular parent-child relationship, and depend on the employee for maintenance and support. Medical coverage shall only apply to those employees employed by the Authority on January 1, 2002 and who have retired thereafter from the Authority; this resolution is not retroactive. Once the retiree becomes eligible to receive benefits pursuant to Medicare, the health benefits conferred by this resolution shall become secondary to those benefits provided to the retiree under Medicare. The benefits conferred by this resolution shall be secondary to any other health benefits or coverage available to the retiree and/or their dependents from other sources.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

B. Post Retirement Medical Benefits (Continued)

Funding Policy

The required contribution is funded on a pay-as-you-go basis. For the years 2011, 2010 and 2009, the Authority contributed \$214,305, \$150,932 and \$137,780 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 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 year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the plan.

Annual Required Contribution	\$ 1,176,985
Interest on Net OPEB Obligation	120,571
Adjustment to Annual Required Contribution	<u>220,290</u>
Annual OPEB Cost (Expense)	1,517,846
Contributions Made	<u>(214,305)</u>
Increase in Net OPEB Obligation	1,303,541
Net OPEB Obligation, January 1, 2011	<u>2,411,417</u>
Net OPEB Obligation, December 31, 2011	<u>\$ 3,714,958</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years 2011, 2010 and 2009 were as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligations</u>
2011	\$ 1,517,846	14.1%	\$ 3,714,958
2010	979,161	15.4%	2,411,417
2009	931,536	14.8%	1,583,188

Funded Status and Funding Progress

As of December 31, 2011 and 2010, the plan was unfunded. The accrued liability for benefits was \$16,801,031 and \$10,995,177, respectively. The Authority has no plan assets resulting in an unfunded accrued liability (UAAL). The covered payroll (annual payroll of active employees covered by the plan) was \$3,244,063 and \$2,534,768, and the ratio of the UAAL to the covered payroll was 5.18% and 4.33%.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

B. Post Retirement Medical Benefits (Continued)

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

Actuarial Methods and Assumptions

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

In the December 31, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expense) which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by 1% decrements to an ultimate rate of 5 percent after four years. The UAAL is being amortized as a level dollar amount on a 30 year open basis. The remaining amortization period at December 31, 2011 was 26 years.

C. Contingent Liabilities

In October, 2007, the Authority entered into an agreement with a construction company to connect a new force main from the Authority's Central Treatment Plant to an interceptor owned and maintained by Jersey City. The project has experienced numerous delays and cost increase. The contractor has alleged these delays and cost increases are a result of unforeseen or changed site conditions and that the contractor is entitled to additional compensation. The contractor prepared a claim which alleged additional costs of approximately \$3,800,000. The Authority and the contractor through mediation resolved the claim and settled the dispute for \$880,000 payable in two equal payments due June 1, 2012 and June 2, 2013, respectively. 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 Authority's 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, 2011 and 2010, 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.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 13 OTHER INFORMATION (Continued)

D. Risk Management

The Authority is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Authority has obtained insurance coverage to guard against these events which will provide minimum exposure to the Authority should they occur.

The Authority is a member of the New Jersey Utilities Authority Joint Insurance Fund (NJUAJIF). The joint insurance fund is both an insured and self-administered group of authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and worker's compensation. The Fund is a risk-sharing public entity pool. The NJUAJIF coverage amounts are on file with the Authority.

The relationship between the Authority and the insurance fund is governed by a contract and by-laws that have been adopted by resolution of each unit's governing body. The Authority is contractually obligated to make all annual and supplementary contributions to the insurance fund, to report claims on a timely basis, to cooperate with the management of the Fund, its claims administrator and attorneys in claims investigation and settlement, and to follow risk management procedures as outlined by the insurance pools. Members have a contractual obligation to fund any deficit of the insurance funds attributable to a membership year during which the municipality was a member.

The funds provide its members with risk management services, including the defense of and settlement of claims, and established reasonable and necessary loss reduction and prevention procedures to be followed by the members. Complete financial statements of the funds can be obtained by contacting the respective fund's Treasurer.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage in any of the prior three years.

NOTE 14 DEFEASANCE OF DEBT

On October 15, 2003, the Authority issued \$33,760,000 Sewer Revenue Refunding Bonds having an interest rate ranging from 2.00% to 5.25%. These bonds were issued in order to currently refund certain principal maturities and interest payments of the Authority's Sewer Revenue Refunding Bonds, Series 1993. The total bond principal refunded was \$33,475,000. The net proceeds of \$34,984,844 (after payment of underwriting fees, insurance and other insurance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to pay the principal and interest on the refunded bonds.

The current refunding resulted in the issuance of an additional \$285,000 in bonds and resulted in an increase of cash flows over the life of these bond issues in the amount \$3,662,294; however, the economic gain (difference between the present values of the old and new debt service payments) was \$2,572,122. The reacquisition price exceeded the net carrying amount of the old debt by \$1,443,432. This amount is being netted against the new debt and amortized over the life of the new debt, which is same remaining life of the refunded debt.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

NOTE 15 FEDERAL ARBITRAGE REGULATIONS

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2011 and 2010, the Authority has estimated that there is no arbitrage earnings due to the IRS.

NOTE 16 SUBSEQUENT EVENTS

On February 8, 2012, the Authority approved the issuance of \$2,844,758 subordinated sewer revenue bonds. The bonds will be issued through a financing agreement with the New Jersey Environmental Infrastructure Trust.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS TRUST FUND**

<u>Actuarial Valuation Date</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>
December 31, 2011		\$ 16,801,031	\$ 16,801,031		\$ 3,244,063	5.18%
December 31, 2010		10,995,177	10,995,177		2,534,768	4.33%
December 31, 2009		10,484,865	10,484,865		2,550,678	4.11%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 1,176,985	18.21%
2010	979,161	14.1%
2009	931,536	14.8%

SUPPLEMENTARY SCHEDULES

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMBINING STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011

ASSETS	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
UNRESTRICTED CURRENT ASSETS			
Cash and Cash Equivalents	\$ 1,927,432	\$ 31,919,892	\$ 33,847,324
Investments-Forward Delivery Agreement		2,300,000	2,300,000
User Charges Receivable (Net of Allowance for Doubtful Accounts)		2,034,424	2,034,424
Other Accounts Receivable	34,692	84,254	118,946
Total Unrestricted Current Assets	1,962,124	36,338,570	38,300,694
RESTRICTED CURRENT ASSETS			
Revenue Account			
Cash and Cash Equivalents		636,875	636,875
Bond Reserve Account			
Cash and Cash Equivalents		2,030,080	2,030,080
Investments		4,874,789	4,874,789
Renewal and Replacement Account			
Cash and Cash Equivalents		1,891,527	1,891,527
Construction Account			
Cash and Cash Equivalents		3,128,696	3,128,696
Accrued Interest Receivable		31,411	31,411
Environmental Infrastructure Trust Loan Receivable	-	1,774,925	1,774,925
Total Restricted Current Assets	-	14,368,303	14,368,303
Total Current Assets	1,962,124	50,706,873	52,668,997
NON-CURRENT ASSETS			
Investments-Forward Delivery Agreement	-	4,102,499	4,102,499
Deferred Charges			
Debt Issuance Costs (Net of Amortization)	-	1,125,920	1,125,920
Capital Assets			
Land		2,500,000	2,500,000
Land Improvements		35,875	35,875
Buildings and Building Improvements	1,115,138	1,417,028	2,532,166
Sewerage Treatment Plants and Improvements		26,832,446	26,832,446
Pump Stations and Sewer Lines		65,760,370	65,760,370
Vehicles and Equipment	1,727,735	2,142,095	3,869,830
Construction in Progress		7,226,521	7,226,521
Accumulated Depreciation	(1,917,158)	(40,423,090)	(42,340,248)
Total Capital Assets (Net of Accumulated Depreciation)	925,715	65,491,245	66,416,960
Total Non-Current Assets	925,715	70,719,664	71,645,379
Total Assets	2,887,839	121,426,537	124,314,376

Continued

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMBINING STATEMENT OF NET ASSETS (CONT'D)
AS OF DECEMBER 31, 2011**

LIABILITIES AND NET ASSETS	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
CURRENT LIABILITIES (Payable from Unrestricted Assets)			
Accounts Payable	\$ 41,741	\$ 392,129	\$ 433,870
Capital Lease Payable	72,790		72,790
Accrued Salaries and Wages	82,848	77,333	160,181
Accrued Interest on Bonds, Notes and Loans	13,213	230,763	243,976
Deferred Revenue	290,476	84,254	374,730
Intergovernmental Loans Payable	38,726	2,353,234	2,391,960
Total Current Liabilities Payable from Unrestricted Assets	539,794	3,137,713	3,677,507
CURRENT LIABILITIES (Payable from Restricted Assets)			
Construction Contracts Payable		311,461	311,461
Accrued Interest on Bonds and Notes		49,605	49,605
Project Notes Payable		3,161,649	3,161,649
Revenue Bonds Payable	-	2,355,000	2,355,000
Total Current Liabilities Payable from Restricted Assets	-	5,877,715	5,877,715
Total Current Liabilities	539,794	9,015,428	9,555,222
NON-CURRENT LIABILITIES			
Accrued Compensated Absences	199,725	154,689	354,414
Post Retirement Benefits Payable	1,644,473	2,070,485	3,714,958
Capital Leases Payable	185,557		185,557
Revenue Bonds Payable (Net of Unamortized Loss)		25,205,359	25,205,359
Intergovernmental Loans Payable	392,709	37,594,243	37,986,952
Total Non-Current Liabilities	2,422,464	65,024,776	67,447,240
Total Liabilities	2,962,258	74,040,204	77,002,462
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	231,933	8,939,408	9,171,341
Restricted For:			
Pre-Treatment Program		44,886	44,886
Renewals and Replacements		1,402,377	1,402,377
Unrestricted	(306,352)	36,999,662	36,693,310
Total Net Assets	\$ (74,419)	\$ 47,386,333	\$ 47,311,914

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
OPERATING REVENUES			
User Charges		\$ 12,657,511	\$ 12,657,511
Service Charges	\$ 209,695		209,695
Connection Fees		434,405	434,405
Interest on Delinquent Accounts		341,293	341,293
Contribution - Township of North Bergen	5,712,000	-	5,712,000
	<u>5,921,695</u>	<u>13,433,209</u>	<u>19,354,904</u>
Total Operating Revenues			
OPERATING EXPENSES			
Administration			
Salaries and Wages	229,178	602,491	831,669
Fringe Benefits	312,686	476,393	789,079
Other Expenses	212,931	608,091	821,022
Cost of Providing Services			
Salaries and Wages	1,752,293	1,194,931	2,947,224
Fringe Benefits	1,445,789	1,330,601	2,776,390
Other Expenses	2,510,895	5,093,502	7,604,397
Depreciation	158,912	4,169,302	4,328,214
	<u>6,622,684</u>	<u>13,475,311</u>	<u>20,097,995</u>
Total Operating Expenses			
Operating Income (Loss)	<u>(700,989)</u>	<u>(42,102)</u>	<u>(743,091)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest on Investment Income		1,026,159	1,026,159
Grants and Entitlements	193,022	-	193,022
Miscellaneous Revenues	76,500	18,479	94,979
Municipal Contribution		(200,000)	(200,000)
Amortization of Debt Issuance Costs		(260,252)	(260,252)
Interest Expense	(39,782)	(1,962,519)	(2,002,301)
	<u>229,740</u>	<u>(1,378,133)</u>	<u>(1,148,393)</u>
Total Non-Operating Revenues (Expenses)			
Change in Net Assets	(471,249)	(1,420,235)	(1,891,484)
Total Net Assets, January 1	<u>396,830</u>	<u>48,806,568</u>	<u>49,203,398</u>
Total Net Assets, December 31	<u>\$ (74,419)</u>	<u>\$ 47,386,333</u>	<u>\$ 47,311,914</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers/Municipality	\$ 5,904,359	\$ 13,656,285	\$ 19,560,644
Cash Paid for Goods and Services	(2,753,303)	(5,792,903)	(8,546,206)
Cash Paid for Employees Salaries, Wages and Benefits	(3,002,228)	(3,003,365)	(6,005,593)
Net Cash Provided by Operating Activities	<u>148,828</u>	<u>4,860,017</u>	<u>5,008,845</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating Grants and Entitlements	172,539		172,539
Municipal Contribution		(200,000)	(200,000)
Miscellaneous	76,500	18,479	94,979
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>249,039</u>	<u>(181,521)</u>	<u>67,518</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Payments on Revenue Bonds		(2,275,000)	(2,275,000)
Principal Payments on Intergovernmental Loans	(36,794)	(2,282,484)	(2,319,278)
Principal Payments on Capital Leases	(99,961)		(99,961)
Proceeds of Project Notes		3,163,866	3,163,866
Payment of Cost of Issuance - Project Notes		(35,170)	(35,170)
Proceeds of Intergovernmental Loans		2,756,527	2,756,527
Proceeds of Intergovernmental Grants		891,796	891,796
Interest Paid	(40,908)	(1,606,601)	(1,647,509)
Acquisition of Capital Assets	(132,141)	(2,060,048)	(2,192,189)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(309,804)</u>	<u>(1,447,114)</u>	<u>(1,756,918)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received		268,814	268,814
Proceeds from Forward Delivery Agreement	-	4,600,000	4,600,000
Net Cash Provided by Investing Activities	<u>-</u>	<u>4,868,814</u>	<u>4,868,814</u>
Net Increase in Cash and Cash Equivalents	88,063	8,100,196	8,188,259
Cash and Cash Equivalents, January 1, 2011	<u>1,839,369</u>	<u>31,506,874</u>	<u>33,346,243</u>
Cash and Cash Equivalents, December 31, 2011	<u>\$ 1,927,432</u>	<u>\$ 39,607,070</u>	<u>\$ 41,534,502</u>
Analysis of Cash and Cash Equivalents			
Unrestricted	\$ 1,927,432	\$ 31,919,892	\$ 33,847,324
Restricted	-	7,687,178	7,687,178
	<u>\$ 1,927,432</u>	<u>\$ 39,607,070</u>	<u>\$ 41,534,502</u>

Continued

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
COMBINING STATEMENT OF CASH FLOWS (CON'T)
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (700,989)	\$ (42,102)	\$ (743,091)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	158,912	4,169,302	4,328,214
(Increase)/Decrease in User Charges Receivable		223,076	223,076
(Increase)/Decrease in Other Accounts Receivable	(17,336)	48,623	31,287
Increase/(Decrease) in Deferred Revenue		(48,623)	(48,623)
Increase/(Decrease) in Accounts Payable	(29,477)	(80,950)	(110,427)
Increase/(Decrease) in Claims and Judgments Payable		(10,360)	(10,360)
Increase/(Decrease) in Accrued Salaries and Wages	(19,523)	(9,219)	(28,742)
Increase/(Decrease) in Accrued Compensated Absences	46,219	17,751	63,970
Increase/(Decrease) in Post Retirement Benefits Payable	711,022	592,519	1,303,541
Total Adjustments	849,817	4,902,119	5,751,936
Net Cash Provided by Operating Activities	<u>\$ 148,828</u>	<u>\$ 4,860,017</u>	<u>\$ 5,008,845</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Amortization of Bond Premium	\$ (60,692)	\$ (60,692)	
Amortization of Loan Premium	(32,208)	(32,208)	
Amortization of Note Premium	(2,217)	(2,217)	
Amortization of Loss on Refunding	231,169	231,169	
Capital Assets on Account	311,461	311,461	
Interest Expense/Accreted Value of Capital Appreciation			
Revenue Bonds	322,275	322,275	
Amortization of Debt Issuance Costs	260,252	260,252	

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011
BUDGETARY BASIS
(With Comparative Amounts for the Year Ended December 31, 2010)

	<u>2011</u> <u>Original Budget</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
SOLID WASTE			
OPERATING REVENUES			
Service Charges	\$ 204,000	\$ 209,695	\$ 207,153
Contribution - Township of North Bergen	<u>5,712,000</u>	<u>5,712,000</u>	<u>5,600,000</u>
	<u>5,916,000</u>	<u>5,921,695</u>	<u>5,807,153</u>
NON-OPERATING REVENUES			
Operating Grants and Entitlements		193,022	
Miscellaneous Revenues	<u>48,966</u>	<u>76,500</u>	<u>72,618</u>
Total Non-Operating Revenues	<u>48,966</u>	<u>269,522</u>	<u>72,618</u>
Total Solid Waste Revenues	<u>5,964,966</u>	<u>6,191,217</u>	<u>5,879,771</u>
WASTE WATER			
OPERATING REVENUES			
User Charges	11,600,000	12,657,511	11,898,138
Connection Fees	250,000	434,405	338,054
Interest on Delinquent Accounts	<u>275,000</u>	<u>341,293</u>	<u>320,581</u>
Total Operating Revenues	<u>12,125,000</u>	<u>13,433,209</u>	<u>12,556,773</u>
NON-OPERATING REVENUES			
Interest and Investment Income	100,000	1,026,159	1,236,191
Operating Grants and Entitlements			4,544,999
Miscellaneous Revenues	<u>-</u>	<u>18,479</u>	<u>81,862</u>
Total Non-Operating Revenues	<u>100,000</u>	<u>1,044,638</u>	<u>5,863,052</u>
Total Waste Water Revenues	<u>12,225,000</u>	<u>14,477,847</u>	<u>18,419,825</u>
Grand Total	<u>\$ 18,189,966</u>	<u>\$ 20,669,064</u>	<u>\$ 24,299,596</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENSES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011
BUDGETARY BASIS
(With Comparative Amounts for the Year Ended December 31, 2010)

	<u>2011</u> <u>Original Budget</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
SOLID WASTE			
OPERATING APPROPRIATIONS			
Administration			
Salaries and Wages	\$ 217,700	\$ 229,178	\$ 219,057
Fringe Benefits	270,500	261,899	272,009
Other Expenses	113,100	212,931	97,751
Cost of Providing Services			
Salaries and Wages	1,700,000	1,752,293	1,664,217
Fringe Benefits	858,790	785,554	905,201
Other Expenses	<u>2,627,213</u>	<u>2,510,895</u>	<u>2,250,317</u>
Total Operating Appropriations	<u>5,787,303</u>	<u>5,752,750</u>	<u>5,408,552</u>
NON-OPERATING APPROPRIATIONS			
Principal Payments on Debt	136,755	136,755	129,387
Interest on Debt	<u>40,908</u>	<u>39,782</u>	<u>25,347</u>
Total Non-Operating Appropriations	<u>177,663</u>	<u>176,537</u>	<u>154,734</u>
Total Solid Waste Appropriations	<u>5,964,966</u>	<u>5,929,287</u>	<u>5,563,286</u>

WASTE WATER**OPERATING APPROPRIATIONS**

Administration			
Salaries and Wages	620,630	602,491	572,813
Fringe Benefits	348,500	307,102	435,918
Other Expenses	787,500	608,091	578,815
Cost of Providing Services			
Salaries and Wages	1,200,000	1,194,931	1,622,929
Fringe Benefits	1,021,600	907,373	1,644,307
Other Expenses	<u>5,479,400</u>	<u>5,093,502</u>	<u>3,044,376</u>
Total Operating Appropriations	<u>9,457,630</u>	<u>8,713,490</u>	<u>7,899,158</u>

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENSES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011
BUDGETARY BASIS
(With Comparative Amounts for the Year Ended December 31, 2010)

	2011 <u>Original Budget</u>	2011 <u>Actual</u>	2010 <u>Actual</u>
WASTE WATER (continued)			
NON-OPERATING APPROPRIATIONS			
Principal on Payment of Debt	\$ 4,557,484	\$ 4,557,484	\$ 4,313,862
Interest Expense	1,612,869	1,640,244	1,586,342
Municipal Contribution	<u>200,000</u>	<u>200,000</u>	<u>400,000</u>
Total Non-Operating Appropriations	<u>6,370,353</u>	<u>6,397,728</u>	<u>6,300,204</u>
Total Waste Water Appropriations	<u>15,827,983</u>	<u>15,111,218</u>	<u>14,199,362</u>
Grand Total	<u>\$ 21,792,949</u>	21,040,505	<u>\$ 19,762,648</u>

Reconciliation to GAAP Basis

Increased by:

Depreciation Expense - Solid Waste	158,912
Depreciation Expense - Waste Water	4,169,302
Post Retirement Benefit Expense - Solid Waste	711,022
Post Retirement Benefit Expense - Waste Water	592,519
Amortization of Debt Issuance Costs	260,252
Interest Expense/Accreted Value of Capital	
Appreciation Revenue Bonds	322,275

Decreased by:

Principal Payments on Debt - Solid Waste	(136,755)
Principal Payments on Debt - Waste Water	<u>(4,557,484)</u>

Total GAAP Basis Expenses \$ 22,560,548

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Description</u>	<u>Date Issued</u>	<u>Amount</u>	<u>Maturities of Bonds Date</u>	<u>Interest Rate</u>	<u>Balance January 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2011</u>
Waste Water Revenue Refunding	10/15/2003	\$ 33,760,000	12/15/2012 12/15/2013 12/15/2014 12/15/2015 12/15/2016 12/15/2017 12/15/2018 12/15/2019	3.50 % 3.60 5.25 5.25 5.25 5.25 4.00 4.125				
					\$ 24,325,000		\$ 2,275,000	\$ 22,050,000
Sewer Revenue Subordinated Capital Appreciation Bonds	12/27/07	5,676,013	12/15/2020 12/15/2021 12/15/2022 12/15/2023 12/15/2024 12/15/2025 12/15/2026 12/15/2027 12/15/2028 12/15/2029 12/15/2030 12/15/2031 12/15/2032 12/15/2033 12/15/2034					
					6,545,753	\$ 322,275	-	6,868,028
Total Bonds Payable					\$ 30,870,753	\$ 322,275	\$ 2,275,000	28,918,028
Less: Current Portion of Bonds Payable								
Waste Water Revenue Refunding Bonds (Series 2003)								
Unamortized Loss on Refunding Bond Issue (Note 9)								
Unamortized Bond Premium (Series 2003 - Note 9)								
								2,355,000
								1,830,562
								(472,893)
Total Long-Term Portion of Bonds Payable (Net of Unamortized Loss on Refunding)								\$ 25,205,559

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AS OF DECEMBER 31, 2011

Authority Board Members

	<u>Position</u>
John O'Dell	Chairman
Salvatore DeSantis	Vice Chairman
Felix Henriquez	Board Member
Richard Censullo	Board Member
Frank Piazza	Board Member

Authority Executive Staff

Frank Pestana	Executive Director
Patricia Bartoli	Chief Financial Officer
Luise O'Neill	Clerk to the Board

Consultants and Advisors

Johnson & Conway, LLP	General Counsel
Boswell Engineering	Consulting Engineers

GOVERNMENT AUDITING STANDARDS REPORT

LERCH, VINCI & HIGGINS, LLP

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REGISTERED MUNICIPAL ACCOUNTANTS

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RALPH M. PICONE, CPA, RMA, PSA
EDWARD N. KERB, CPA

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

Honorable Chairman and Members of the Board
North Bergen Municipal Utilities Authority
North Bergen, New Jersey

We have audited the basic financial statements of the North Bergen Municipal Utilities Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated April 23, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the North Bergen Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Bergen Municipal Utilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies in internal control that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis.


Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.


Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the North Bergen Municipal Utilities Authority in the Section of our report of audit entitled "General Comments and Recommendations".

This report is intended solely for the information and use of management, the North Bergen Municipal Utilities Authority board members, others within the Authority, the New Jersey State Department of Community Affairs and Other Federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


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


Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411

Fair Lawn, New Jersey
April 23, 2012

LERCH, VINCI & HIGGINS, LLP

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

Honorable Chairman and Members of the Board
North Bergen Municipal Utilities Authority
North Bergen, New Jersey

Compliance

We have audited the North Bergen Municipal Utilities Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the New Jersey OMB Circular 04-04 State Aid/Grant Compliance Supplement that could have a direct and material effect on each of its major state programs for the year ended December 31, 2011. The North Bergen Municipal Utilities Authority's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the North Bergen Municipal Utilities Authority's management. Our responsibility is to express an opinion on the North Bergen Municipal Utilities Authority's compliance based on our audit.

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; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and circulars require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the North Bergen Municipal 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. Our audit does not provide a legal determination on the North Bergen Municipal Utilities Authority's compliance with those requirements.

In our opinion, the North Bergen Municipal Utilities Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the North Bergen Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the North Bergen Municipal Utilities Authority's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Bergen Municipal Utilities Authority's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the North Bergen Municipal Utilities Authority board members, others within the District, New Jersey Department of Community Affairs and other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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



Gary J. Vinci
Registered Municipal Accountant
RMA Number CR00411

Fair Lawn, New Jersey
April 23, 2012

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>State Grant Number</u>	<u>Grant Award</u>	<u>Grant Receipts</u>	<u>Balance January 1, 2011</u>	<u>Revenue</u>	<u>Expended</u>	<u>Balance December 31, 2011</u>	<u>Cumulative Expenditures</u>
American Recovery and Reinvestment Act of 2009 Department of Environmental Protection Agency Capitalization Grants for Clean Water Sources	66.458	2009/10	42-4860-711-001	\$ 4,531,452	\$ 891,796	\$ -	\$ -	\$ -	\$ -	\$ 4,531,452

This schedule is not subject to the requirements of OMB A-133.

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

State Grant Program	Grant Number	Grant Year	Grant Award	2011 Grant Receipts	Balance, January 1, 2011	Revenue	Expended	Adjustment	Balance, December 31, 2011	Cumulative Expenditures
Department of Environmental Protection										
New Jersey Environmental Infrastructure Trust - Fund Loan	4860-150-093020-60	2009/10	\$ 2,265,726	\$ 2,265,726	\$ 1,055,895		\$ 776,558	\$ (279,337)	\$ 1,335,232	\$ 2,265,726
New Jersey Environmental Infrastructure Trust - Trust Loan	4860-150-093020-60	2009/10	2,265,726	490,801	1,055,895			279,337		930,494
Recycling Tonnage Grant	4900-752-001	2009	118,713			\$ 118,713	118,713			118,713
Recycling Tonnage Grant	4900-752-001	2010	192,246			192,246	74,309		117,937	74,309
Recycling Tonnage Grant	4900-752-001	2011	172,539	172,539	-	172,539	-	-	172,539	-
					\$ 2,111,790	\$ 483,498	\$ 969,580	\$ -	\$ 1,625,708	\$ 3,389,242

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 GENERAL

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

NOTE 2 BASIS OF ACCOUNTING

The accompanying schedule is presented using accrual basis of accounting for proprietary funds as presented by accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. This basis of accounting is described in Note 1 to the Authority's financial statements.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

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

	<u>Operating</u>	<u>Capital</u>	<u>Total Assistance</u>
State	\$ <u>193,022</u>	\$ <u>776,558</u>	\$ <u>969,580</u>

NOTE 4 STATE LOANS OUTSTANDING

The Authority's state loans outstanding at December 31, 2011, which are not required to be reported on the schedule of expenditures of state financial assistance, are as follows:

	<u>2011</u>	<u>2010</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Waste Water System	\$ 885,000	\$ 990,000
Trust Loan Payable - Waste Water System	100,000	110,000
Trust Loan Payable - Waste Water System	9,330,000	9,725,000
Trust Loan Payable - Waste Water System	2,225,000	2,305,000
Fund Loan Payable - Waste Water System	668,760	763,854
Fund Loan Payable - Waste Water System	73,306	82,585
Fund Loan Payable - Waste Water System	24,173,056	25,680,249
Fund Loan Payable - Waste Water System	<u>2,184,808</u>	<u>2,265,726</u>
Total	\$ <u>39,639,930</u>	\$ <u>41,922,414</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2011**

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.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

CURRENT YEAR FEDERAL AWARDS

NOT APPLICABLE

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

CURRENT YEAR STATE AWARDS

THERE ARE NONE.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

STATUS OF PRIOR YEAR FINDINGS

THERE WERE NONE.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Our audit revealed that the Authority's capital asset ledger was not always updated on a current basis. The Authority has purchased new accounting software for 2012 and anticipates implementing this ledger during the next year. It is recommended that the capital asset accounting records be currently maintained and be reconciled with the capital purchases on a periodic basis.

Our audit of expenditures noted that in certain instances purchases were made prior to the issuance of a purchase order. It is recommended that purchase orders be issued prior to the ordering of any goods or services.

Our audit of collections revealed that receipts were not deposited within forty-eight hours of collection. Currently, certain banks offer their clients a remote capture processing system which allows checks to be scanned and simultaneously credited to a designated bank account. It is recommended that the Authority consider implementing a remote capture processing system with its financial institution to ensure that receipts are deposited in a timely manner.

Appreciation

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

RECOMMENDATIONS

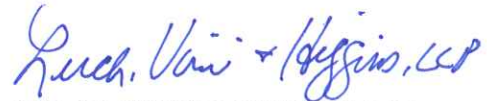
It is recommended that:

- * 1. The capital asset accounting records be currently maintained and be reconciled with capital purchases on a periodic basis.
- * 2. Purchase orders be issued prior to the ordering of any goods or services.
- * 3. The Authority consider implementing a remote capture processing system with its financial institution to ensure that receipts are deposited in a timely manner.

A review was performed on all prior year's recommendations. Those requirements which have not been corrected and which are repeated in this audit are denoted with an asterisk (*).

* * * * *

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.



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