

**NORTH BERGEN MUNICIPAL  
UTILITIES AUTHORITY  
(A Component Unit of the Township of North Bergen)  
REPORT OF AUDIT  
FOR THE YEAR ENDED DECEMBER 31, 2012**



**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

### **Report on the Financial Statements**

We have audited the accompanying 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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the North Bergen Municipal Utilities Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Bergen Municipal Utilities Authority as of December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

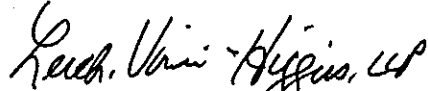
#### *Other Information*


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

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the North Bergen Municipal Utilities Authority's internal control over financial reporting and compliance.

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

  
Gary J. Vinci  
Registered Municipal Accountant  
RMA Number CR00411

Fair Lawn, New Jersey  
April 17, 2013

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## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***



## ***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, 2012. 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 and deferred outflows exceeded its liabilities at December 31, 2012 by \$45,201,172.
- The Authority's total net position decreased \$984,822.
- Cash, Cash Equivalents and Investments decreased \$1,620,632.
- Operating Revenues increased \$674,434 (3.6%)
- Operating Expenses decreased \$311,238 (1.5%)
- The Authority ended the year ended December 31, 2012 with an operating loss of \$191,824.

### **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 Position* – The following table summarizes the Net Position as of December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 55,714,772	\$ 56,771,496	\$ 56,328,580
Capital Assets (Net of Accumulated Depreciation)	<u>63,719,528</u>	<u>66,416,960</u>	<u>68,705,793</u>
 Total Assets	 <u>119,434,300</u>	 <u>123,188,456</u>	 <u>125,034,373</u>
 Deferred Outflows of Resources	 <u>1,599,392</u>	 <u>1,830,562</u>	 <u>2,061,731</u>
Non-Current Liabilities	68,915,386	69,277,802	72,500,666
Other Liabilities	<u>6,917,134</u>	<u>9,555,222</u>	<u>6,606,989</u>
 Total Liabilities	 <u>75,832,520</u>	 <u>78,833,024</u>	 <u>79,107,655</u>
 Net Position			
Invested in Capital Assets, Net of Related Debt	9,089,423	8,045,421	12,094,537
Restricted	1,487,671	1,447,263	1,381,756
Unrestricted	<u>34,624,078</u>	<u>36,693,310</u>	<u>34,512,156</u>
 Total Net Position	 <u>\$ 45,201,172</u>	 <u>\$ 46,185,994</u>	 <u>\$ 47,988,449</u>

The Authority's Net Position decreased \$984,822 and \$1,802,455 for the years ended December 31, 2012 and 2011, and increased \$91,120 for the year ended December 31, 2010. The decrease in 2012 is largely attributable to a decrease in interest income and an increase in the cost of employee health benefits and post retirement benefits. 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 operating 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.

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

**OPERATING ACTIVITIES**

The following table summarizes the Changes in Net Position for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>			
User and Service Charges	\$ 13,584,435	\$ 12,867,206	\$ 12,105,291
Interest on Delinquent Accounts	184,258	341,293	320,581
Contribution - Township of North Bergen	<u>5,826,240</u>	<u>5,712,000</u>	<u>5,600,000</u>
Total Operating Revenues	<u>19,594,933</u>	<u>18,920,499</u>	<u>18,025,872</u>
<b>OPERATING EXPENSES</b>			
Administration	2,775,456	2,441,770	2,176,363
Cost of Providing Services	12,906,320	13,328,011	11,131,347
Depreciation	<u>4,104,981</u>	<u>4,328,214</u>	<u>2,689,666</u>
Total Operating Expenses	<u>19,786,757</u>	<u>20,097,995</u>	<u>15,997,376</u>
Operating Income (Loss)	<u>(191,824)</u>	<u>(1,177,496)</u>	<u>2,028,496</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Revenues	1,511,116	1,748,565	6,273,724
Expenses	(2,304,114)	(2,373,524)	(2,567,076)
Special Items	<u>-</u>	<u>-</u>	<u>(5,644,024)</u>
Total Non-Operating Income (Expenses)	<u>(792,998)</u>	<u>(624,959)</u>	<u>(1,937,376)</u>
Change in Net Position	(984,822)	(1,802,455)	91,120
Net Position, January 1 (Restated)	<u>46,185,994</u>	<u>47,988,449</u>	<u>47,897,329</u>
Net Position, December 31	<u>\$ 45,201,172</u>	<u>\$ 46,185,994</u>	<u>\$ 47,988,449</u>

Operating income increased \$985,672 from 2011. Operating expenses decreased in excess of \$300 thousand, while operating revenues increased \$674,434. Operating revenues increased with the user/service charges and the contribution from the Township. Interest on delinquent accounts decreased during 2012. Operating expenses decreased from 2011 for both the cost of providing services and depreciation expense. Administrative costs increased over 2011. Non-operating revenues decreased in large part to a significant decrease in interest income.

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

**OPERATING ACTIVITIES (Continued)**

Operating income decreased \$3,109,641 from 2010. Operating expenses increased in excess of \$4.1 million, while operating revenues increased \$990,978. Operating revenues increased with the user/service charges 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 for capital assets transferred from construction in progress during 2010.

**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, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Building and Building Improvements	1,190,853	1,250,169	1,341,939
Sewerage Treatment Plants and Improvements	4,118,080	4,882,689	6,061,579
Pump Stations and Sewer Lines	51,273,788	49,941,333	51,854,590
Vehicles and Equipment	1,004,938	616,248	671,115
Construction in Progress	<u>3,631,869</u>	<u>7,226,521</u>	<u>6,276,570</u>
Total	<u>\$ 63,719,528</u>	<u>\$ 66,416,960</u>	<u>\$ 68,705,793</u>

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, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intergovernmental Loans	\$ 40,834,405	\$ 40,071,365	\$ 42,390,643
Revenue Bonds	26,901,173	28,918,028	30,870,753
Capital Leases	<u>359,480</u>	<u>258,347</u>	<u>358,308</u>
	<u>\$ 68,095,058</u>	<u>\$ 69,247,740</u>	<u>\$ 73,619,704</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 2013 budget.

The Waste Water quarterly service fees budgeted for 2013 reflects an average increase of 4% over the existing quarterly user rates. The Township contribution for solid waste increased \$116,525 or 2% in 2013. 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 \$53 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 received an additional \$3,155,000 in 2012 from the New Jersey Environmental Infrastructure Trust to fund 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.

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## **BASIC FINANCIAL STATEMENTS**



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

<b>ASSETS</b>	<b><u>2012</u></b>	<b><u>2011</u> (Restated)</b>
<b>UNRESTRICTED CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 30,973,542	\$ 33,847,324
Investments-Forward Delivery Agreement	2,300,000	2,300,000
User Charges Receivable (Net of Allowance for Doubtful Accounts)	2,652,897	2,034,424
Other Accounts Receivable	<u>618,772</u>	<u>118,946</u>
Total Unrestricted Current Assets	<u>36,545,211</u>	<u>38,300,694</u>
<b>RESTRICTED CURRENT ASSETS</b>		
Revenue Account		
Cash and Cash Equivalents	6,805,407	636,875
Bond Reserve Account		
Cash and Cash Equivalents	2,273,350	2,030,080
Investments	4,783,751	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
Accrued Interest Receivable	31,411	31,411
Environmental Infrastructure Trust Loan Receivable	<u>1,220,534</u>	<u>1,774,925</u>
Total Restricted Current Assets	<u>17,005,980</u>	<u>14,368,303</u>
Total Current Assets	<u>53,551,191</u>	<u>52,668,997</u>
<b>NON-CURRENT ASSETS</b>		
Investments-Forward Delivery Agreement	<u>2,163,581</u>	<u>4,102,499</u>
Capital Assets		
Land	2,500,000	2,500,000
Land Improvements	35,875	35,875
Buildings and Building Improvements	2,566,930	2,532,166
Sewerage Treatment Plants and Improvements	27,003,200	26,832,446
Pump Stations and Sewer Lines	70,041,595	65,760,370
Vehicles and Equipment	4,291,483	3,869,830
Construction in Progress	3,631,869	7,226,521
Accumulated Depreciation	<u>(46,351,424)</u>	<u>(42,340,248)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>63,719,528</u>	<u>66,416,960</u>
Total Non-Current Assets	<u>65,883,109</u>	<u>70,519,459</u>
Total Assets	<u>119,434,300</u>	<u>123,188,456</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts on Refunding of Debt	<u>1,599,392</u>	<u>1,830,562</u>
Total Deferred Outflows of Resources	<u>1,599,392</u>	<u>1,830,562</u>
Total Assets and Deferred Outflows of Resources	<u>121,033,692</u>	<u>125,019,018</u>

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

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
COMPARATIVE STATEMENTS OF NET POSITION (CONT'D)  
AS OF DECEMBER 31, 2012 AND 2011**

<b>LIABILITIES AND NET POSITION</b>	<b><u>2012</u></b>	<b><u>2011</u> (Restated)</b>
<b>CURRENT LIABILITIES (Payable from Unrestricted Assets)</b>		
Accounts Payable	\$ 465,354	\$ 433,870
Capital Lease Payable	114,026	72,790
Accrued Salaries and Wages	156,065	160,181
Accrued Interest on Bonds, Notes and Loans	232,940	243,976
Deferred Revenue	822,398	374,730
Intergovernmental Loans Payable	<u>2,494,457</u>	<u>2,391,960</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>4,285,240</u>	<u>3,677,507</u>
<b>CURRENT LIABILITIES (Payable from Restricted Assets)</b>		
Construction Contracts Payable	158,612	311,461
Accrued Interest on Bonds and Notes	38,282	49,605
Project Note Payable		3,161,649
Revenue Bonds Payable	<u>2,435,000</u>	<u>2,355,000</u>
Total Current Liabilities Payable from Restricted Assets	<u>2,631,894</u>	<u>5,877,715</u>
Total Current Liabilities	<u>6,917,134</u>	<u>9,555,222</u>
<b>NON-CURRENT LIABILITIES</b>		
Accrued Compensated Absences	357,131	354,414
Post Retirement Benefits Payable	4,817,909	3,714,958
Capital Leases Payable	245,454	185,557
Revenue Bonds Payable (Net of Unamortized Premium)	24,878,374	27,035,921
Intergovernmental Loans Payable (Net of Unamortized Premium)	<u>38,616,518</u>	<u>37,986,952</u>
Total Non-Current Liabilities	<u>68,915,386</u>	<u>69,277,802</u>
Total Liabilities	<u>75,832,520</u>	<u>78,833,024</u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	9,089,423	8,045,421
Restricted For:		
Pre-Treatment Program	44,886	44,886
Renewals and Replacements	1,442,785	1,402,377
Unrestricted	<u>34,624,078</u>	<u>36,693,310</u>
Total Net Position	<u>\$ 45,201,172</u>	<u>\$ 46,185,994</u>

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

	<u>2012</u>	<u>2011</u> (Restated)
<b>OPERATING REVENUES</b>		
User Charges	\$ 13,392,193	\$ 12,657,511
Service Charges	192,242	209,695
Interest on Delinquent Accounts	184,258	341,293
Contribution - Township of North Bergen	<u>5,826,240</u>	<u>5,712,000</u>
Total Operating Revenues	<u>19,594,933</u>	<u>18,920,499</u>
<b>OPERATING EXPENSES</b>		
Administration		
Salaries and Wages	828,628	831,669
Fringe Benefits	799,933	789,079
Other Expenses	1,146,895	821,022
Cost of Providing Services		
Salaries and Wages	2,921,226	2,947,224
Fringe Benefits	2,544,525	2,776,390
Other Expenses	7,440,569	7,604,397
Depreciation	<u>4,104,981</u>	<u>4,328,214</u>
Total Operating Expenses	<u>19,786,757</u>	<u>20,097,995</u>
Operating Income (Loss)	<u>(191,824)</u>	<u>(1,177,496)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Connection Fees	409,169	434,405
Interest and Investment Income	487,926	1,026,159
Grants and Entitlements	201,574	193,022
Miscellaneous Revenues	127,251	94,979
Municipal Appropriation - Debt Service Reimbursement	285,196	
Municipal Contribution	(200,000)	(200,000)
Debt Issuance Costs	(5,500)	(35,171)
Amortization of Premiums and Deferred Amounts on Refunding of Debt	(132,850)	(136,052)
Interest Expense	<u>(1,965,764)</u>	<u>(2,002,301)</u>
Total Non-Operating Revenues (Expenses)	<u>(792,998)</u>	<u>(624,959)</u>
Change in Net Position	(984,822)	(1,802,455)
Total Net Position, January 1 (Restated)	<u>46,185,994</u>	<u>47,988,449</u>
Total Net Position, December 31	<u>\$ 45,201,172</u>	<u>\$ 46,185,994</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers/Municipality	\$ 18,979,556	\$ 19,126,239
Cash Paid for Goods and Services	(8,555,980)	(8,546,206)
Cash Paid for Employees Salaries, Wages and Benefits	<u>(5,992,760)</u>	<u>(6,005,593)</u>
Net Cash Provided by Operating Activities	<u>4,430,816</u>	<u>4,574,440</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating Grants and Entitlements	146,320	172,539
Municipal Contribution	(200,000)	(200,000)
Connection Fees	409,169	434,405
Miscellaneous	<u>127,251</u>	<u>94,979</u>
Net Cash Provided by Noncapital Financing Activities	<u>482,740</u>	<u>501,923</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Payments on Revenue Bonds	(2,355,000)	(2,275,000)
Principal Payments on Intergovernmental Loans	(2,391,960)	(2,319,278)
Principal Payments on Capital Leases	(94,008)	(99,961)
Proceeds of Project Notes		3,163,866
Payment of Costs of Issuance - Project Notes	(5,500)	(35,170)
Proceeds of Intergovernmental Loans	3,709,391	2,756,527
Proceeds of Intergovernmental Grants	(3,155,000)	891,796
Municipal Appropriation - Debt Service Reimbursement	285,196	
Proceeds of Capital Leases	195,141	-
Interest Paid	(1,665,143)	(1,647,509)
Acquisition of Capital Assets	<u>(1,560,397)</u>	<u>(2,192,189)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(7,037,280)</u>	<u>(1,756,918)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	233,048	268,814
Proceeds from Forward Delivery Agreement	<u>2,300,000</u>	<u>4,600,000</u>
Net Cash Provided by Investing Activities	<u>2,533,048</u>	<u>4,868,814</u>
Net Increase in Cash and Cash Equivalents	409,324	8,188,259
Cash and Cash Equivalents, January 1	<u>41,534,502</u>	<u>33,346,243</u>
Cash and Cash Equivalents, December 31	<u>\$ 41,943,826</u>	<u>\$ 41,534,502</u>
Analysis of Cash and Cash Equivalents, December 31,		
Unrestricted	\$ 30,973,542	\$ 33,847,324
Restricted	<u>10,970,284</u>	<u>7,687,178</u>
	<u>\$ 41,943,826</u>	<u>\$ 41,534,502</u>

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

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating Income (Loss)	\$ (191,824)	\$ (1,177,496)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,104,981	4,328,214
(Increase)/Decrease in User Charges Receivable	(618,473)	223,076
(Increase)/Decrease in Other Accounts Receivable	3,096	(17,336)
Increase/(Decrease) in Accounts Payable	31,484	(110,427)
Increase/(Decrease) in Claims and Judgments Payable		(10,360)
Increase/(Decrease) in Accrued Salaries and Wages	(4,116)	(28,742)
Increase/(Decrease) in Accrued Compensated Absences	2,717	63,970
Increase/(Decrease) in Post Retirement Benefits Payable	<u>1,102,951</u>	<u>1,303,541</u>
Total Adjustments	<u>4,622,640</u>	<u>5,751,936</u>
Net Cash Provided by Operating Activities	<u>\$ 4,430,816</u>	<u>\$ 4,574,440</u>
<b>NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>		
Amortization of Bond Premium	\$ (60,692)	\$ (60,692)
Amortization of Loan Premium	(30,978)	(29,456)
Amortization of Note Premium	(6,649)	
Deferred Amounts on Refunding of Debt	231,170	231,169
Capital Assets on Account	158,612	311,461
Capitalization of Accrued Interest on Loan		152,809
Interest Expense/Accreted Value of Capital Appreciation Revenue Bonds	338,145	307,158
Loan Proceeds Not Received		4,531,452

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
STATEMENT OF PLAN NET POSITION  
POST-EMPLOYMENT BENEFITS TRUST FUND  
AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and Investments	\$ -	\$ -
	<hr/>	<hr/>
Total Assets	-	-
	<hr/>	<hr/>
<b>NET POSITION</b>		
Assets Held in Trust for Other Post-Employment Benefits	\$ -	\$ -
	<hr/>	<hr/>



**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
STATEMENT OF CHANGES IN PLAN NET POSITION  
POST-EMPLOYMENT BENEFITS TRUST FUND  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 259,782	\$ 214,305
Total Additions	<u>259,782</u>	<u>214,305</u>
 <b>DEDUCTIONS</b>		
Benefits	<u>259,782</u>	<u>214,305</u>
Total Deductions	<u>259,782</u>	<u>214,305</u>
 Change in Plan Assets	<u>-</u>	<u>-</u>
 <b>NET POSITION HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS</b>		
Net Position, January 1	<u>-</u>	<u>-</u>
Net Position, December 31	<u>\$ -</u>	<u>\$ -</u>

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

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## **NOTES TO BASIC FINANCIAL STATEMENTS**



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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The 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, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounting records that comprise its assets, deferred outflows, liabilities, net position, revenues and expenses. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The 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 Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Private-sector standards of accounting and financial reporting issued 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, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Position**

***1. Deposits and Investments***

Cash and cash equivalents are considered to be cash on hand, cash in banks, certificates of deposit and all short-term investments with original maturities of three months or less from the date of purchase. Investments are reported at 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, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Position (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 Outflows of Resources***

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

**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 position. 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, whichever 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, 2012 AND 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Net Position (Continued)**

***10. Net Position***

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

***11. Net Position Flow Assumption***

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

***12. Reclassifications***

Certain reclassifications have been made to the December 31, 2011 balances to conform to the December 31, 2012 presentation.

***13. Use of Estimates***

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

**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.

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**1. Budgetary Accounting (Continued)**

In accordance with accounting principles generally accepted in the United States of America, outstanding encumbrances at year-end for which goods or services are received 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.

**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 Position**

The Authority is permitted under budgetary accounting practices promulgated by the Division of Local Government Services to designate unrestricted net position. The Board of Commissioners may formally designate net position to establish reserves of unrestricted net position to meet policy adopted by the Board. The Authority established the following unrestricted net position 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, 2012 and 2011 the unrestricted net position balances were as follows:

	<u>2012</u>	<u>2011</u>
Designated for Future Capital Projects	\$ 4,463,581	\$ 6,402,499
Undesignated	<u>30,160,497</u>	<u>30,290,811</u>
	<u>\$ 34,624,078</u>	<u>\$ 36,693,310</u>

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

**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)

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.

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

**NOTE 3 CREATION OF FUNDS (Continued)**

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.

Bank balances for interest bearing accounts at December 31, 2012 and 2011 are insured up to \$250,000 in the aggregate by the FDIC for each bank. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, temporary unlimited deposit insurance coverage was provided for non-interest bearing accounts from December 31, 2010 through December 31, 2012. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2012 and 2011, the book value of the Authority's deposits were \$41,943,826 and \$41,534,502, respectively, and bank balances of the Authority's cash and deposits amounted to \$41,840,823 and \$41,615,421, respectively.

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

	<u>2012</u>	<u>2011</u>
Insured		
Restricted	\$ 6,015,430	\$ 12,460,757
Unrestricted	28,078,068	21,411,701
Uninsured and Collateralized		
Unrestricted	<u>7,747,325</u>	<u>7,742,963</u>
	<u>\$ 41,840,823</u>	<u>\$ 41,615,421</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, 2012 and 2011, the Authority's bank balance of \$7,747,325 and \$7,742,963 was exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and collateral held by pledging bank's trust department, in the Authority's name	<u>\$7,747,325</u>	<u>\$7,742,963</u>

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

**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Investments** – The Authority is required by its Bond Resolutions to maintain each of its investments in the Fund (account) in which the investment is 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 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, 2012 and 2011, the Authority had the following investments:

	<u>Fair Value</u>	
	<u>2012</u>	<u>2011</u>
Restricted		
U.S. Government Securities		
Treasury Bonds	\$ 4,783,751	\$ 4,874,789
Unrestricted		
Forward Delivery Agreement	<u>4,463,581</u>	<u>6,402,499</u>
	<u>\$ 9,247,332</u>	<u>\$ 11,277,288</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.

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

**NOTE 4 DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

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, 2013	\$2,413,297
December, 2014	246,496

**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, 2012 and 2011, including the applicable allowance for doubtful accounts, consisted of the following:

	<u>2012</u>	<u>2011</u>
Gross User Charges Receivable	\$ 2,847,058	\$ 2,769,429
Less: Allowance for Doubtful Accounts	<u>(194,161)</u>	<u>(735,005)</u>
Net User Charges Receivable	<u>\$ 2,652,897</u>	<u>\$ 2,034,424</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
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**NOTE 7 CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

	Balance January 1, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2012</u>
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 2,500,000			\$ 2,500,000
Construction in Progress	<u>7,226,521</u>	<u>\$ 857,328</u>	<u>\$ 4,451,980</u>	<u>3,631,869</u>
Total Capital Assets, Not Being Depreciated	<u>9,726,521</u>	<u>857,328</u>	<u>4,451,980</u>	<u>6,131,869</u>
<b>Capital Assets, Being Depreciated</b>				
Land Improvements	35,875			35,875
Buildings and Building Improvements	2,532,166	34,764		2,566,930
Sewerage Treatment Plants and Improvements	26,832,446	170,754		27,003,200
Pump Stations and Sewer Lines	65,760,370	4,281,225		70,041,595
Vehicles and Equipment	<u>3,869,830</u>	<u>515,457</u>	<u>93,804</u>	<u>4,291,483</u>
Total Capital Assets Being Depreciated	<u>99,030,687</u>	<u>5,002,200</u>	<u>93,804</u>	<u>103,939,083</u>
<b>Less Accumulated Depreciation for</b>				
Land Improvements	(35,875)			(35,875)
Building and Building Improvements	(1,281,997)	(94,080)		(1,376,077)
Sewerage Treatment Plants and Improvements	(21,949,757)	(935,363)		(22,885,120)
Pump Stations and Sewer Lines	(15,819,037)	(2,948,770)		(18,767,807)
Vehicles and Equipment	<u>(3,253,582)</u>	<u>(126,767)</u>	<u>(93,804)</u>	<u>(3,286,545)</u>
Total Accumulated Depreciation	<u>(42,340,248)</u>	<u>(4,104,980)</u>	<u>(93,804)</u>	<u>(46,351,424)</u>
Total Capital Assets, Being Depreciated, Net	<u>56,690,439</u>	<u>897,220</u>	<u>-</u>	<u>57,587,659</u>
Total Capital Assets, Net	<u>\$ 66,416,960</u>	<u>\$ 1,754,548</u>	<u>\$ 4,451,980</u>	<u>\$ 63,719,528</u>

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

**NOTE 7 CAPITAL ASSETS (Continued)**

	Balance January 1, 2011	Increases	Decreases	Balance, December 31, 2011
<b>Capital Assets, Not Being Depreciated</b>				
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>
<b>Capital Assets, Being Depreciated</b>				
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>
<b>Less Accumulated Depreciation for</b>				
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, 2012 AND 2011**

**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, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Waste Water System Revenue Bonds, Refunding Series 2003		
Revenue Serial Bonds Payable 2.00% to 5.25% due December 15, 2019	\$ 19,695,000	\$ 22,050,000
Sewer Revenue Subordinated Capital Appreciation Bonds, Series 2007		
Capital Appreciation Bonds Payable Due December 15, 2020 to		
December 15, 2034 (Includes Accretion of \$338,145 and \$322,275		
through December 31, 2012 and 2011, respectively).	<u>7,206,173</u>	<u>6,868,028</u>
Total	<u>\$ 26,901,173</u>	<u>\$ 28,918,028</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**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, 2012 and 2011 are comprised of the following:

	<u>2012</u>	<u>2011</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Waste Water System		
4.50% due in annual installments on August 1 through 2018	\$ 775,000	\$ 885,000
Trust Loan Payable - Waste Water System		
5.50% to 5.70% due in annual installments on August 1 through 2019	90,000	100,000
Trust Loan Payable - Waste Water System		
3.40% to 5.00% due in annual installments on August 1 through 2027	8,915,000	9,330,000
Trust Loan Payable - Waste Water System		
3.50% to 5.00% due in annual installments on August 1 through 2029	2,140,000	2,225,000
Trust Loan Payable - Waste Water System		
1.17% to 3.18% due in annual installments on September 1 through 2032	820,000	
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2018	573,491	668,760
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2019	64,368	73,306
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2027	22,665,408	24,173,056
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on February 1 and August 1 through 2029	2,063,429	2,184,808
Fund Loan Payable - Waste Water System		
Interest Free due in semi-annual installments on March 1 and September 1 through 2032	<u>2,335,000</u>	<u>-</u>
	40,441,696	39,639,930
Township of North Bergen		
Loan Payable - Solid Waste System		
5.25% due in annual installments on June 1 through 2020	<u>392,709</u>	<u>431,435</u>
Total	<u>\$ 40,834,405</u>	<u>\$ 40,071,365</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**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 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>	
2013	\$ 2,435,000	\$ 918,779	\$ 2,494,457	\$ 556,363	\$ 6,404,599
2014	2,525,000	831,119	2,595,632	543,837	6,495,588
2015	2,660,000	698,556	2,620,434	514,706	6,493,696
2016	2,800,000	558,906	2,668,788	477,966	6,505,660
2017	2,950,000	411,906	2,714,779	439,056	6,515,741
2018-2022	9,020,000	390,063	12,936,809	1,621,466	23,968,338
2023-2027	5,010,000		13,372,105	709,068	19,091,173
2028-2032	5,000,000		1,431,401	44,817	6,476,218
2033-2035	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
	34,400,000	<u>\$ 3,809,329</u>	<u>\$ 40,834,405</u>	<u>\$ 4,907,279</u>	<u>\$ 83,951,013</u>
Less: Unaccrued Value of Capital Appreciation Revenue Bonds at December 31, 2012	<u>7,498,827</u>				
	<u>\$ 26,901,173</u>				

**Capital Lease** - In 2010, the Authority entered into an agreement for the lease of two (2) sanitation trucks. In 2012, the Authority entered into an agreement for the lease of another sanitation truck. The capital lease agreements are 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, 2012.

<u>Year Ended</u>	<u>Amount</u>
2013	\$ 126,939
2014	126,939
2015	126,939
2016	<u>42,231</u>
Total Minimum Lease Payments	423,048
Less: Amounts Representing Interest	<u>(63,568)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 359,480</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 8 LONG-TERM DEBT (Continued)**

**Changes in Long-Term Liabilities**

The Authority's long-term liability activity for the years ended December 31, 2012 and 2011 are as follows:

	Balance, January 1, 2012	Additions	Reductions	Balance, December 31, 2012	Due Within One Year
Revenue Bonds	\$ 28,918,028	\$ 338,145	\$ 2,355,000	\$ 26,901,173	\$ 2,435,000
Issuance Premium	472,893	-	60,692	412,201	-
Total Revenue Bonds Payable	29,390,921	338,145	2,415,692	27,313,374	2,435,000
Intergovernmental Loans Payable	40,071,365	3,155,000	2,391,960	40,834,405	2,494,457
Issuance Premium	307,547	-	30,977	276,570	-
Total Intergovernmental Loans Payable	40,378,912	3,155,000	2,422,937	41,110,975	2,494,457
Capital Leases Payable	258,347	\$ 195,141	94,008	359,480	114,026
Compensated Absences	354,414	15,369	12,652	357,131	-
Post Retirement Benefits Payable	3,714,958	1,362,733	259,782	4,817,909	-
	<u>\$ 74,097,552</u>	<u>\$ 5,066,388</u>	<u>\$ 5,205,071</u>	<u>\$ 73,958,869</u>	<u>\$ 5,043,483</u>
	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	-
Total Revenue Bonds Payable	31,404,338	322,275	2,335,692	29,390,921	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>\$ 77,194,905</u>	<u>\$ 1,904,091</u>	<u>\$ 5,001,444</u>	<u>\$ 74,097,552</u>	<u>\$ 4,819,750</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
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**NOTE 8 LONG-TERM DEBT (Continued)**

**Changes in Long-Term Liabilities (Continued)**

As noted on the previous page, the principal amount of bonds outstanding at December 31, 2012 and 2011 of \$26,901,173 and \$28,918,028, respectively, have been increased by the unamortized bond premium on the 2003 refunding bonds in the amounts of \$412,201 and \$472,893. 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, 2012 and 2011 have been increased by the unamortized premium on the 2009 Environmental Infrastructure Loans in the amounts of \$276,570 and \$307,547.

**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, 2012 is as follows:

	Rate (%)	Maturity Date	Balance, January 1, 2012	Additions	Reductions	Balance, December, 2012
<u>2012</u>						
Project Notes	1.0%	9/28/2012	\$ 3,155,000		\$ 3,155,000	\$ -
Issuance Premium			<u>6,649</u>	<u>-</u>	<u>6,649</u>	<u>-</u>
			<u>\$ 3,161,649</u>	<u>\$ -</u>	<u>\$ 3,161,649</u>	<u>\$ -</u>

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

**NOTE 10 CONSTRUCTION AND SIGNIFICANT COMMITMENTS**

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

	<u>2012</u>	<u>2011</u>
Wastewater Conveyance System Force Main	\$ 117,579	\$ 108,926
Rehabilitation of Central Treatment Plant's Pump Station		148,653
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
Woodcliff Treatment Plant Rehabilitation	258,324	
Pipe Lining	922,753	
Central Treatment Plant Demolition	<u>172,070</u>	<u>-</u>
	<u>\$ 1,470,726</u>	<u>\$ 569,040</u>
Analysis:		
Contracts Payable	\$ 158,612	\$ 311,461
Outstanding Commitment	<u>1,312,114</u>	<u>257,579</u>
	<u>\$ 1,470,726</u>	<u>\$ 569,040</u>

**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.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 11 SERVICE AGREEMENT (Continued)**

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.

**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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>December 31,</u> <u>2011</u>
<b><u>Bond Reserve Fund</u></b>		
Required Balances	\$ 3,361,906	\$ 3,361,906
Cash and Investments	<u>7,057,100</u>	<u>6,904,869</u>
Excess	<u>\$ 3,695,194</u>	<u>\$ 3,542,963</u>
<b><u>Renewal and Replacement Fund</u></b>		
Required Balances	\$ 1,931,935	\$ 1,891,526
Cash and Investments	<u>1,891,527</u>	<u>1,891,527</u>
Excess (Deficiency)	<u>\$ (40,408)</u>	<u>\$ 1</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**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 but is currently suspended as a result of reform legislation.

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](http://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.

**Significant Legislation**

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

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), the years of creditable service needed for early retirement benefits increased from 25 years to 30 years and the early retirement age increased from 55 to 65.



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

**NOTE 13 OTHER INFORMATION (Continued)**

**A. Employee Retirement System and Pension Plan (Continued)**

**Significant Legislation (Continued)**

- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.
- PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For Fiscal Year 2012, the member contribution rates increase in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

**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.

**Funded Status and Funding Progress**

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

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

**NOTE 13 OTHER INFORMATION (Continued)**

**A. Employee Retirement System and Pension Plan (Continued)**

**Funded Status and Funding Progress (Continued)**

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

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

**Actuarial Methods and Assumptions**

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

**Employer and Employee Pension Contributions**

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the 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, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, annual pension cost equals contributions made.

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

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2012	\$ 421,129
2011	363,475
2010	278,637

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

**NOTE 13 OTHER INFORMATION (Continued)**

**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.

**Funding Policy**

The required contribution is funded on a pay-as-you-go basis. For the years 2012, 2011 and 2010, the Authority contributed \$259,782, \$214,305 and \$150,932 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	185,748
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	1,362,733
Contributions Made	(259,782)
Increase in Net OPEB Obligation	1,102,951
Net OPEB Obligation, January 1, 2012	3,714,958
Net OPEB Obligation, December 31, 2012	<u>\$ 4,817,909</u>

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

**NOTE 13 OTHER INFORMATION (Continued)**

**B. Post Retirement Medical Benefits (Continued)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

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

<u>Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligations</u>
2012	\$ 1,362,733	19.1%	\$ 4,817,909
2011	1,517,846	14.1%	3,714,958
2010	979,161	15.4%	2,411,417

**Funded Status and Funding Progress**

As of December 31, 2012 and 2011, the plan was unfunded. The accrued liability for benefits was \$18,217,978 and \$16,801,031, 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 \$3,341,017 and \$3,244,063, and the ratio of the UAAL to the covered payroll was 5.45% and 5.18%.

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

**Actuarial Methods and Assumptions**

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

In the December 31, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 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, 2012 was 25 years.

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

**NOTE 13 OTHER INFORMATION (Continued)**

**C. Contingent Liabilities**

The Authority is a party defendant in some lawsuits, none of a kind unusual for an Authority of its size and scope of operation. In the opinion of the 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, 2012 and 2011, significant amounts of grant expenditures have not been audited by the various grantor agencies but the Authority believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Authority.

**D. 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.

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

**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.

**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, 2012 and 2011, the Authority has estimated that there is no arbitrage earnings due to the IRS.

**NOTE 16 SUBSEQUENT EVENTS**

On February 13, 2013, the Authority approved the issuance of not to exceed \$18,150,000 sewer revenue refunding bonds. The proposed bonds will refund a portion or all of the outstanding 2003 sewer revenue refunding bonds.

**NOTE 17 HURRICANE SANDY**

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

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

**NOTE 18 RESTATEMENT**

On January 1, 2012, the Authority implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement No. 65, "Items Previously Reported in Assets and Liabilities". The Authority has determined that the effect of implementing these accounting changes on the financial statements previously reported as of and for the year ended December 31, 2011 is as follows:

**Statement of Net Position - December 31, 2011**

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
<b>ASSETS</b>			
Non-Current Assets			
Deferred Charges			
Debt Issuance Costs	\$ 1,125,920	-	\$ (1,125,920)
Total Non-Current Assets	71,645,379	\$ 70,519,459	(1,125,920)
Total Assets	124,314,376	123,188,456	(1,125,920)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amounts of Refunding	-	1,830,562	1,830,562
Total Deferred Outflows of Resources	-	1,830,562	1,830,562
Total Assets and Deferred Outflows of Resources	124,314,376	125,019,018	704,642
<b>LIABILITIES</b>			
Non-Current Liabilities			
Revenue Bonds Payable	25,205,359	27,035,921	1,830,562
Total Non-Current Liabilities	67,447,240	69,277,802	1,830,562
Total Liabilities	77,002,462	78,833,024	1,830,562
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	9,171,341	8,045,421	(1,125,920)
Total Net Position	47,311,914	46,185,994	(1,125,920)

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

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Costs of Issuance		\$ (35,171)	\$ (35,171)
Amortization of Debt Issuance Costs, Premiums and Refundings	\$ (260,252)	(136,052)	124,200
Total Non-Operating Revenue (Expenses)	(713,988)	(624,959)	89,029
Change in Net Position	(1,891,484)	(1,802,455)	89,029
Net Position, January 1, 2011	49,203,398	47,988,449	(1,214,949)
Net Position, December 31, 2011	47,311,914	46,185,994	(1,125,920)

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**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, 2012		\$ 18,217,978	\$ 18,217,978		\$ 3,341,017	5.45%
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>
2012	\$ 1,362,733	19.1%
2011	1,176,985	18.2%
2010	979,161	14.1%
2009	931,536	14.8%

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## **SUPPLEMENTARY SCHEDULES**



**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**  
**COMBINING STATEMENT OF NET POSITION**  
**AS OF DECEMBER 31, 2012**

<b>ASSETS</b>	<b><u>Solid</u> <u>Waste</u></b>	<b><u>Waste</u> <u>Water</u></b>	<b><u>Total</u></b>
<b>UNRESTRICTED CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 2,199,403	\$ 28,774,139	\$ 30,973,542
Investments-Forward Delivery Agreement		2,300,000	2,300,000
User Charges Receivable (Net of Allowance for Doubtful Accounts)		2,652,897	2,652,897
Other Accounts Receivable	31,596	587,176	618,772
Total Unrestricted Current Assets	2,230,999	34,314,212	36,545,211
<b>RESTRICTED CURRENT ASSETS</b>			
Revenue Account			
Cash and Cash Equivalents		6,805,407	6,805,407
Bond Reserve Account			
Cash and Cash Equivalents		2,273,350	2,273,350
Investments		4,783,751	4,783,751
Renewal and Replacement Account			
Cash and Cash Equivalents		1,891,527	1,891,527
Construction Account			
Cash and Cash Equivalents			-
Accrued Interest Receivable		31,411	31,411
Environmental Infrastructure Trust Loan Receivable	-	1,220,534	1,220,534
Total Restricted Current Assets	-	17,005,980	17,005,980
Total Current Assets	2,230,999	51,320,192	53,551,191
<b>NON-CURRENT ASSETS</b>			
Investments-Forward Delivery Agreement	-	2,163,581	2,163,581
Capital Assets			
Land		2,500,000	2,500,000
Land Improvements		35,875	35,875
Buildings and Building Improvements	1,115,138	1,451,792	2,566,930
Sewerage Treatment Plants and Improvements		27,003,200	27,003,200
Pump Stations and Sewer Lines		70,041,595	70,041,595
Vehicles and Equipment	2,118,017	2,173,466	4,291,483
Construction in Progress		3,631,869	3,631,869
Accumulated Depreciation	(2,021,731)	(44,329,693)	(46,351,424)
Total Capital Assets (Net of Accumulated Depreciation)	1,211,424	62,508,104	63,719,528
Total Non-Current Assets	1,211,424	64,671,685	65,883,109
Total Assets	3,442,423	115,991,877	119,434,300
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amounts of Refunding	-	1,599,392	1,599,392
Total Deferred Outflows of Resources	-	1,599,392	1,599,392
Total Assets and Deferred Outflows of Resources	3,442,423	117,591,269	121,033,692

Continued

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
COMBINING STATEMENT OF NET POSITION (CONT'D)  
AS OF DECEMBER 31, 2012**

<b>LIABILITIES AND NET POSITION</b>	<b>Solid Waste</b>	<b>Waste Water</b>	<b>Total</b>
<b>CURRENT LIABILITIES (Payable from Unrestricted Assets)</b>			
Accounts Payable	\$ 61,827	\$ 403,527	\$ 465,354
Capital Lease Payable	114,026		114,026
Accrued Salaries and Wages	79,533	76,532	156,065
Accrued Interest on Bonds, Notes and Loans	12,027	220,913	232,940
Deferred Revenue	235,222	587,176	822,398
Intergovernmental Loans Payable	40,759	2,453,698	2,494,457
Total Current Liabilities Payable from Unrestricted Assets	543,394	3,741,846	4,285,240
<b>CURRENT LIABILITIES (Payable from Restricted Assets)</b>			
Construction Contracts Payable		158,612	158,612
Accrued Interest on Bonds and Notes		38,282	38,282
Revenue Bonds Payable	-	2,435,000	2,435,000
Total Current Liabilities Payable from Restricted Assets	-	2,631,894	2,631,894
Total Current Liabilities	543,394	6,373,740	6,917,134
<b>NON-CURRENT LIABILITIES</b>			
Accrued Compensated Absences	194,704	162,427	357,131
Post Retirement Benefits Payable	2,238,369	2,579,540	4,817,909
Capital Leases Payable	245,454		245,454
Revenue Bonds Payable (Net of Unamortized Premium)		24,878,374	24,878,374
Intergovernmental Loans Payable (Net of Unamortized Premium)	351,950	38,264,568	38,616,518
Total Non-Current Liabilities	3,030,477	65,884,909	68,915,386
Total Liabilities	3,573,871	72,258,649	75,832,520
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	459,235	8,630,188	9,089,423
Restricted For:			
Pre-Treatment Program		44,886	44,886
Renewals and Replacements		1,442,785	1,442,785
Unrestricted	(590,683)	35,214,761	34,624,078
Total Net Position	\$ (131,448)	\$ 45,332,620	\$ 45,201,172



**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
User Charges		\$ 13,392,193	\$ 13,392,193
Service Charges	\$ 192,242		192,242
Interest on Delinquent Accounts		184,258	184,258
Contribution - Township of North Bergen	<u>5,826,240</u>	<u>-</u>	<u>5,826,240</u>
Total Operating Revenues	<u>6,018,482</u>	<u>13,576,451</u>	<u>19,594,933</u>
<b>OPERATING EXPENSES</b>			
Administration			
Salaries and Wages	219,708	608,920	828,628
Fringe Benefits	312,416	487,517	799,933
Other Expenses	174,391	972,504	1,146,895
Cost of Providing Services			
Salaries and Wages	1,714,051	1,207,175	2,921,226
Fringe Benefits	1,313,779	1,230,746	2,544,525
Other Expenses	2,503,231	4,937,338	7,440,569
Depreciation	<u>104,573</u>	<u>4,000,408</u>	<u>4,104,981</u>
Total Operating Expenses	<u>6,342,149</u>	<u>13,444,608</u>	<u>19,786,757</u>
Operating Income (Loss)	<u>(323,667)</u>	<u>131,843</u>	<u>(191,824)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Connection Fees		409,169	409,169
Interest on Investment Income		487,926	487,926
Grants and Entitlements	201,574		201,574
Miscellaneous Revenues	101,864	25,387	127,251
Municipal Appropriation - Debt Service Reimbursement		285,196	285,196
Municipal Contribution		(200,000)	(200,000)
Debt Issuance Costs		(5,500)	(5,500)
Amortization of Premiums and Deferred Amounts on Refunding of Debt		(132,850)	(132,850)
Interest Expense	<u>(36,800)</u>	<u>(1,928,964)</u>	<u>(1,965,764)</u>
Total Non-Operating Revenues (Expenses)	<u>266,638</u>	<u>(1,059,636)</u>	<u>(792,998)</u>
Change in Net Position	(57,029)	(927,793)	(984,822)
Total Net Position, January 1, 2012 (Restated)	<u>(74,419)</u>	<u>46,260,413</u>	<u>46,185,994</u>
Total Net Position, December 31, 2012	<u>\$ (131,448)</u>	<u>\$ 45,332,620</u>	<u>\$ 45,201,172</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers/Municipality	\$ 6,021,578	\$ 12,957,978	\$ 18,979,556
Cash Paid for Goods and Services	(2,657,536)	(5,898,444)	(8,555,980)
Cash Paid for Employees Salaries, Wages and Benefits	(2,974,394)	(3,018,366)	(5,992,760)
Net Cash Provided by Operating Activities	<u>389,648</u>	<u>4,041,168</u>	<u>4,430,816</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating Grants and Entitlements	146,320		146,320
Municipal Contribution		(200,000)	(200,000)
Connection Fees		409,169	409,169
Miscellaneous	101,864	25,387	127,251
Net Cash Provided by Noncapital Financing Activities	<u>248,184</u>	<u>234,556</u>	<u>482,740</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal Payments on Revenue Bonds		(2,355,000)	(2,355,000)
Principal Payments on Intergovernmental Loans	(38,726)	(2,353,234)	(2,391,960)
Principal Payments on Capital Leases	(94,008)		(94,008)
Proceeds of Capital Leases	195,141	-	195,141
Payment of Cost of Issuance - Project Notes		(5,500)	(5,500)
Proceeds of Intergovernmental Loans		3,709,391	3,709,391
Payment of Project Note		(3,155,000)	(3,155,000)
Municipal Appropriation - Debt Service Reimbursement		285,196	285,196
Interest Paid	(37,986)	(1,627,157)	(1,665,143)
Acquisition of Capital Assets	(390,282)	(1,170,115)	(1,560,397)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(365,861)</u>	<u>(6,671,419)</u>	<u>(7,037,280)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Received		233,048	233,048
Proceeds from Forward Delivery Agreement	-	2,300,000	2,300,000
Net Cash Provided by Investing Activities	<u>-</u>	<u>2,533,048</u>	<u>2,533,048</u>
Net Increase in Cash and Cash Equivalents	271,971	137,353	409,324
Cash and Cash Equivalents, January 1, 2012	<u>1,927,432</u>	<u>39,607,070</u>	<u>41,534,502</u>
Cash and Cash Equivalents, December 31, 2012	<u>\$ 2,199,403</u>	<u>\$ 39,744,423</u>	<u>\$ 41,943,826</u>
<b>Analysis of Cash and Cash Equivalents</b>			
Unrestricted	\$ 2,199,403	\$ 28,774,139	\$ 30,973,542
Restricted	<u>-</u>	<u>10,970,284</u>	<u>10,970,284</u>
	<u>\$ 2,199,403</u>	<u>\$ 39,744,423</u>	<u>\$ 41,943,826</u>

Continued

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
COMBINING STATEMENT OF CASH FLOWS (CON'T)  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Solid Waste</u>	<u>Waste Water</u>	<u>Total</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ (323,667)	\$ 131,843	\$ (191,824)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	104,573	4,000,408	4,104,981
(Increase)/Decrease in User Charges Receivable		(618,473)	(618,473)
(Increase)/Decrease in Other Accounts Receivable	3,096		3,096
Increase/(Decrease) in Accounts Payable	20,086	11,398	31,484
Increase/(Decrease) in Accrued Salaries and Wages	(3,315)	(801)	(4,116)
Increase/(Decrease) in Accrued Compensated Absences	(5,021)	7,738	2,717
Increase/(Decrease) in Post Retirement Benefits Payable	593,896	509,055	1,102,951
Total Adjustments	713,315	3,909,325	4,622,640
Net Cash Provided by Operating Activities	\$ 389,648	\$ 4,041,168	\$ 4,430,816
<b>NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Amortization of Bond Premium		\$ (60,692)	\$ (60,692)
Amortization of Loan Premium		(30,978)	(30,978)
Amortization of Note Premium		(6,649)	(6,649)
Deferred Amounts on Refunding of Debt		231,170	231,170
Capital Assets on Account		158,612	158,612
Interest Expense/Accreted Value of Capital Appreciation Revenue Bonds		338,145	338,145

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
 SCHEDULE OF REVENUES COMPARED TO BUDGET  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 BUDGETARY BASIS  
 (With Comparative Amounts for the Year Ended December 31, 2011)

	<u>2012</u> <u>Original Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<b>SOLID WASTE</b>			
<b>OPERATING REVENUES</b>			
Service Charges	\$ 208,000	\$ 192,242	\$ 209,695
Contribution - Township of North Bergen	<u>5,826,240</u>	<u>5,826,240</u>	<u>5,712,000</u>
	<u>6,034,240</u>	<u>6,018,482</u>	<u>5,921,695</u>
<b>NON-OPERATING REVENUES</b>			
Operating Grants and Entitlements		201,574	193,022
Miscellaneous Revenues	<u>66,526</u>	<u>101,864</u>	<u>76,500</u>
Total Non-Operating Revenues	<u>66,526</u>	<u>303,438</u>	<u>269,522</u>
Total Solid Waste Revenues	<u>6,100,766</u>	<u>6,321,920</u>	<u>6,191,217</u>
<b>WASTE WATER</b>			
<b>OPERATING REVENUES</b>			
User Charges	12,000,000	13,392,193	12,657,511
Connection Fees	290,000	409,169	434,405
Interest on Delinquent Accounts	<u>275,000</u>	<u>184,258</u>	<u>341,293</u>
Total Operating Revenues	<u>12,565,000</u>	<u>13,985,620</u>	<u>13,433,209</u>
<b>NON-OPERATING REVENUES</b>			
Interest and Investment Income	100,000	487,926	1,026,159
Contribution - Township of North Bergen	285,196	285,196	
Miscellaneous Revenues	<u>-</u>	<u>25,387</u>	<u>18,479</u>
Total Non-Operating Revenues	<u>385,196</u>	<u>798,509</u>	<u>1,044,638</u>
Total Waste Water Revenues	<u>12,950,196</u>	<u>14,784,129</u>	<u>14,477,847</u>
Grand Total	<u>\$ 19,050,962</u>	<u>\$ 21,106,049</u>	<u>\$ 20,669,064</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF EXPENSES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**BUDGETARY BASIS**  
**(With Comparative Amounts for the Year Ended December 31, 2011)**

	<u>2012</u> <u>Original Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<b>SOLID WASTE</b>			
<b>OPERATING APPROPRIATIONS</b>			
Administration			
Salaries and Wages	\$ 222,100	\$ 219,708	\$ 229,178
Fringe Benefits	274,000	269,995	261,899
Other Expenses	123,100	174,391	212,931
Cost of Providing Services			
Salaries and Wages	1,734,000	1,714,051	1,752,293
Fringe Benefits	835,000	762,304	785,554
Other Expenses	<u>2,724,250</u>	<u>2,503,231</u>	<u>2,510,895</u>
Total Operating Appropriations	<u>5,912,450</u>	<u>5,643,680</u>	<u>5,752,750</u>
<b>NON-OPERATING APPROPRIATIONS</b>			
Principal Payments on Debt	153,746	132,734	136,755
Interest on Debt	<u>34,570</u>	<u>36,800</u>	<u>39,782</u>
Total Non-Operating Appropriations	<u>188,316</u>	<u>169,534</u>	<u>176,537</u>
Total Solid Waste Appropriations	<u>6,100,766</u>	<u>5,813,214</u>	<u>5,929,287</u>
<b>WASTE WATER</b>			
<b>OPERATING APPROPRIATIONS</b>			
Administration			
Salaries and Wages	633,150	608,920	602,491
Fringe Benefits	358,500	317,832	307,102
Other Expenses	806,000	972,504	608,091
Cost of Providing Services			
Salaries and Wages	1,224,000	1,207,175	1,194,931
Fringe Benefits	1,035,000	891,376	907,373
Other Expenses	<u>5,603,025</u>	<u>4,937,338</u>	<u>5,093,502</u>
Total Operating Appropriations	<u>9,659,675</u>	<u>8,935,145</u>	<u>8,713,490</u>

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF EXPENSES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**BUDGETARY BASIS**  
**(With Comparative Amounts for the Year Ended December 31, 2011)**

	<u>2012</u> <u>Original Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<i>WASTE WATER</i> (continued)			
<b>NON-OPERATING APPROPRIATIONS</b>			
Principal on Payment of Debt	\$ 4,708,234	\$ 4,708,234	\$ 4,557,484
Interest Expense	1,555,257	1,590,819	1,640,244
Municipal Contribution	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total Non-Operating Appropriations	<u>6,463,491</u>	<u>6,499,053</u>	<u>6,397,728</u>
Total Waste Water Appropriations	<u>16,123,166</u>	<u>15,434,198</u>	<u>15,111,218</u>
Grand Total	<u>\$ 22,223,932</u>	21,247,412	<u>\$ 21,040,505</u>

**Reconciliation to GAAP Basis**

## Increased by:

Depreciation Expense - Solid Waste	104,573
Depreciation Expense - Waste Water	4,000,408
Post Retirement Benefit Expense - Solid Waste	593,896
Post Retirement Benefit Expense - Waste Water	509,055
Debt Issuance Costs	5,500
Amortization of Premiums	(98,319)
Deferred Amounts on Refunding of Debt	231,169
Interest Expense/Accreted Value of Capital	
Appreciation Revenue Bonds	338,145

## Decreased by:

Principal Payments on Debt - Solid Waste	(132,734)
Principal Payments on Debt - Waste Water	<u>(4,708,234)</u>

Total GAAP Basis Expenses (Operating and Non-Operating Expenses) \$ 22,090,871



**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY**

**ROSTER OF OFFICIALS**

**AS OF DECEMBER 31, 2012**

**Board of Commissioners**

**Position**

John O'Dell	Chairman
Salvatore DeSantis	Vice Chairman
Felix Henriquez	Board Member
Richard Censullo	Board Member
Frank Piazza	Board Member

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

### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the North Bergen Municipal Utilities Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, as listed in the table of contents which collectively comprise the North Bergen Municipal Utilities Authority's basic financial statements, and have issued our report thereon dated April 17, 2013.

#### 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 of the financial statements, we considered the North Bergen Municipal Utilities Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the North Bergen Municipal Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Bergen Municipal Utilities Authority's internal control.

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

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


### Compliance and Other Matters


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

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

### Purpose of this Report

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

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

  
Gary J. Vinci  
Registered Municipal Accountant  
RMA Number CR00411

Fair Lawn, New Jersey  
April 17, 2013

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

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on Compliance for Each Major State Program**

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 the North Bergen Municipal Utilities Authority's major state programs for the year ended December 31, 2012. 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.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the North Bergen Municipal Utilities Authority's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; audit requirements as prescribed by the Division of Local Government

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

### ***Opinion on Each Major State Program***

In our opinion, the North Bergen Municipal Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

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

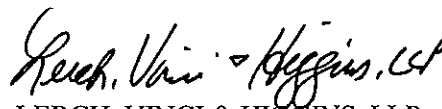
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the North Bergen Municipal Utilities Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the North Bergen Municipal Utilities Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 17, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of state financial assistance are presented for purposes of additional analysis as required by OMB Circular A-133 and New Jersey OMB Circular 04-04 and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.



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



Gary J. Vinci  
Registered Municipal Accountant  
RMA Number CR00411

Fair Lawn, New Jersey  
April 17, 2013

NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED DECEMBER 31, 2012

State Grant Program	Grant Number	Grant Year	Grant Award	2012 Grant Receipts	Balance, January 1, 2012	Revenue	Expended	Adjustment	Balance, December 31, 2012	Cumulative Expenditures
<b>Department of Environmental Protection</b>										
New Jersey Environmental Infrastructure Trust - Trust Loan	4860-150-093020-60	2009/10	\$ 2,265,726	\$ 554,391	\$ 1,335,232		\$ 115,795	\$ 1,097	\$ 1,220,534	\$ 1,046,192
New Jersey Environmental Infrastructure Trust - Fund Loan	4860-150-093020-60	2012	2,335,000	2,335,000		\$ 2,335,000	2,335,000			2,335,000
New Jersey Environmental Infrastructure Trust - Trust Loan	4860-150-093020-60	2012	820,000	820,000		820,000	820,000			820,000
Recycling Tonnage Grant	4900-752-001	2010	192,246		117,937		117,937			192,246
Recycling Tonnage Grant	4900-752-001	2011	172,539		172,539		83,637		88,902	83,637
Recycling Tonnage Grant	4900-752-001	2012	146,320	146,320	-	146,320	-	-	146,320	-
					\$ 1,625,708	\$ 3,301,320	\$ 3,472,369	\$ 1,097	\$ 1,455,756	\$ 4,477,075



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

**NOTE 1 GENERAL**

The accompanying schedule presents the activity of all federal awards and state financial assistance programs of the 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>201,574</u>	\$ <u>3,270,795</u>	\$ <u>3,472,369</u>

**NOTE 4 STATE LOANS OUTSTANDING**

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

	<u>2012</u>	<u>2011</u>
New Jersey Infrastructure Trust		
Trust Loan Payable - Waste Water System	\$ 775,000	\$ 885,000
Trust Loan Payable - Waste Water System	90,000	100,000
Trust Loan Payable - Waste Water System	8,915,000	9,330,000
Trust Loan Payable - Waste Water System	2,140,000	2,225,000
Trust Loan Payable - Waste Water System	820,000	
Fund Loan Payable - Waste Water System	573,491	668,760
Fund Loan Payable - Waste Water System	64,368	73,306
Fund Loan Payable - Waste Water System	22,665,408	24,173,056
Fund Loan Payable - Waste Water System	2,063,429	2,184,808
Fund Loan Payable - Waste Water System	<u>2,335,000</u>	<u>-</u>
Total	\$ <u>40,441,696</u>	\$ <u>39,639,930</u>

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

*Part I – Summary of Auditor's Results*

**Financial Statement Section**

A) Type of auditors' report issued: Unqualified

B) Internal control over financial reporting:

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

2) Significant deficiency(ies) identified that are not considered to be material weaknesses?            yes       X       no

C) Noncompliance material to basic financial statements noted?            yes       X       no

**Federal Awards Section**

Not Applicable

**State Awards**

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

Auditee qualified as low-risk auditee?            yes       X       no

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

Internal Control over major programs:

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

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

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

Identification of major programs:

State Grant/Project Number(s)

Name of State Program

4860-150-093020-60

NJ Environmental Infrastructure Trust Loan (NJ DEP)

4860-150-093050-60

NJ Department of Environmental Protection:

Wastewater Treatment Grant

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

*Part II – Schedule of Financial Statement Findings*

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

THERE ARE NONE.

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

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

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

**CURRENT YEAR FEDERAL AWARDS**

NOT APPLICABLE

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

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

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

**CURRENT YEAR 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, 2012**

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

**STATUS OF PRIOR YEAR FINDINGS**

THERE WERE NONE.

**NORTH BERGEN MUNICIPAL UTILITIES AUTHORITY  
GENERAL COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 always deposited within forty-eight hours of collection. It is recommended that the Authority's cash 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. Purchase orders be issued prior to the ordering of any goods or services.
- \* 2. The Authority's cash 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.

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

  
Gary J. Vinci  
Registered Municipal Accountant  
RMA Number CR00411