

**ESSEX COUNTY UTILITIES AUTHORITY**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES

DECEMBER 31, 2011 AND 2010



# ESSEX COUNTY UTILITIES AUTHORITY

DECEMBER 31, 2011 AND 2010

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Financial Statements:	
Balance Sheets	10 - 11
Statements of Revenues and Expenditures and Fund Balance (Deficit)	12
Statements of Cash Flows - Unrestricted and Restricted Funds	13 - 14
Notes to Financial Statements	15 - 30
Required Supplementary Information:	
Schedule of Revenues and Expenditures - Budget and Actual	31
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	32
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	33 -34
Schedule of Findings and Questioned Costs	35
Status of Prior Year Findings	36
Schedule of Expenditures of State Awards	37
Notes to Schedule of Expenditures of State Awards	38
Roster of Officials for 2011	39





## INDEPENDENT AUDITORS' REPORT

The Honorable Chairman and  
Authority Commissioners  
Essex County Utilities Authority  
Newark, New Jersey

We have audited the accompanying financial statements of the Essex County Utilities Authority as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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, and audit requirements prescribed by the Bureau of Authority Regulations, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Essex County Utilities Authority as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and New Jersey Local Authority Accounting Principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our consideration of the Essex County Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

BEDERSON & COMPANY LLP

*Bederson & Company LLP*

West Orange, New Jersey  
April 20, 2012



# ESSEX COUNTY UTILITIES AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Essex County Utilities Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2011 and 2010. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial statement presents the Authority's financial activities and position in three (3) parts. They include the management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

### BASIC FINANCIAL STATEMENTS

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the results of the Authority operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts and cash payments and net changes in cash resulting from operations, investing activities and capital and related financing activities.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements, such as the Authority's accounting methods and policies.

### FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, population growth, development, contractual requirements and new or changed government regulation. Our activity consists of Enterprise funds segregated by type, Water and Solid Waste.



## ESSEX COUNTY UTILITIES AUTHORITY'S NET ASSETS

A summary of the Authority's Statement of Net Assets combined for Solid Waste and Water Systems is presented in the following table:

### CONDENSED STATEMENT OF NET ASSETS (\$000's)

	2011	2010	Change
<b>Assets:</b>			
Unrestricted	\$ 11,883	\$ 10,156	\$ 1,727
Restricted	10,414	10,610	(196)
Net capital assets	59,572	64,193	(4,621)
 Total Assets	 81,869	 84,959	 (3,090)
 <b>Liabilities:</b>			
Long-term liabilities	70,649	82,606	(11,957)
Other liabilities	19,710	13,376	6,334
 Total Liabilities	 90,359	 95,982	 (5,623)
 <b>Fund Balance:</b>			
Restricted	(9,845)	(9,825)	(20)
Assigned	545	-	545
Unassigned	810	(1,198)	2,008
 Total Net Assets (Deficit)	 \$ (8,490)	 \$ (11,023)	 \$ 2,533

#### CURRENT ASSETS

For both Water and Solid Waste, unrestricted cash and cash equivalents were \$7.8 million at December 31, 2011 compared to the 2010 balance of \$7.2 million. Restricted cash was \$10.4 million at December 31, 2011 compared to \$10.6 at December 31, 2010.

Accounts Receivable increased by approximately \$1.16 million or 40% in 2011, as compared to a decrease of \$2.83 million or 49% in 2010. The 2011 increase is the result of municipalities paying slower.

#### NONCURRENT ASSETS

For 2011, the value of the non-current assets decreased by approximately \$4.6 million in 2011, which is comprised of an approximate decrease of \$1.2 million in fixed assets, \$808 decrease in contractual rights, and a decrease of \$2.61 million in net deferred charges. For 2010, the value of the non-current assets decreased by approximately \$3.8 million in 2010, which is comprised of an approximate decrease of \$359 in fixed assets, \$809 decrease in contractual rights, and a decrease of \$2.62 million in net deferred charges. The decreases for 2011 and 2010 are the result of depreciation and amortization expenses, which reduce the net book value of these assets. In 2011, the decrease in fixed assets is also due to the sale of the building located in Verona.



## ESSEX COUNTY UTILITIES AUTHORITY'S NET ASSETS

### CAPITAL ASSETS (\$000's)

	2011	2010	Change
Land and building	\$ -	\$ 1,920	\$ (1,920)
Water system infrastructure	6,051	6,051	-
Computer system, furniture and fixtures	711	708	3
Transportation equipment	141	141	-
Total	6,903	8,820	(1,917)
Less: Depreciation	5,004	5,722	(718)
 Net Property, Plant and Equipment	 \$ 1,899	 \$ 3,098	 \$ (1,199)
 Contractual rights - operating	 \$ 13,275	 \$ 13,275	 \$ -
Asset purchase	16,500	16,500	-
Port Authority settlement	17,447	17,447	-
Procurement of system	2,275	2,275	-
Litigation settlements	23,573	23,573	-
Bond issuances	3,948	3,948	-
Water system development	677	677	-
Total	77,695	77,695	-
Less: Amortization	36,554	33,942	2,612
 Net Deferred Charges	 \$ 41,141	 \$ 43,753	 \$ (2,612)
 Contractual rights - non-operating	 \$ 35,322	 \$ 35,322	 \$ -
Less: Amortization	18,789	17,981	808
 Net Contractual Rights	 \$ 16,533	 \$ 17,341	 \$ (808)

### CURRENT LIABILITIES

Current liabilities are obligations that will be paid in the next 12 months after the balance sheet date. Current liabilities payable from unrestricted assets decreased by approximately \$597 or 9% in 2011, as compared to a \$2.649 million or 28.5% decrease in 2010. The 2011 decrease is due to a decrease in prepaid tipping revenue as haulers directly deposit their tipping fees with the New Jersey Meadowlands Commission facility. The 2010 decrease is the result of an decrease in accounts payable and accrued expenses of approximately \$1.899 million or 29.6% and prepaid tipping revenue of approximately \$503 or 24.5%.

Current liabilities payable from restricted assets increased by approximately \$6.93 million in 2011. This is the result of a increase in the current maturity of water bonds payable and the Port Authority settlement payable, as no payment was made to the Port Authority in 2011.

### NONCURRENT LIABILITIES

Noncurrent liabilities decreased by \$11.96 million in 2011 due to the current maturity of the solid waste and water bonds payable, and the Port Authority Settlement payable.



## ESSEX COUNTY UTILITIES AUTHORITY'S CHANGES IN NET ASSETS

A summary of the Authority's Statement of Revenues, Expenses, and Changes in Fund Balance combined for Solid Waste and Water Systems is presented in the following table:

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets (\$000's)

	2011	2010	Change
Operating revenues	\$ 40,637	\$ 44,736	\$ (4,099)
Nonoperating revenues	745	1,116	(371)
<b>Total Revenues</b>	<b>41,382</b>	<b>45,852</b>	<b>(4,470)</b>
Operating expense	31,185	36,708	(5,523)
Depreciation and amortization expense	2,982	2,993	(11)
Nonoperating expense	4,682	4,841	(159)
<b>Total Expenses</b>	<b>38,849</b>	<b>44,542</b>	<b>(5,693)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>2,533</b>	<b>1,310</b>	<b>1,223</b>
<b>Deficit in Fund Balance - beginning of year</b>	<b>(11,023)</b>	<b>(12,333)</b>	<b>1,310</b>
<b>Deficit in Fund Balance - end of year</b>	<b>\$ (8,490)</b>	<b>\$ (11,023)</b>	<b>\$ 2,533</b>

While the Balance Sheets show the change in financial position of fund balances, the Statements of Revenues, Expenditures, and Fund Balance provides answers as to the nature and source of these changes.

#### OPERATING REVENUES

The Authority's operating revenues decreased by \$4.099 million to \$40.637 million in 2011, as compared to a \$16.516 million decrease in 2010. Effective January 1, 2011, the Authority began using the New Jersey Meadowland Commission facility (NJMC) for disposal of type 13 waste. Per an amendment to the agreement with NJMC, NJMC would be responsible for collecting all hauler fees and remitting the contractual surcharge to the Authority. Additionally, waste tonnage decreased slightly in 2011. These decreases were offset by slight contractual increases in fees with the facilities.

#### OPERATING EXPENSES

Total operating expenses decreased by approximately \$5.534 million to \$34.167 million in 2011, as compared to a \$16.221 million decrease in 2010. The 2011 overall decrease is due to the arrangement with NJMC, whereby NJMC collects tipping fees and remits the surcharge to the Authority after deducting its fees. Additionally, NJMC's fees for 2011 are less than the facility that the Authority previously used to handle type 13 waste. Salary and employee benefit expenses continued to decreased in 2011. Depreciation declined as the Authority sold its building in Verona in August 2011.





## ESSEX COUNTY UTILITIES AUTHORITY'S CHANGES IN NET ASSETS

### NONOPERATING INCOME AND EXPENSES

In 2011, total non-operating income increased by approximately \$371,000. Rental income decrease by approximately \$31,000, and the Authority recognized a loss of approximately \$288,000 on the sale of the building. Additionally, in 2011 local subsidies and donations from Essex County decreased by \$37,000. Non-operating expenses decreased by approximately \$159,000 in 2011, due to a decrease in interest expense attributable to the repayment of the Series 1999A Bonds in April 2011.

The following table reflects the comparative solid waste collection in tons:

Source	2011 Tonnage	2010 Tonnage	Amount Increase (Decrease)	% Increase (Decrease)
<b>Tipping Fee Revenue Type 10 Resource Recovery</b>				
Total	<u>350,731</u>	<u>350,094</u>	<u>637</u>	0.18%
<b>Tipping Fee Revenue Type 13 Bulk Waste Transfer Station</b>				
Total	<u>73,542</u>	<u>79,026</u>	<u>(5,484)</u>	-6.94%
<b>Tipping Fee Revenue Commercial Type 10 Transfer Station</b>				
Total	<u>95,225</u>	<u>99,893</u>	<u>(4,668)</u>	-4.67%

Essex County disposed of 519,498 tons of solid waste in 2011 at three (3) designated facilities compared to 529,013 tons in 2010, representing a reduction of 9,515 tons. The decrease is the result of an increase in recycling, less construction debris, and overall consumer spending. The decrease in waste tons was partially offset in 2011 by increases in waste resulting from severe damage caused by weather. Despite the drop in total tonnage from 2010 to 2011, the demand for disposal capacity continues to increase for certain waste types, while it is declining for others.

### FUND BALANCE

In 2011, the Authority adopted GASB 54, which caused a reclassification of its net assets into fund balance categories. The total fund balance for the year ended December 31, 2011 was a deficit of \$8.490 million. Total liabilities of \$90.359 million exceeded total assets of \$81.869 million. In the prior year, December 31, 2010, liabilities exceeded assets by \$11.023 million. Therefore, in 2011 the Authority's net assets increased by approximately \$2.533 million. This compares to an increase in fund balance of \$1.310 million in 2010.



## ESSEX COUNTY UTILITIES AUTHORITY'S NET ASSETS

### BUDGETARY HIGHLIGHTS

The Authority prepares and submits an annual operating budget to the State of New Jersey, which approves the budgets for adoption by the Authority prior to the beginning of the fiscal year. The following table provides a 2011 combined budget to actual comparison for both solid waste and water systems:

#### 2011 COMBINED BUDGET vs. ACTUAL (\$000's)

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Operating revenues	\$ 46,159	\$ 40,636	\$ (5,523)
Other operating revenue	-	1	1
Nonoperating revenues	582	745	163
Total Revenues	46,741	41,382	(5,359)
<b>Operating Appropriations:</b>			
Personnel and other	510	407	(103)
Administration and other	976	737	(239)
Cost of providing service:			
Solid waste	34,902	30,036	(4,866)
Water	-	4	4
Total Operating Appropriations	36,388	31,184	(5,204)
<b>Nonoperating Appropriations:</b>			
Debt service	8,806	9,229	423
Amortization/depreciation expense	3,698	3,790	92
Total Nonoperating Appropriations	12,504	13,019	515
<b>Total Operating and Nonoperating Appropriations</b>	<b>48,892</b>	<b>44,203</b>	<b>(4,689)</b>
<b>Deficit - Budgetary Basis</b>	<b>\$ (2,151)</b>	<b>\$ (2,821)</b>	<b>\$ (670)</b>

The revenue shortfall of \$5.359 million against the annual budget is a result of less tonnage in 2011 as compared to 2010, and the agreement with NJMC whereby NJMC only remits the contractual surcharge to the Authority .

The revenue needed to meet solid waste budget requirements is collected from solid waste tipping fees. Revenue needed for water budget requirements is collected from water service fees charged.

The decrease in the solid waste operating expense is the result of less tonnage in 2011 as compared to 2010, and the aforementioned agreement with NJMC.



## ESSEX COUNTY UTILITIES AUTHORITY'S NET ASSETS

### DEBT ADMINISTRATION

The Authority has, in the past, issued Bond Anticipation Notes to finance improvements and additions to the solid waste system. In April 2009, the Authority issued \$52,240,000 Solid Waste System Revenue Refunding Bond (Series 2009) to refinance the \$53,340,000 Tax Exempt Series 1999A Solid Waste System Revenue Bonds at interest rates ranging from 2.5% to 5.0%.

The Authority has, in the past, issued Bond Anticipation Notes to finance improvements and additions to the water system. In November 2008, the Authority issued \$6,250,000 Water System Project Notes (Series 2008) to refinance the \$6,250,000 Water System Project Notes (Series 2007) at interest rate of 2.59%. These notes matured on November 12, 2010, and were refinanced by the issuance of the \$6,250,000 Water System Project Notes (Series 2010). The Series 2010 notes bear interest at a rate of 2% and are scheduled to mature on November 9, 2012.

Revenue bonds outstanding at December 31, 2011 amounted to \$74,335,000. Included in this amount are the 2006 A and B series refunding bonds, and the 2009 series refunding bonds. More detailed information about the Authority's long-term debt liabilities is presented in Note 9 of the financial statements. The Authority's long-term debt decreased by \$5,355,000, resulting from schedule maturities during the fiscal year, the maturities were as follows:

	<u>2011</u>	<u>2010</u>
Series 1999A - Tax Exempt - Serial Capital	\$ 3,785,000	\$ 3,785,000
Series 2006A - Tax Exempt - Refunding Revenue	870,000	840,000
Series 2006B - Taxable - Refunding Revenue Bonds	650,000	615,000
Series 2009 - Tax Exempt - Refunding Revenue Bonds	<u>50,000</u>	<u>50,000</u>
	<u>\$ 5,355,000</u>	<u>\$ 5,290,000</u>

### ECONOMIC FACTORS, FUTURE YEARS' BUDGETS AND RATES

The Commissioners and management of the Authority consider many factors when preparing each year's budget and service charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments. In addition, the market conditions, disposal needs and available capacity are influential in the decision-making process.

The future fluctuations of the County's disposal needs will continue to challenge the Authority. Actual tonnage levels have declined over the past five years.

In connection with the normal conduct of the Authority's business, it could be from time to time involved in various claims and litigation, the results of which may result in positive or negative affects on the financial statements.



**ESSEX COUNTY UTILITIES AUTHORITY**

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

	<b>ASSETS</b>			
	<u>DECEMBER 31, 2011</u>			
	<u>Solid Waste</u>	<u>Water</u>	<u>Total</u>	<u>2010 Total</u>
<b>UNRESTRICTED ASSETS:</b>				
Cash and equivalents	\$ 7,710,068	\$ 79,362	\$ 7,789,430	\$ 7,222,674
Accounts receivable	<u>4,091,426</u>	<u>1,678</u>	<u>4,093,104</u>	<u>2,932,785</u>
<b>TOTAL UNRESTRICTED ASSETS</b>	<u>11,801,494</u>	<u>81,040</u>	<u>11,882,534</u>	<u>10,155,459</u>
<b>RESTRICTED ASSETS:</b>				
Construction account:				
Cash and investments	-	136,143	136,143	136,113
Debt service account:				
Cash and investments	5,380,184	62,599	5,442,783	5,639,495
Deposits:				
Cash	<u>4,835,478</u>	<u>-</u>	<u>4,835,478</u>	<u>4,834,389</u>
<b>TOTAL RESTRICTED ASSETS</b>	<u>10,215,662</u>	<u>198,742</u>	<u>10,414,404</u>	<u>10,609,997</u>
<b>NONCURRENT ASSETS:</b>				
Capital Assets:				
Property and equipment, net of depreciation	77,274	1,821,380	1,898,654	3,099,235
Contractual rights, net of amortization	16,532,650	-	16,532,650	17,341,285
Deferred charges, net of amortization	<u>41,141,069</u>	<u>-</u>	<u>41,141,069</u>	<u>43,752,802</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>57,750,993</u>	<u>1,821,380</u>	<u>59,572,373</u>	<u>64,193,322</u>
<b>TOTAL ASSETS</b>	<u>\$ 79,768,149</u>	<u>\$ 2,101,162</u>	<u>\$ 81,869,311</u>	<u>\$ 84,958,778</u>

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



**ESSEX COUNTY UTILITIES AUTHORITY**

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

**LIABILITIES AND FUND BALANCE (DEFICIT)**

	DECEMBER 31, 2011			2010 Total
	Solid Waste	Water	Total	
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS:</b>				
Accounts payable and accrued expenses	\$ 4,451,066	\$ 68,953	\$ 4,520,019	\$ 4,508,509
Due to Essex County for payroll and benefits	255,604	-	255,604	104,619
Prepaid tipping revenue	1,289,417	-	1,289,417	2,048,569
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS</b>	<u>5,996,087</u>	<u>68,953</u>	<u>6,065,040</u>	<u>6,661,697</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>				
Current portion of settlement payable	1,000,000	-	1,000,000	500,000
Accrued interest	940,828	18,056	958,884	859,898
Bond anticipation notes payable	-	6,281,250	6,281,250	-
Bonds payable	5,405,000	-	5,405,000	5,355,000
<b>TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<u>7,345,828</u>	<u>6,299,306</u>	<u>13,645,134</u>	<u>6,714,898</u>
<b>NON-CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>				
Bonds payable, net	68,145,145	-	68,145,145	73,289,377
Bond anticipation notes payable	-	-	-	6,312,500
Settlement payable	2,503,696	-	2,503,696	3,003,696
<b>TOTAL NON-CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	<u>70,648,841</u>	<u>-</u>	<u>70,648,841</u>	<u>82,605,573</u>
<b>TOTAL LIABILITIES</b>	<u>83,990,756</u>	<u>6,368,259</u>	<u>90,359,015</u>	<u>95,982,168</u>
<b>FUND BALANCE (DEFICIT):</b>				
Restricted	(5,583,490)	(4,261,128)	(9,844,618)	(9,825,405)
Assigned	545,000	-	545,000	-
Unrestricted	815,883	(5,969)	809,914	(1,197,985)
<b>TOTAL FUND BALANCE (DEFICIT)</b>	<u>(4,222,607)</u>	<u>(4,267,097)</u>	<u>(8,489,704)</u>	<u>(11,023,390)</u>
<b>TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)</b>	<u>\$ 79,768,149</u>	<u>\$ 2,101,162</u>	<u>\$ 81,869,311</u>	<u>\$ 84,958,778</u>

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



**ESSEX COUNTY UTILITIES AUTHORITY**  
**STATEMENTS OF REVENUES AND EXPENDITURES AND FUND BALANCE (DEFICIT)**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	DECEMBER 31, 2011			2010 Total
	Solid Waste	Water	Total	
<b>OPERATING REVENUES:</b>				
User charges:				
Tipping fees	\$ 40,625,810	\$ -	\$ 40,625,810	\$ 44,043,158
Service fees	-	10,227	10,227	45,430
Residue disposal credits	-	-	-	646,287
Interest income	1,012	136	1,148	1,079
<b>TOTAL OPERATING REVENUES</b>	<u>40,626,822</u>	<u>10,363</u>	<u>40,637,185</u>	<u>44,735,954</u>
<b>OPERATING EXPENSES:</b>				
Administration	1,144,885	-	1,144,885	1,053,488
Operating and maintenance	30,035,552	4,573	30,040,125	35,654,549
Depreciation	105,717	264,000	369,717	372,839
Amortization	2,611,733	-	2,611,733	2,620,669
<b>TOTAL OPERATING EXPENSES</b>	<u>33,897,887</u>	<u>268,573</u>	<u>34,166,460</u>	<u>39,701,545</u>
<b>OPERATING INCOME (LOSS)</b>	<u>6,728,935</u>	<u>(258,210)</u>	<u>6,470,725</u>	<u>5,034,409</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>				
Interest income - restricted	3,360	-	3,360	3,366
Other income	616,887	-	616,887	950,787
Local subsidies and donations	-	125,000	125,000	161,875
Amortization of contractual rights	(808,635)	-	(808,635)	(808,635)
Interest expense	(3,766,707)	(106,944)	(3,873,651)	(4,031,819)
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>(3,955,095)</u>	<u>18,056</u>	<u>(3,937,039)</u>	<u>(3,724,426)</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	2,773,840	(240,154)	2,533,686	1,309,983
<b>FUND BALANCE (DEFICIT) - beginning of year</b>	<u>(6,996,447)</u>	<u>(4,026,943)</u>	<u>(11,023,390)</u>	<u>(12,333,373)</u>
<b>FUND BALANCE (DEFICIT) - end of year</b>	<u>\$ (4,222,607)</u>	<u>\$ (4,267,097)</u>	<u>\$ (8,489,704)</u>	<u>\$ (11,023,390)</u>

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



**ESSEX COUNTY UTILITIES AUTHORITY**  
**STATEMENTS OF CASH FLOWS - UNRESTRICTED AND RESTRICTED FUNDS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	DECEMBER 31, 2011			2010 Total
	Solid Waste	Water	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from:				
Hauler's tipping fees	\$ 39,096,171	\$ -	\$ 39,096,171	\$ 47,007,383
Service fees	-	9,181	9,181	45,759
Interest earned	1,012	136	1,148	1,079
Other	(394,142)	-	(394,142)	4,756
Payments to employees	(694,440)	-	(694,440)	(680,053)
Payments to suppliers	<u>(30,284,468)</u>	<u>(38,252)</u>	<u>(30,322,720)</u>	<u>(38,109,494)</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	<u>7,724,133</u>	<u>(28,935)</u>	<u>7,695,198</u>	<u>8,269,430</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Other revenue	905,185	-	905,185	950,787
Interest on investments	<u>3,360</u>	<u>-</u>	<u>3,360</u>	<u>3,366</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>908,545</u>	<u>-</u>	<u>908,545</u>	<u>954,153</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	(2,434)	-	(2,434)	(14,691)
Proceeds received from sale of building	545,000	-	545,000	-
Bond premiums	-	-	-	62,500
Local subsidies and donations	-	125,000	125,000	161,875
Port settlement payment	-	-	-	(500,000)
Principal payment on bonds	(5,355,000)	-	(5,355,000)	(5,290,000)
Interest paid on bonds, loans and notes	<u>(3,420,146)</u>	<u>(125,000)</u>	<u>(3,545,146)</u>	<u>(3,645,170)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(8,232,580)</u>	<u>-</u>	<u>(8,232,580)</u>	<u>(9,225,486)</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	400,098	(28,935)	371,163	(1,903)
<b>CASH AND EQUIVALENTS - beginning</b>	<u>17,525,632</u>	<u>307,039</u>	<u>17,832,671</u>	<u>17,834,574</u>
<b>CASH AND EQUIVALENTS - ending</b>	<u>\$ 17,925,730</u>	<u>\$ 278,104</u>	<u>\$ 18,203,834</u>	<u>\$ 17,832,671</u>

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



**ESSEX COUNTY UTILITIES AUTHORITY**  
**STATEMENTS OF CASH FLOWS - UNRESTRICTED AND RESTRICTED FUNDS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	DECEMBER 31, 2011			2010 Total
	Solid Waste	Water	Total	
<b>RECONCILIATION TO STATEMENT OF NET ASSETS:</b>				
<b>OF NET ASSETS:</b>				
Current assets	\$ 7,710,068	\$ 79,362	\$ 7,789,430	\$ 7,222,674
Restricted assets	<u>10,215,662</u>	<u>198,742</u>	<u>10,414,404</u>	<u>10,609,997</u>
	<u>\$ 17,925,730</u>	<u>\$ 278,104</u>	<u>\$ 18,203,834</u>	<u>\$ 17,832,671</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income (loss) for year	\$ 6,728,935	\$ (258,210)	\$ 6,470,725	\$ 5,034,409
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	105,717	264,000	369,717	372,839
Amortization of deferred charges	2,611,733	-	2,611,733	2,620,669
(Increase) decrease in:				
Accounts receivable	(1,160,524)	205	(1,160,319)	2,825,969
Increase (decrease) in:				
Accounts payable and accrued expenses	197,424	(34,930)	162,494	(2,146,510)
Prepaid expenses	-	-	-	65,000
Prepaid tipping fees	<u>(759,152)</u>	<u>-</u>	<u>(759,152)</u>	<u>(502,946)</u>
NET CASH PROVIDED BY (USED BY)				
OPERATING ACTIVITIES	<u>\$ 7,724,133</u>	<u>\$ (28,935)</u>	<u>\$ 7,695,198</u>	<u>\$ 8,269,430</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES</b>				
Redemption of Series 2008 Water Notes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,250,000)</u>
Issuance of Series 2010 Water Notes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,250,000</u>
Net premium upon issuance of 2010 notes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,500</u>

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





# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 1 - GENERAL

Pursuant to the provisions of the Solid Waste Management Act, constituting Chapter 39 of the Pamphlet Laws of 1970, of the State of New Jersey and the rules and regulations promulgated thereunder, the County of Essex ("County") has been designated as a solid waste management district. In accordance with the provisions of the aforementioned act, a Solid Waste Management Plan was developed for the County of Essex which included a solid waste transfer station, waste-to-energy facility, out-of-state landfill disposal and miscellaneous recycling programs and activities. The County of Essex, Division of Solid Waste Management has heretofore managed the system which was funded by user charges, County budget appropriations and certain other County advances.

An ordinance adopted by the Board of Chosen Freeholders on July 1, 1992, effective July 22, 1992, created the Essex County Utilities Authority (the Authority) under the provisions of N.J.S.A. 40:14B-1 et seq., the Municipal and County Utilities Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 1957, of the State of New Jersey.

The Authority was created to provide waste management services previously managed and implemented by the County. It has the responsibility for the development and implementation of a program for the management, control and disposal of all solid waste generated within the geographic boundaries of the County in an environmentally sound manner. These activities are accounted for under the heading "Solid Waste."

The assumption of all services, liabilities and other contractual agreements by the Authority from the County of Essex was effective as of July 22, 1992.

The ordinance adopted July 1, 1992 creating the Authority was amended on October 8, 1997. The amendment determined that the Authority acquire, construct, maintain and operate the County of Essex existing wellfield and distribution system which serves the county jail and hospital center. These activities are accounted for under the heading "Water".

For financial reporting purposes, the Authority is a component unit of the County of Essex, State of New Jersey. There are no component units included in the accompanying statements.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Financial Statements

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of the focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Grants

Contributions received from various sources as grants are recorded in the period received. Donated assets are recorded at fair market value at the date of the gift.

#### Unamortized Debt Issue Costs

Deferred debt issue costs are being amortized over the life of the bond issue using the interest method; amortization expense for the years ended December 31, 2011 and 2010 was \$239,674.

#### Pension Plan

Substantially all employees participate in the Public Employees' Retirement System (PERS). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the County of Essex who in turn charges the Authority annually for its respective contributions. The plan does not maintain separate records for each Authority in the State and, therefore, the actuarial data for the Authority is not available.

The plan provides retirement, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The plan is a cost sharing multiple employer defined benefit plan. The Division of Pensions issues publicly available financial reports for each of the plans that include financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions.

Covered employees are required by State Statute to contribute 5.5 percent of their salary to the plan. In addition, annually the PERS bills the County of Essex, and the County bills the Authority at an actuarially determinable rate for its required contribution.

The contribution requirements of plan members and the Authority are established and may be amended by the Board of Trustees of the plan. All required contributions were made.

#### Compensated Absences

The Authority permits employees to accrue unused vacation and sick pay, which may be taken as time off or paid upon retirement at an agreed upon rate. Accumulated vacation and the portion of sick leave eligible to be paid to employees upon retirement is not considered material and is expensed in the year of occurrence.

#### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported at cost less accumulated depreciation.

Depreciation is provided for property owned by the Authority using the straight-line method.

Depreciation expense was \$369,717 and \$372,839 in 2011 and 2010, respectively.

The cost of property, plant and equipment is depreciated over estimated useful lives ranging from 5 to 20 years.



**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets (Continued)**

Capital assets activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Solid Waste:</b>				
Capital Assets not being depreciated:				
Land	\$ 400,000	\$ -	\$ 400,000	\$ -
Capital assets being depreciated:				
Building	1,519,751	-	1,519,751	-
Office equipment	341,465	2,434	-	343,899
Computer equipment	367,424	-	-	367,424
Transportation equipment	<u>140,666</u>	-	-	<u>140,666</u>
Total	2,769,306	2,434	1,919,751	851,989
Less: Accumulated depreciation	<u>1,755,451</u>	<u>105,717</u>	<u>1,086,453</u>	<u>774,715</u>
<b>Net Solid Waste</b>	<b><u>\$1,013,855</u></b>	<b><u>\$(103,283)</u></b>	<b><u>\$ 833,298</u></b>	<b><u>\$ 77,274</u></b>
<b>Water Infrastructure:</b>				
Capital Assets being depreciated	\$6,051,531	\$ -	\$ -	\$6,051,531
Less: Accumulated depreciation	<u>3,966,151</u>	<u>264,000</u>	-	<u>4,230,151</u>
<b>Net Water System</b>	<b><u>\$2,085,380</u></b>	<b><u>\$(264,000)</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,821,380</u></b>

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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. Estimates are used for, but not limited to, depreciation and amortization expense, and contingencies. Actual results could differ from those estimates.

**Restricted Accounts**

In accordance with the 1999 Bond Resolution (as amended and supplemented), the Authority has established the following cash and investment accounts for the deposit and/or transfer, in the priority of the order listed, of all moneys received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for Which Received</u>
Construction	Proceeds of Debt Issued	Construction costs of the projects and transfers to meet minimum levels in the bond service account and/or bond reserve account.
Bond	Amount needed to pay matured principal and interest.	Principal and interest on bonds.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Cash Equivalents**

The Authority considers the highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

#### **Accounts Receivable**

Receivables include amounts due from municipalities and private haulers for the transportation of solid waste. The Authority requires all private haulers to maintain a deposit with the Authority, these cash deposits are presented on the statement of net assets as prepaid tipping fees. Municipalities approve these contracts and the yearly charge by adopting the amounts into their budgets, and setting up an encumbrance for those charges. Receivables are considered past due at 150 days. The Authority believes that an allowance for doubtful accounts is not necessary, due to the prepaid tipping fees by the private haulers, and the encumbrances of the charges by the municipalities. Historically, the management of the Authority has not written off any accounts receivable.

#### **Fund Balance**

GASB 54 was designed to improve financial reporting by establishing fund balance classifications to which a government is bound to observe spending constraints that govern how it can use amounts reported in the balance sheet.

*Non-spendable* – Fund balance includes amounts that are not in a spendable form or are required to be maintained intact

*Restricted* – Fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers constitutionally, or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers

*Committed* – Fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

*Assigned* – Fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The assigned balance represents the amount that is not restricted or committed.

*Unassigned* – Fund balance is the residual classification that includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The Authority has a revenue spending policy that provides policy for programs with multiple revenue sources. Expenditures will be spent from restricted funds first, followed by assigned, and then unassigned fund balances.

Funds are committed and assigned through formal approval from the Committee of Commissioners.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 - Fair Value Measurements establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate-debt securities and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recent Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51 "*Accounting and Financial Reporting for Intangible Assets*". This statement requires that all intangible assets not specifically excluded by the scope provisions be classified as capital assets. The Authority is required to adopt GASB Statement No. 51 for its 2010 financial statements. The implementation of this statement did not have a significant impact on the financial position of the Authority.

In March 2009, GASB issued Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

Statement 54 distinguishes fund balance between amounts that are considered *nonspendable*, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committed* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government intends to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund

The Authority adopted GASB Statement No. 54 for its 2011 financial statements.

#### Reclassifications

The Authority's fund balances as of December 31, 2010 have been reclassified to conform to the 2011 financial statement presentation due to the adoption of GASB 54. Such reclassifications had no effect on the previously reported 2010 net increase in fund balances.

#### Subsequent Events

The Authority has evaluated subsequent events through April 20, 2012, which is the date the financial statements were available to be issued.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### **Compliance with Financial Related Legal and Contractual Provisions**

The management of the Authority is not aware of any material violations of finance related legal and contractual provisions.

#### **Legal Compliance - Budgets**

New Jersey Budget Law requires that all funds have legally adopted budgets and appropriations. Total expenditures for each fund may not exceed the amount appropriated. Appropriations for a fund may be increased provided they are offset by unanticipated revenues. All appropriations lapse at the end of each fiscal year to the extent that they have not been expended or encumbered. Authorization to transfer budgeted amounts between programs and/or departments within any fund and reallocation of budget line items within any program and/or department rests with the Authority's Board of Commissioners.

The accompanying Statement of Revenues, Expenditures, and Changes in Net Assets and the Schedule of Revenues and Expenditures - Budget and Actual have been prepared on a legally prescribed basis of accounting, which differs from GAAP. Note 15 "*Reconciliation of Budgetary Basis and GAAP*" has been prepared to identify these revenue and expenditure differences for governmental activities.

The Authority's budget is prepared for its funds on the modified accrual basis of accounting. Annual appropriated budgets are adopted for all general and enterprise type funds. Any material modification within the adopted budget cannot be made by Board of Commissioners without the Division of Local Government Services approval.

### NOTE 4 - CASH AND CASH EQUIVALENTS

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), or by other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five (5%) percent of the average daily balance of public funds; or

If the public funds deposited exceed seventy-five (75%) percent of the capital funds of the depository, the depository must provide collateral having a market value equal to one hundred (100%) percent of the amount exceeding seventy-five (75%) percent.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. The Authority has complied with all statutes and regulations applicable to deposits and investments.

At December 31, 2011 and 2010, cash and cash equivalents of the Authority consisted of the following:

	<u>2011</u>	<u>2010</u>
Money Market and Checking	<u>\$18,203,834</u>	<u>\$17,832,671</u>

The carrying amount of the Authority's cash and cash equivalents at December 31, 2011 and 2010 was \$18,203,834 and \$17,832,671. The bank balance at December 31, 2011 was \$18,298,785.

Cash equivalents include money market funds, mutual funds, cash management funds and certificate of deposits with maturity dates of less than three (3) months. Cash equivalents are stated at cost, which approximates market. Cash equivalents were held by the Authority's Trustee in the Authority's name.

#### **Custodial Credit Risk**

This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, an authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority does not have a policy for custodial credit risk. Federal depository insurance and New Jersey's Governmental Unit Deposit Protection Act mitigate this risk.

#### **Interest Rate Risk**

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy does not include limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### **Concentrations**

The Authority's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

### NOTE 5 - DEFERRED CHARGES

Upon formation of the Essex County Utilities Authority, the County of Essex contributed certain assets with regard to its solid waste system with the intention at some future date to value those assets and have the Authority compensate the County. During 2003, the Authority made a payment of \$16,500,000 to the County of Essex for those assets. This payment amount will be amortized on a straight-line basis over a period of twenty-nine (29) years. Amortization charged to operations amounted to \$572,044 for the years ended December 31, 2011 and 2010. Accumulated amortization for the years ended December 31, 2011 and 2010 amounted to \$4,487,069 and \$3,915,024, respectively.





**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 5 - DEFERRED CHARGES (Continued)**

Deferred charges for the years ended December 31, 2011 and 2010, being amortized on the straight-line or weighed average basis, consist of the following:

	<u>2011</u>	<u>2010</u>	<u>Estimated Life</u>
<b>Solid Waste:</b>			
Prior excess costs in connection with Essex County and Port Authority	\$13,274,966	\$13,274,966	40 years
Asset purchase	16,500,000	16,500,000	29 years
Port Authority settlement	17,447,439	17,447,439	20 years
Procurement and other	2,274,693	2,274,693	Various
Litigation settlements	23,572,823	23,572,823	Various
Bond issuance costs	<u>3,948,755</u>	<u>3,948,755</u>	Term of Debt
Total	77,018,676	77,018,676	
Less: Accumulated amortization	<u>35,877,607</u>	<u>33,265,874</u>	
<b>Net Solid Waste</b>	<u><b>\$41,141,069</b></u>	<u><b>\$43,752,802</b></u>	
<b>Water System:</b>			
Deferred charges	\$ 677,359	\$ 677,359	Various
Less: Accumulated amortization	<u>677,359</u>	<u>677,359</u>	
<b>Net Water System</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	

**NOTE 6 - CONTRACTUAL RIGHTS**

A resource recovery facility has been constructed by the Port Authority of New York and New Jersey and the American Ref Fuel Company for the purpose of disposal of solid waste. On February 28, 1986, the County of Essex executed an Amended and Restated County Service Contract.

The County of Essex contractually agreed to pay the Port Authority the sum of \$58,000,000 for the right to use the facility. An improvement authorization was adopted by the County of Essex on May 13, 1987 in the sum of \$48,000,000, which was funded by a loan obtained from the State of New Jersey, Department of Environmental Protection and Energy. Loan proceeds in the sum of \$40,000,000 were advanced to the Port Authority and the additional liability in the sum of \$18,000,000 was to be paid over a period of twenty-one (21) years, however as of December 31, 2005, the balance of this obligation has been fully liquidated. The resulting contractual rights of \$35,322,212 are being amortized on a straight-line basis over a period of forty (40) years. Amortization charged to operations amounted to \$808,635 for the years ended December 31, 2011 and 2010. Accumulated amortization for the years ended December 31, 2011 and 2010 was \$18,789,562 and \$17,980,927, respectively.

On July 15, 1999, as a result of litigation, the Authority entered into a Waste Disposal Agreement with the Port Authority of New York and New Jersey. In accordance with this Agreement, certain debt relating to these contractual rights was cancelled by the State of New Jersey and the Port Authority of New York and New Jersey.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 7 - SETTLEMENT PAYABLE

The Authority and the Port Authority of New York and New Jersey entered into a "Waste Disposal Agreement" dated July 15, 1999. This Agreement was a result of a settlement of litigation arising from past waste flow regulations being deemed unconstitutional within New Jersey.

In accordance with this Agreement, the Authority paid \$15,000,000 to the Port Authority upon the issuance of the 1999 C and D Solid Waste Revenue Bonds. The Authority is also indebted to the Port Authority for an additional \$5,000,000 to be paid in annual installments of \$500,000 for ten (10) years commencing in January 2009. The discounted present value of this obligation is \$3,610,264 at December 31, 2011 and \$3,503,696 at December 31, 2010, of which \$1,000,000 and \$500,000 is reflected as a current liability, respectively. A \$500,000 payment was made to the Port Authority in 2010. No payment was made in 2011.

Under the terms of the Waste Disposal Agreement, the Authority has guaranteed minimum and maximum tonnage of acceptable refuse per year. The Agreement also sets forth the obligations of both parties and service fees. Additional conditions under the Agreements ensure waste tonnage guarantees with county waste generators, including municipalities and other public institutions disposing of Essex County waste. Should the Authority be unable to deliver the minimum tonnage on an annual basis, the Authority has the ability to mitigate the shortfall through an agreement with a contractor delivering out-of-county waste. The initial term of these Agreements are ten (10) years. In 2010, these agreements were extended for an additional five (5) years until January 31, 2015. An escrow deposit was established to meet the terms of this agreement relating to the timely remittance of service fees due to the Port Authority. Moreover, a limited deficiency agreement with Essex County is in effect ensuring sufficient funds are available to meet this obligation.

### NOTE 8 - NOTES PAYABLE

On November 13, 2008, the Authority issued \$6,250,000 Water System Project Notes (Series 2008) to refinance the \$6,250,000 Water System Project Notes (Series 2007). Prior to maturity, on November 10, 2010, the Authority issued \$6,250,000 Water System Project Notes (Series 2010) to refinance the Series 2008 notes. On the issuance of the Series 2010 Notes, the Authority received a premium of \$62,500, which will be amortized over the term of the Notes. Principal is payable on November 9, 2012, and interest is payable annually at 2% on November 9, 2011 and 2012.

As further security on these notes, on December 15, 1997, the County of Essex and the Authority entered into a "deficiency agreement" whereby the County has agreed to make up deficiencies in revenues of the Authority so that the Authority will have sufficient funds to pay debt on these notes when due and payable. Per this agreement, in 2011, the County contributed \$125,000 to pay the interest on the Notes, which was due by November 10, 2011. In 2010, the County contributed \$161,875 to assist the Authority in refinancing the Series 2008 Notes.



**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 9 - LONG-TERM DEBT**

The Authority issues revenue bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds have been issued for various capital facilities.

On April 1, 1996, the Authority issued \$63,685,000 of Solid Waste System Revenue Bonds as approved by the State of New Jersey Division of Local Government Services on September 13, 1995. During March 1999, these bonds were defeased as a result of an "advanced refunding". Concurrently, the Authority issued \$75,414,707 Solid Waste System Revenue Bonds, Tax Exempt Series 1999A, of which \$53,340,000 was defeased from the proceeds received from the issuance of the Series 2009 Bonds.

On December 14, 1999, the Authority issued \$29,755,000 of Solid Waste Revenue Bonds, Series 1999 C & D, the proceeds of which were used with the Port Authority litigation settlement. These bonds were repaid in full from the proceeds received from the 2006 bond series.

On October 1, 2006, pursuant to the General Bond Resolution, the Authority issued \$14,890,000 Solid Waste System Refunding Revenue Bonds, Tax Exempt Series 2006B. The Bonds were issued to (1) advance refund certain maturities of the outstanding Series 1999C bonds and (2) pay the costs of issuance of the Refunding Bonds.

On October 1, 2006, pursuant to the General Bond Resolution the Authority issued \$12,030,000 Solid Waste Refunding Bonds Revenue Bonds, Taxable Series 2006A. The Bonds were issued to (1) partly advance refund certain maturities of the outstanding Series 1999D - Tax Exempt Bonds and (2) pay costs of issuance of the Refunding Bonds.

On April 1, 2009, pursuant to the General Bond Resolution, the Authority issued \$52,240,000 Solid Waste System Refunding Revenue Bonds, Series 2009 – Tax Exempt Bonds. The bonds were issued to (1) advance refund certain maturities of the outstanding Series 1999 A - Tax Exempt Bonds and (2) pay costs of issuance of the refunding bonds.

The bonds payable consist of the following:

	<u>2011</u>	<u>2010</u>
Series 1999A - Tax Exempt - Serial Capital Appreciation Bonds, maturing between April 1, 2005 and April 1, 2011, with accrued interest ranging from 4.2% to 4.9%.	-	\$3,785,000
Series 2006A - Tax Exempt - Refunding Revenue Bonds, remaining maturities between October 1, 2008 and October 1, 2022, with interest ranging from 3.25% to 4.25%, payable semi-annually.	12,205,000	13,075,000
Series 2006B - Taxable - Refunding Revenue Bonds, remaining maturities between October 1, 2008 and October 1, 2022, with interest ranging from 5.27% to 5.58%, payable semi-annually.	9,990,000	10,640,000



**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 9 - LONG-TERM DEBT (Continued)**

	<u>2011</u>	<u>2010</u>
Series 2009 - Tax Exempt - Refunding Revenue Bonds, remaining maturities between April 1, 2010 and April 1, 2022, with interest ranging from 2.50% to 5.00%, payable semi-annually.	\$52,140,000	\$52,190,000
Total bonds payable	74,335,000	79,690,000
Less: Unamortized deferred costs and original issue discounts and premiums, net	<u>784,855</u>	<u>1,045,623</u>
Net bonds payable	73,550,145	78,644,377
Less: Current portion	<u>5,405,000</u>	<u>5,355,000</u>
	<u>\$68,145,145</u>	<u>\$73,289,377</u>

Annual debt service requirements to maturity are as follows:

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,405,000	\$ 3,281,264	\$ 8,686,264
2013	5,615,000	2,191,125	7,806,125
2014	5,840,000	4,813,402	10,653,402
2015	6,090,000	4,342,528	10,432,528
2016	6,370,000	3,918,700	10,288,700
2017	6,670,000	4,722,472	11,392,472
2018	6,975,000	2,880,244	9,855,244
2019	7,310,000	2,317,892	9,627,892
2020	7,660,000	969,377	8,629,377
2021	8,020,000	944,605	8,964,605
2022	<u>8,380,000</u>	<u>243,699</u>	<u>8,623,699</u>
	<u>\$74,335,000</u>	<u>\$30,625,308</u>	<u>\$104,960,308</u>



**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 9 - LONG-TERM DEBT (Continued)**

The County of Essex and the Authority have entered into a "deficiency agreement" whereby the County shall be obligated to pay all unpaid principal and interest on these bonds should the Authority have insufficient "solid waste service charges" to provide for the payment of principal and interest.

The following changes occurred in bonds payable during the year:

<u>Beginning Balance</u>	<u>2011 Issued</u>	<u>2011 Maturities</u>	<u>Ending Balance</u>
<u>\$ 79,690,000</u>	<u>\$ -</u>	<u>\$ 5,355,000</u>	<u>\$74,335,000</u>

The fair value of the revenue bonds payable is based upon current traded values of the respective bonds, in accordance with Level II of the fair value hierarchy.

**Advance and Current Refundings**

The Authority issued \$26,920,000 in 2006 of Solid Waste System Refunding Revenue Bonds to provide resources to defease certain 1999C Series and 1999D Series Revenue Bonds. The proceeds were placed in an irrevocable trust invested in U.S. Government State and Local Government Series securities and, along with earnings thereon, will be adequate to pay interest and redeem principal of the \$19,975,000 1999 Series C refunded bonds and the \$10,420,000 1999 Series D refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$1,193,323 on a net present value basis. The reacquisition price exceeded the net carrying amount of the defeased debt by \$1,068,189. This amount is being netted against the new debt and amortized over the life of the new bonds which is equal to the remaining life of the defeased bonds.

The Authority issued \$52,240,000 in 2009 of Solid Waste System Refunding Revenue Bonds to provide resources to defease certain 1999A Series Revenue Bonds. The proceeds were placed in an irrevocable trust invested in U.S. Government State and Local Government Series securities and, along with earnings thereon, will be adequate to pay interest and redeem principal of the \$53,340,000 1999 Series A refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the Statement of Net Assets. This advance refunding was undertaken to reduce total debt service payments by \$655,403 on a net present value basis. The carrying amount exceeded the net reacquisition price of the defeased debt by \$528,871. This amount is being netted against the new debt and amortized over the life of the new bonds which is equal to the remaining life of the defeased bonds.



# ESSEX COUNTY UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

### NOTE 10 - LETTER OF CREDIT

By resolution adopted January 16, 2003, the Authority has provided a Bond Reserve Credit Facility in substitution for monies on deposit in the Bond Reserve Account and, upon providing such Bond Reserve Credit Facility, the monies on deposit in the Bond Reserve Account will be available to satisfy any other obligation of the Authority.

The Authority has obtained the Bond Reserve Credit Facility from TD Bank and such Bond Reserve Credit Facility will be provided in accordance with the terms of a "Letter of Credit and Reimbursement Agreement" in the amount of \$11,395,715 dated March 3, 2003.

Subsequent to obtaining the Standby Irrevocable Letter of Credit, the \$11,395,715 was transferred to the County of Essex as part of the additional payment made to the County for the initial transfer of the solid waste system upon formation of the Authority (See Note 6).

In addition, on October 1, 2006, the Authority has provided a Bond Reserve Credit Facility in substitution of the monies being deposited in the Bond Reserve Account in connection with the issuance of the Series 2006A and 2006B Bonds.

### NOTE 11 - CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any audit resulting in disallowed costs may constitute a liability. The Authority is unaware of any such liabilities.

The Authority is party to various legal proceedings. In the opinion of the Authority's legal counsel, the final outcome of these matters will not have a material adverse effect on the financial condition of the Authority.

### NOTE 12 – COMMITMENTS

On January 1, 2011, the Authority moved its administrative offices to Newark, New Jersey, and signed a twenty (20) year lease agreement. Minimum annual rent under the lease is as follows: Years 1 – 10 \$43,200; Years 11- 15 \$47,520, and Years 16 – 20 \$49,888. In addition to minimum rent, in year 1 of the lease, the Authority will pay annual rent of \$28,480 as a reimbursement for operating expenses and utilities related to the leased premise, and \$16,237 for the use of ten (10) parking spaces. The additional rent will increase at a rate of 3% per year commencing with the second year of the lease term.

The Authority records rent when it's paid, which is not in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP requires that rent be recorded on a straight-line basis over the life of the lease. Differences are deemed to be immaterial to the financial statements as a whole.



**ESSEX COUNTY UTILITIES AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 12 – COMMITMENTS (Continued)**

Future minimum rent commitments for the years ending December 31 are as follow:

2012	\$89,268
2013	90,706
2014	92,079
2015	93,540
2016	95,028

**NOTE 13 - RELATED PARTY TRANSACTIONS**

Essex County pays payroll and employee benefits on behalf of the Authority. The Authority will periodically reimburse Essex County for the amount of money which is owed to Essex County. For the periods ended December 31, 2011 and 2010, the Authority owed to Essex County the amounts of \$257,664 and \$104,619, respectively. For the periods ended December 31, 2011 and 2010, the Authority paid to Essex County the amounts of \$502,197 and \$897,080 for payroll and employee benefits.

In addition, Essex County Vocational School rents office space from the Authority in the amount of \$10,000 per month. The monthly rent was reduced in 2009 due to maintenance costs paid by the School. The Authority terminated its rental agreement with the School effective May 2010. Rental income for the year ended December 31, 2010 and was \$44,405.

Essex County Department of Public Works rents office space from the Authority. Rent expense for the year ended December 31, 2011 was \$63,667, as the Authority sold its building in August 2011. Rent expense for the year ended December 31, 2010 was \$95,500.

**NOTE 14 - MAJOR CUSTOMERS**

For the years ended December 31, 2011 and 2010, three (3) customers accounted for forty-nine (49%) percent of the total accounts receivable. One (1) customer accounted for twelve (12%) percent and eleven (11%) percent of total revenues for the years ended December 31, 2011 and 2010, respectively.



ESSEX COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

**NOTE 15 - RECONCILIATION OF BUDGETARY BASIS AND GAAP**

The accompanying "*Schedule of Revenues and Expenditures - Budget and Actual for the Year ended December 31, 2011*" presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, timing, perspective and entity differences in excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources for the year ended December 31, 2011 is presented below:

	<u>Solid Waste</u>	<u>Water</u>
Surplus (Deficit) - Budgetary Basis	\$(2,581,160)	\$(240,154)
Adjustments to reconcile to GAAP Basis:		
Payment of bonds	<u>5,355,000</u>	<u>-</u>
Increase (decrease) in Net Assets - GAAP Basis	<u>\$ 2,773,840</u>	<u>\$(240,154)</u>





**SUPPLEMENTARY INFORMATION**



**ESSEX COUNTY UTILITIES AUTHORITY**  
(A COMPONENT UNIT OF THE COUNTY OF ESSEX)  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2011**

	Solid Waste			Water		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
Operating revenues:						
User charges	\$ 46,159,300	\$ 40,625,810	\$ (5,533,490)	\$ -	\$ 10,227	\$ 10,227
Other operating revenue	-	1,012	1,012	-	136	136
Total Operating Revenues	46,159,300	40,626,822	(5,532,478)	-	10,363	10,363
Non-operating revenues:						
Local subsidies and donations	-	-	-	31,250	125,000	93,750
Grants and entitlements	400,000	758,253	358,253	-	-	-
Interest income - operating and restricted	5,000	3,360	(1,640)	25	-	(25)
Other	145,500	(141,366)	(286,866)	-	-	-
Total non-operating revenues	550,500	620,247	69,747	31,275	125,000	93,725
<b>TOTAL REVENUES</b>	<b>46,709,800</b>	<b>41,247,069</b>	<b>(5,462,731)</b>	<b>31,275</b>	<b>135,363</b>	<b>104,088</b>
<b>APPROPRIATIONS:</b>						
Operating appropriations:						
Administration:						
Salary and wages	510,000	407,590	(102,410)	-	-	-
Fringe benefits	200,000	282,976	82,976	-	-	-
Other expenses	776,000	454,319	(321,681)	-	-	-
	1,486,000	1,144,885	(341,115)	-	-	-
Cost of providing services:						
Other expenses	34,901,500	30,035,552	(4,865,948)	-	4,573	4,573
Principal payments on debt service in lieu of depreciation	5,355,000	5,355,000	-	-	-	-
Total operating appropriations	41,742,500	36,535,437	(5,207,063)	-	4,573	4,573
Nonoperating appropriations:						
Amortization	3,325,000	3,420,368	95,368	-	-	-
Depreciation	109,000	105,717	(3,283)	264,000	264,000	-
Interest on debt	3,420,148	3,766,707	346,559	31,250	106,944	75,694
Total non-operating appropriations	6,854,148	7,292,792	438,644	295,250	370,944	75,694
<b>TOTAL OPERATING AND NONOPERATING APPROPRIATIONS</b>	<b>48,596,648</b>	<b>43,828,229</b>	<b>(4,768,419)</b>	<b>295,250</b>	<b>375,517</b>	<b>80,267</b>
<b>SURPLUS/(DEFICIT) - BUDGETARY BASIS</b>	<b>\$ (1,886,848)</b>	<b>\$ (2,581,160)</b>	<b>\$ (694,312)</b>	<b>\$ (263,975)</b>	<b>\$ (240,154)</b>	<b>\$ 23,821</b>

See Independent Auditors' Report.





**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**

The Honorable Chairman and  
Authority Commissioners  
Essex County Utilities Authority  
Newark, New Jersey

We have audited the financial statements of the Essex County Utilities Authority as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 20, 2012. 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 and audit requirements as prescribed by the Bureau of Authority Regulations, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Essex County Utilities Authority's internal control over financial reporting as a basis for designing our audit procedures and for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Essex County Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Essex County Utilities Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employee, 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance**

As part of obtaining reasonable assurance about whether the Essex County Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed in Bureau of Authority Regulations, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended for the information of the Board of Commissioners, management and the New Jersey State Department of Community Affairs and is not intended to be and should not be used by anyone other than these specified parties.

BEDERSON & COMPANY LLP

West Orange, New Jersey  
April 20, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Chairman and  
Authority Commissioners  
Essex County Utilities Authority  
Newark, New Jersey

**Compliance**

We have audited Essex County Utilities Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of New Jersey Single Audit Act (Treas. C.L. 04-04) that could have a direct and material effect on Essex County Utilities Authority's major state program for the year ended December 31, 2011. Essex County Utilities Authority's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state program is the responsibility of Essex County Utilities Authority's management. Our responsibility is to express an opinion on Essex County Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of New Jersey Single Audit Act. Those standards and OMB Circular A-133 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 Essex County Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Essex County Utilities Authority's compliance with those requirements.

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

**Internal Control Over Compliance**

Management of Essex County Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of law, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered Essex County Utilities Authority's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Essex County Utilities Authority's internal control over compliance.

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

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

This report is intended for the information of the Board of Commissioners, management, state of New Jersey Department of Community Affairs, and is not intended to be, and should not be, used by anyone other than these specified parties.

BEDERSON & COMPANY LLP

*Bederson & Company LLP*

April 20, 2012  
West Orange, New Jersey



**ESSEX COUNTY UTILITIES AUTHORITY**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2011

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified that are not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**State Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified that are not considered to be material weakness(es)?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major programs:

CFDA Number(s)

N/A

Name of State Program or Cluster

New Jersey Department of Environmental Protection  
Solid Waste Administration

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

Auditee qualified as low-risk auditee?  yes  no

**Section II - Financial Statement Findings**

None

**Section III - State Award Findings and Questioned Costs**

None



**ESSEX COUNTY UTILITIES AUTHORITY**  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED DECEMBER 31, 2011

No findings in prior year.



**ESSEX COUNTY UTILITIES AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>State CFDA Number</u>	<u>Document Number</u>	<u>Total Expenditures</u>
New Jersey Department of Environmental Protection Solid Waste Administration			
2011 REA Tax Entitlement Grant	N/A	Unavailable	\$430,100
2009 REA Bonus Grant	N/A	4900ELT2095	<u>328,062</u>
Total			<u>\$758,162</u>





**ESSEX COUNTY UTILITIES AUTHORITY**  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS  
DECEMBER 31, 2011

**1. General Information**

The accompanying Schedule of State Awards presents the activities in all the State Awards of the Essex County Utilities Authority. All financial assistance received directly from state agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the schedule.

**2. Basis of Accounting**

The accompanying Schedule of State Awards is presented using the accrual basis of accounting. The amounts reported in the schedule as expenditures may differ from certain financial reports submitted to state funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

**3. Relationship to Basic Financial Statements**

State expenditures are reported on the Statements of Revenues and Expenditures and Net Assets (Deficit) as Other Income. The expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule of State Awards due to program expenditures exceeding grant or contract budget limitations or agency matching or in-kind contributions which are not included as State Awards.



**ESSEX COUNTY UTILITIES AUTHORITY**  
ROSTER OF OFFICIALS FOR 2011

**CONTACTING THE AUTHORITY**

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Essex County Utilities Authority, Leroy F. Smith, Jr. Public Safety Building, 60 Nelson Place, 6<sup>th</sup> Floor, Newark, NJ 07102.

**Board of Commissioners**

Nicholas A. Greico	Chairman
Caren Freyer-DeSouza	Vice Chair
Victor A. Afanador	Secretary
Joseph Tyrell	Treasurer
Louis Stanzione	Commissioner
Elmer J. Herrmann, Jr.	Acting Executive Director
Bethany O'Toole	Chief Financial Officer

