

POLLUTION CONTROL FINANCING AUTHORITY
OF WARREN COUNTY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
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YEAR ENDED DECEMBER 31, 2012

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INTRODUCTORY SECTION

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Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

March 29, 2013

The Honorable Chairman and Members

of the Pollution Control Financing Authority of Warren County
Warren County, NJ

Dear Authority Members:

The Annual Financial report of the Pollution Control Financing Authority of Warren County (the "Authority") for the year ended December 31, 2012, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority for the year ended December 31, 2012. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The annual financial report is presented in four sections: introductory, financial, single audit, and comments and recommendations. The introductory section included this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements and notes, the management's discussion and analysis, the Independent Auditors' report and supplementary schedules. The auditors' report on the internal control structure and compliance with applicable laws and regulations and findings and related responses, are included in the single audit section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Pollution Control Financing Authority of Warren County (the "Authority") is a political subdivision and a public body politic and corporate of the State of New Jersey, created by resolution of the Board of Chosen Freeholders of the County of Warren on August 14, 1974, and an amending resolution adopted April 11, 1984.

The objectives and purposes of the Authority are those set forth in the New Jersey Industrial Pollution Control Financing Law, Chapter 376 of the Laws of 1973 of the State of New Jersey, and those powers and duties delegated to the Authority by the Board of Chosen Freeholders of the County of Warren, by resolution.

As a public body under existing statute, the Authority is exempt from certain federal and state taxes.

The Honorable Chairman and Members
of the Pollution Control Financing Authority of Warren County
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March 29, 2013

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2012 the Authority experienced the following:

- The Warren County Landfill Energy, LLC Gas to Energy plant was operational for the entire year. This plant uses landfill generated methane gas to produce electricity. Some electricity generated is used for on site needs and the excess is sold to the local power company. DCO Energy staffs the energy plant while the Authority operates a sulfur scrubbing system to assure a clean stream of gas for DCO and assist in odor reduction.
- The Authority received final approval of the Closure and Post Closure Maintenance Plan on July 7, 2010 from the NJDEP. The Authority will also seek to update this plan to stay in compliance with NJDEP mandates.
- The Authority completed construction of its leachate treatment facility during 2009. The plant became operational in late summer and began discharging leachate into the Pequest River M.U.A. sewer system in October 2009. The plant was fully functional during 2010 and is effectively treating leachate to meet the safe discharge standards.

CASH MANAGEMENT: : The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 6. The Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, public officials liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.

OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report. The auditors' report related specifically to the *Government Auditing Standards* is included in the single audit section of this report.

The Honorable Chairman and Members
of the Pollution Control Financing Authority of Warren County
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March 29, 2013

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Pollution Control Financing Authority of Warren County for their concern in providing fiscal accountability to the citizens of Warren County and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

James Williams
Director of Operations

Charles Houck
Chief Financial Officer

**POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
ROSTER OF OFFICIALS
DECEMBER 31, 2012**

Authority Members

Richard A. Mach, Chairman	Term Expires 02/01/2013
Todd Yanoff, Vice-Chairman	Term Expires 02/01/2015
Robert Davenport, Treasurer	Term Expires 02/01/2014
Holly Mackey, Secretary	Term Expires 02/01/2017
Everett A. Chamberlain, Member	Term Expires 02/01/2016

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia LLP
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856

ATTORNEY

Brian Tipton, Esq.
Florio Perrucci Steinhardt and Fader, LLC
235 Broubalow Way
Phillipsburg, NJ 08865

ENGINEERS

Hatch Mott McDonald
27 Bleeker Street
Milburn, NJ 07041
Brendan Mullen, P.E.

Cornerstone Environmental Group, LLC
90 Crystal Run Road, Suite 201
Middletown, NY 10941
Mark A Swyka, P.E.

FINANCIAL SECTION



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Independent Auditors' Report

The Honorable Chairman and Members
of the Pollution Control Financing Authority
of Warren County
Warren County, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the Pollution Control Financing Authority of Warren County, (the "Authority"), as of and for the year ended December 31, 2012 and the related notes to the financial statements, as listed in the foregoing 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.

Auditors' Responsibility

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, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), 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 Authority'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 Authority'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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Chairman and Members
of the Pollution Control Financing Authority
of Warren County
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Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Authority at December 31, 2012 and the respective changes in financial position and cash flows thereof for the year 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 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplementary data schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary data schedules and the schedules of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 supplementary data schedules and the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The Honorable Chairman and Members
of the Pollution Control Financing Authority
of Warren County
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of the 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 Authority's internal control over financial reporting and compliance.

Mt. Arlington, New Jersey
March 29, 2013

NISIVOCCIA LLP

William F. Schroeder
Registered Municipal Accountant #452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS UNAUDITED

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial position is strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- The Authority accepted approximately 143,962 tons of waste and cover materials at the WCDL which is a decrease of 58,125 tons from 2011.
- The Authority's Household Hazardous Waste programs were held twice in 2012 with great success. As a result of the program, 36,405 pounds of various types of liquid and solid hazardous wastes were removed from the waste stream and disposed of properly. Additionally, the electronics program enabled the Authority to properly collect and recycle approximately 302,437 pounds of different types of electronic equipment.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of revenue, expenses, and changes in net position; a statement of cash flows; notes to the financial statements, and supplementary information schedules.

The *statement of net position* presents the financial position of the Authority on a full accrual basis. The statement of net position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenue, expenses, and changes in net position* presents the results of the authority's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and ensure that capital costs are allocated on the basis of long-term requirements, ensuring that growth pays for growth.

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED
(Continued)

Overview of Annual Financial Report (Cont'd)

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary information schedules* provides detailed comparison of budget to actual expenses.

Financial Condition

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

The Authority's total net position decreased from the prior year by \$2,034,413. The analysis below focuses on the Authority's net position (Table I) and changes in net position (Table 2) during the year.

Table I
Net Position

	December 31,		Increase/ (Decrease) From 2011	Percent of Increase/ (Decrease)
	2012	2011		
Current Unrestricted Assets	\$ 5,345,999	\$ 7,226,710	\$ (1,880,711)	(26.02%)
Current Restricted Assets	24,126,134	23,312,889	813,245	3.49
Noncurrent Assets	16,273,512	14,805,717	1,467,795	9.91
Total Assets	45,745,645	45,345,316	400,329	0.88
Current Liabilities	1,105,832	597,606	508,226	85.04
Long-term Liabilities	20,304,526	18,378,010	1,926,516	10.48
Total Liabilities	21,410,358	18,975,616	2,434,742	12.83
Invested in Capital Assets, Net of Debt	13,777,239	12,221,128	1,556,111	12.73
Unrestricted	10,558,048	14,148,572	(3,590,524)	(25.38)
Total Net Position	\$ 24,335,287	\$ 26,369,700	\$ (2,034,413)	(7.71)

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED
(Continued)

Total net position decreased 7.71%. This was primarily the result of depreciation expense and the provision for landfill escrow closure costs. Realized operating revenues of \$6,059,295 were in excess of administrative and cost of providing services of \$5,611,706.

Changes in the Authority's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table II
Statement of Revenue, Expenses and Changes in Net Position

	December 31,		Increase/ (Decrease) From 2011	Percent of Increase/ (Decrease)
	2012	2011		
Operating Revenue	\$ 6,059,295	\$ 8,597,771	\$ (2,538,476)	(29.52)%
Nonoperating Revenue-Interest Income	14,196	23,074	(8,878)	(38.48)
Nonoperating Revenue-Interest Income and Hauler Taxes for Landfill Escrow Closure Costs	813,244	1,325,944	(512,700)	(38.67)
Total Revenue	<u>6,886,735</u>	<u>9,946,789</u>	<u>(3,060,054)</u>	<u>(30.76)</u>
Administrative and Cost of Providing Services	5,611,706	5,731,141	(119,435)	(2.08)
Amortization of Prepaid Ground Lease	88,316	88,316		
Depreciation	1,294,609	965,950	328,659	34.02
Provision for Landfill Escrow Closure Costs	1,926,517	2,575,692	(649,175)	(25.20)
Total Expenses	<u>8,921,148</u>	<u>9,361,099</u>	<u>(439,951)</u>	<u>(4.70)</u>
Increase in Net Position	(2,034,413)	585,690	(2,620,103)	(447.35)
Beginning Net Position	26,369,700	25,784,010	585,690	2.27
Ending Net Position	<u>\$ 24,335,287</u>	<u>\$ 26,369,700</u>	<u>\$ (2,034,413)</u>	<u>(7.71)%</u>

MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED
(Continued)

Results of Operations

Operating Revenue: Revenue primarily consists of tipping fees charged for waste disposal. Several other smaller miscellaneous revenue streams exist; however, their combined total is immaterial to operations. Total actual Haulers revenue delivered to the facility was \$5,547,096 in 2012. This revenue helps to assure all operational obligations can continue to be satisfied while preserving landfill life and serving the solid waste disposal needs of Warren County.

Expenses: Administrative and costs of providing services expenses for 2012 were 2.08% less than 2011. Diligent monitoring of the Authority's operations allows the Authority to provide a superior level of service to the facility's customers.

As was the case in 2011, significant expenditures in 2012 include engineering and treatment and sludge disposal.

Engineering costs continue to remain high resulting from continued work on the landfill gas collection system and sulfur scrubber system as well as services rendered in relation to the Authority's issues surrounding leachate management and its proper disposal. In conjunction with Leachate Management, the Authority continues trucking leachate off site until a solution can be reached on a more cost efficient, controllable disposal method. The Leachate Plant became fully operational by the middle of the year 2010. This plant substantially reduced the need for leachate transportation, thereby significantly decreasing the cost of leachate treatment and disposal.

Budgetary Highlights: The Authority did not amend its 2012 budget.

Capital Assets: At December 31, 2012, the Authority had \$13,777,239 invested in net capital assets, primarily consisting of the landfill cells, the gas technology collection system, the wastewater treatment facility and the administration building. The amount represents an increase of \$1,556,111 or 12.73% over the prior year, which was due to capital acquisitions of \$2,850,720 less depreciation expense of \$1,294,609.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

Results of Operations (Cont'd)

Table III
Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase/ (Decrease) From 2011	Percent of Increase/ (Decrease)
	2012	2011		
Buildings	\$ 1,997,519	\$ 1,997,519		
Machinery and Equipment	999,217	761,289	237,928	31.15%
Landfill (Cells 1a and 1e)	8,507,402	8,507,402		
Landfill (Cell W1/W2)	6,523,272	6,523,272		
Landfill Infrastructure	7,133,053	7,133,053		
Landfill (Cell A1 and W3)	3,746,851	3,746,851		
Landfill (Cell 4)	7,100,412	7,100,412		
Landfill (Cell 5)	5,376,815	3,420,575	1,956,240	57.19
Solar Project	28,646	8,645	20,001	231.36
Gas Technology and Collection System	4,076,654	3,440,103	636,551	18.50
Protective Tarp Cover	596,243	596,243		
Lined Lagoon	1,332,688	1,332,688		
Convenience Center	829,631	829,631		
Wastewater Treatment Facility	5,258,925	5,258,925		
Total	53,507,328	50,656,608	2,850,720	5.63
Less: Accumulated Depreciation	39,730,089	38,435,480	1,294,609	3.37
	<u>\$ 13,777,239</u>	<u>\$ 12,221,128</u>	<u>\$ 1,556,111</u>	12.73%

Cash Flow Activity: The cash and cash equivalents at year end 2012 decreased by \$834,727, or 2.80% from the previous year. The Authority maintains a healthy cash balance to meet future emergencies and capital requirements.

Long-Term Debt: The Authority had no outstanding debt as of December 31, 2012 or 2011.

Final Comments: The County's solid waste management plan has been reviewed and updated and has been approved by the New Jersey DEP. With the current filling pattern and existing permitted air space, the landfill can continue to accept waste at similar levels seen in 2011 until approximately 2020. The Authority strives to assure that operations comply with all state mandates as well as assuring the impact on surrounding communities is kept to a minimum.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012

<u>ASSETS</u>	<u>2012</u>
Current Assets:	
Unrestricted Assets:	
Cash and Cash Equivalents	\$ 4,871,673
Receivable from Haulers (Less Allowance for Uncollectible Receivables of \$24,539)	454,051
Other Accounts Receivable	7,152
Prepaid Expenses	13,123
Total Current Unrestricted Assets	<u>5,345,999</u>
Restricted Assets:	
Investments Held by Trustee	24,126,134
Total Current Restricted Assets	<u>24,126,134</u>
Noncurrent Assets:	
Capital Assets, Net	13,777,239
Prepaid Ground Lease and Related Cost-Landfill, Net	2,496,273
Total Noncurrent Assets	<u>16,273,512</u>
TOTAL ASSETS	<u>\$ 45,745,645</u>

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012
 (Continued)

	2012
<u>LIABILITIES</u>	
Current Liabilities Payable from Unrestricted Assets:	
Compensated Absences Payable	\$ 84,333
Accounts Payable	962,963
Hauler Deposits Payable	58,536
Total Current Liabilities Payable from Unrestricted Assets	1,105,832
Long-Term Liabilities:	
Landfill Escrow Closure and Postclosure Care	20,304,526
Total Long-Term Liabilities	20,304,526
Total Liabilities	21,410,358
 <u>NET POSITION</u>	
Net Investment In Capital Assets	13,777,239
Unrestricted	10,558,048
Total Net Position	\$ 24,335,287

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE
 AN INTEGRAL PART OF THIS STATEMENT

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012
Operating Revenue:	
Haulers Revenue	\$ 5,547,096
Other Income	3,113
Gas to Energy Plant Revenue	115,362
Solid Waste Services Tax Grant	78,128
Covanta Service Agreement Payments	284,696
Recycling Revenue	30,900
Total Operating Revenue	6,059,295
Operating Expenses:	
Administrative and Cost of Providing Services	5,611,706
Depreciation	1,294,609
Amortization of Prepaid Ground Lease	88,316
Provision for Landfill Escrow Closure Costs	1,926,517
Total Operating Expenses	8,921,148
Operating Income/(Loss)	(2,861,853)
Nonoperating Revenue (Expenses):	
Interest Income	14,196
Investment Income and Haulers' Taxes- Landfill Escrow Closure Costs	813,244
Total Nonoperating Revenue (Expenses)	827,440
Increase In Net Position	(2,034,413)
Net Position, Beginning of Year	26,369,700
Net Position, End of Year	\$ 24,335,287

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE
AN INTEGRAL PART OF THIS STATEMENT

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 5,778,944
Other Receipts	505,046
Cash Paid to Suppliers and Employees	(5,095,437)
Net Cash Provided by/(Used for) Operating Activities	1,188,553
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(2,850,720)
Net Cash Provided by/(Used for) Capital and Related Financing Activities	(2,850,720)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income and Haulers' Taxes - Landfill Escrow Closure Costs	813,244
Interest on Investments	14,196
Net Cash Provided by Investing Activities	827,440
Net Decrease in Cash and Cash Equivalents and Investments	(834,727)
Cash and Cash Equivalents and Investments- Beginning of Year	29,832,534
Cash and Cash Equivalents and Investments - End of Year	\$ 28,997,807
Reconciliation of operating income to net cash provided by/ (Used for) operating activities:	
Operating (Loss)	\$ (2,861,853)
Adjustments to Reconcile Operating Loss to Net Cash Provided by/(Used for) Operating Activities:	
Depreciation	1,294,609
Changes in Net Assets:	
(Increase)/Decrease in Haulers Receivable	231,848
Increase/(Decrease) in Compensated Absence Payable	(10,827)
Increase/(Decrease) in Haulers Deposits Payable	28
Increase/(Decrease) in Landfill Escrow Closure Reserve	1,926,516
Decrease in Prepaid Ground Lease	88,316
(Increase) in Other Accounts Receivable	(7,152)
Increase/(Decrease) in Accounts Payable	519,025
(Increase)/Decrease in Prepaid Expenses	8,043
Total Adjustments	4,050,406
Net Cash Provided by Operating Activities	\$ 1,188,553

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

Note 1 - Nature of Authority

The Pollution Control Financing Authority of Warren County (the "Authority") is a political subdivision and a public body politic and corporate of the State of New Jersey, created by resolution of the Board of Chosen Freeholders of the County of Warren on August 14, 1974, and an amending resolution adopted April 11, 1984.

The objectives and purposes of the Authority are those set forth in the New Jersey Industrial Pollution Control Financing Law, Chapter 376 of the Laws of 1973 of the State of New Jersey, and those powers and duties delegated to the Authority by the Board of Chosen Freeholders of the County of Warren, by resolution.

As a public body under existing statute, the Authority is exempt from certain federal and state taxes.

Note 2: Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings and interest expense. The Authority applies all applicable GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., totals assets plus deferred outflows net of total liabilities and deferred inflows) are segregated into "net investment in capital assets," "restricted" and "unrestricted" components.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In addition, certain legally separate, tax exempt entities that meet specific criteria (i.e., benefit of economic resources, access/entitlement to resources, and significance) should be included in the financial reporting entities. The Authority is a legally separate organization, whose members are appointed by the Freeholders of Warren County. Financial transactions are processed and accounted for by the Authority's financial administration. Accordingly, the Authority is not considered a component unit of the County of Warren under the provisions of Governmental Accounting Standards Boards, Codification Section 2100. There were no additional entities required to be included in the reporting entity under the criteria as described above.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are deferred.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue. Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid.

C. Inventories

The cost of inventories of supplies is recorded as expenditures at the time individual items are purchased, since they are immaterial to the financial position and results of operations.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

E. Compensated Absences

The Authority accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "*Accounting for Compensated Absences*". A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Authority employees are granted varying amounts of vacation and sick leave in accordance with the Authority's personnel policy. Upon termination, employees are paid for accrued vacation. The Authority's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years with a maximum cap of \$14,000. Upon retirement, employees shall be paid by the Authority for the unused sick leave in accordance with the Authority's agreements with the various employee unions.

F. Net Position

Net position is displayed in three components:

1. Investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted – consists of constraints placed on net asset use through external constraints imposed by the State Department of Environmental Protection for future landfill closure costs.
3. Unrestricted – net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

G. Restricted Cash Accounts

Landfill Closure Escrow Cash Account: The escrow fund is increased by an amount equal to \$1.00 per ton of all solid waste accepted for disposal during the preceding month. The deposit of escrow funds is to be made by the 20th of the following month in an interest-bearing account. Expenditures, if any, require the prior approval of the Department of Environmental Protection. The Authority had a balance of \$6,847,627 in this account as of December 31, 2012.

Landfill Alternate Closure Escrow Cash Account: During the year ended December 31, 2002 the Authority voluntarily established (with prior consent of the Department of Environmental Protection) the landfill alternative closure escrow account. The purpose of this account is to accumulate any funds that the Authority may deem appropriate to be deposited into the fund to help fulfill the estimated requirement costs of the landfill closure (as discussed in Note 7). The Authority had a balance of \$9,362,589 in this account as of December 31, 2012.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

G. Restricted Cash Accounts (Cont'd)

Landfill Supplemental Closure Escrow Cash Account: During the year ended December 31, 2008 the Authority voluntarily established (with prior consent of the Department of Environmental Protection) the Landfill Supplemental Closure Escrow Account. The Authority has directed that an additional \$4 per ton of the tipping fees collected (in addition to the \$1 per ton which is required by State statute to be collected and deposited in to the Landfill Closure Escrow Account) be deposited in to the fund to help fulfill the estimated requirement costs of the landfill closure (as discussed in Note 8). The Authority does reserve the right to potentially use this fund for purposes other than landfill closure. The Authority has a balance of \$7,915,917 in this account as of December 31, 2012.

H Allowance for Uncollectible Accounts

All receivables are reported at the gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

I. Capital Contributions

Any assets contributed to the Authority are capitalized at the contributor's costs, which approximate fair value at the time of the Authority's acquisition, and are recorded as capital contributions when received.

J. Capital Grants and Contributions

The Authority periodically receives capital grants from certain government agencies to be used for various purposes in connection with the planning, modernization, and expansion of the landfill. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*".

K. Revenue Recognition

The Authority's primary source of revenue is from haulers revenue, which is tipping fees charged for waste tonnage received. All commercial carriers and other local government tipping fees are set by individual contracts with those entities. These fee rates may vary depending on agreed-upon tonnage commitments. Any public/residential users are charged the Authority's standard tariff rate as determined by the Authority's Board. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

L. Investments

Investments are stated at cost which approximates market. The Authority's investments are limited by its cash management plan to obligations of or guaranteed by the federal government and bank certificates of deposit.

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Note 3 - Capital Assets

Capital assets are recorded at cost and consisted of the following, as of December 31, 2012 and 2011:

	2011	Additions	2012
Buildings	\$ 1,997,519		\$ 1,997,519
Machinery and Equipment	761,289	\$ 237,928	999,217
Landfill (Cells 1a and 1e)	8,507,402		8,507,402
Landfill (Cell W1/W2)	6,523,272		6,523,272
Landfill Infrastructure	7,133,053		7,133,053
Landfill (Cell A1 and W3)	3,746,851		3,746,851
Landfill (Cell 4)	7,100,412		7,100,412
Landfill (Cell 5)	3,420,575	1,956,240	5,376,815
Solar Project	8,645	20,001	28,646
Gas Technology and Collection System	3,440,103	636,551	4,076,654
Protective Tarp Cover	596,243		596,243
Lined Lagoon	1,332,688		1,332,688
Convenience Center	829,631		829,631
Wastewater Treatment Facility	5,258,925		5,258,925
Total	<u>50,656,608</u>	<u>2,850,720</u>	<u>53,507,328</u>
Less: Accumulated Depreciation	<u>38,435,480</u>	<u>1,294,609</u>	<u>39,730,089</u>
Depreciation	<u>\$ 12,221,128</u>	<u>\$ 1,556,111</u>	<u>\$ 13,777,239</u>

Property and equipment are recorded at cost. Depreciation on all assets other than the landfill cells and its infrastructure is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the operations. Depreciation is provided over the following estimated useful lives:

Buildings	40 Years
Recycling Equipment	20 Years
Vehicles	5 Years
Protective Tarp Cover	4 Years
Gas Technology and Collection System	10 Years

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 3 - Capital Assets (Cont'd)

Depreciation on the landfill cells and that portion of its related infrastructure is provided by determining the volume utilized as a percentage of the capacity of the cell and the landfill as a whole, respectively. No depreciation is provided for that portion of the infrastructure on which landfill cells have not been constructed.

Depreciation on assets acquired with grants-in-aid and contributed capital assets, if any, is recorded as a reduction of contributed capital.

Capital assets are reviewed for impairment.

Note 4 - Bonds Payable

As of December 31, 2012 the Authority has no outstanding debt.

Note 5 - Pension

Authority employees are enrolled in the Public Employees' Retirement System (PERS) of New Jersey. The State of New Jersey sponsors and administers the plan which covers substantially all Authority employees. As a general rule, all full-time employees are eligible to join the public employees' retirement system.

Employees who are members of PERS and retire at a specified age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes a final average salary during years of creditable service. Vesting occurs after 8 to 10 years of service.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above system, fund and trust. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Effective with the first payroll to be paid on or after October 1, 2011 the employee contributions for PERS went from 5.5% to 6.5% of employees annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in the Fund. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to the plan amounted to \$54,480, \$60,711, and \$60,873 for 2012, 2011 and 2010, respectively. For PERS, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 6 - Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments include petty cash, change funds, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40 *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures* requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Authority ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited on invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed on the following pages.

Deposits:

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in 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 5% of the average daily balance of public funds; and

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

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.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

Investments

New Jersey statutes permit the Authority to purchase the following types of investments:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of local units or bonds or other obligations of school districts of which the local units are part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraph (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

- (9) Debt obligations of federal agencies or government corporations with maturities not to exceed 10 years from the date of purchase, excluding mortgage backed or derivative obligations, provided that the investments are purchased through the State Division of Investment and are invested consistent with the rules and regulations of the State Investment Council.

All of the Authority's investments are recorded at fair value based on quoted market prices. The investments are held by the Authority's custodial bank trust department in the Authority's name. The bank's trust department is also its agent in purchasing and selling the securities. The investments are uninsured and unregistered. All of the funds held by the custodial bank are held in a fiduciary account, in the Authority's name, and are backed by the full faith and credit of the U.S. Government. As such, they are protected in the event of bankruptcy of the bank. Investments at December 31, 2012 consisted of the following:

	Balance Dec. 31, 2012	Weighted Average Maturity in Months
Federal Agency Obligations	\$ 6,906,774.05	18.84
US Treasury Obligations	16,104,000.58	22.66
INVESTMENTS	23,010,774.63	21.51
Money Markets	1,115,358.88	
GRAND TOTAL	\$ 24,126,133.51	

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

As of December 31, 2012, cash and cash equivalents and investments of the Pollution Control Financing Authority of Warren County consisted of the following:

<u>Account</u>	<u>Checking Accounts</u>	<u>Change Funds and Savings Accounts</u>	<u>US Securities</u>	<u>Total</u>
Restricted:				
Landfill Alternative Escrow Closure			\$ 9,362,589	\$ 9,362,589
Landfill Escrow Closure			6,847,628	6,847,628
Landfill Supplemental Closure			7,915,917	7,915,917
Total Restricted			24,126,134	24,126,134
Total Unrestricted	\$ 94,410	\$ 4,777,263		4,871,673
	<u>\$ 94,410</u>	<u>\$ 4,777,263</u>	<u>\$ 24,126,134</u>	<u>\$ 28,997,807</u>

The carrying amount of the Pollution Control Financing Authority of Warren County cash and cash equivalents and investments at year end was \$28,997,807 and the bank balance was \$29,040,700.

Note 7 - Closure and Post-closure Care Costs

In 2010 the Authority updated its closure plan. This plan has been submitted to the New Jersey Department of Environmental Protection for their review and comment. This plan is being used as the basis for the calculation of the required provision for landfill closure and post-closure costs in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs*.

State and federal laws and regulations require that the Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$20,304,526 as of December 31, 2012, which is based on 74.85% usage (filled) of the landfill. It is estimated that an additional \$19,609,974 will be recognized as closure and post-closure care expenses between December 31, 2012 and the date the landfill is expected to be totally filled to capacity in the year 2020. The estimated total current cost of the landfill closure and post-closure care (\$39,914,500) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2020. However, the actual cost of closure and post-closure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 7 - Closure and Post-closure Care Costs (Cont'd)

The Authority is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The Authority is in compliance with these requirements, and at December 31, 2012, investments of \$24,126,134 are held for these purposes. These investments are held and managed by a third-party trustee and are presented on the Authority's statement of net position as part of "Investments Held by Trustee". It is anticipated that future inflation costs will be financed in part from earnings on investments held by the trustee. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in post-closure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

The Authority has also developed a financial plan to fund the projected closure and post-closure care costs. Major components of this financial funding plan include the \$1 per ton for interred waste, investment earnings on accumulated funds provided for this purpose and future budget provisions of applicable budget revenue and/or bond proceeds.

TD Wealth Management was selected as the financial investment advisor for the Authority's closure funds. TD Wealth Management will follow the NJDEP's guidelines in investing these funds and follow the Authority's Cash Management Plan in assuring that capital preservation is the guiding principle for these funds. As the Authority's closure plan is updated, TD Wealth Management will be apprised of any changes in annual spending or the total anticipated expenditures that comprise the closure and post closure maintenance of the landfill.

Note 8 - Prepaid Ground Lease and Related Costs-Landfill

The Authority has entered into a Ground Lease agreement with the County of Warren for the period July 1, 1987 through December 31, 2038. Under the terms of the lease, the Authority paid, or will pay, as rent, the cost of acquisition of the property, including all costs directly or indirectly associated with the acquisition. Upon expiration of the term, the lease may be automatically extended for two additional ten-year terms at a rental of \$1.00 per year. This asset is being expensed over the 50-year term of the lease on the straight-line method of amortization. During 2012, \$88,316 was amortized and charged to operations.

The prepaid ground lease at December 31, 2012, is as follows:

Prepaid Ground Lease and Related Costs	\$ 4,439,219
Less: Accumulated Amortization	<u>1,942,946</u>
Net Prepaid Ground Lease and Related Costs	<u><u>\$ 2,496,273</u></u>

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

Note 9 - Risk Management

The Authority is exposed to various risks of loss related torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Health benefits, including medical, dental and life insurance coverage, are provided to employees through private carrier health benefit plans.

The Authority secures all of its non-health related insurances through private insurance carriers using a broker as our representative. The following coverages were in place in 2012:

1. Workers' Compensation
2. Property Damage Other Than Motor Vehicles
3. Motor Vehicle
4. General Liability
5. Inland Marine
6. Public Officials Liability
7. Pollution Legal Liability

New Jersey Unemployment Compensation Insurance

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

Note 10: Contractual Commitments

The Authority has entered into several contracts in the normal course of its business operations in order to provide waste disposal services for its customers. Significant agreements are summarized below:

- The Authority has an agreement with PRMUA to accept the landfill's leachate pipe discharge at a rate of \$.0219 per gallon.
- The Authority has a contract with SpectaServ for the hauling and disposal of leachate that the existing pumping infrastructure is unable to handle.
- The Authority has an agreement with its host municipality, White Township. This is a financial benefit paid to White Township for each ton of waste disposed of in the landfill. The cost for 2012 was \$3.891/ton of waste and ash classified as waste disposed of and \$1/ton of ash classified as cover material.
- The Authority has an agreement with Hatch Mott McDonald and Cornerstone Environmental Group, LLC to provide various engineering services. The cost of these services varies based on services used.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)

Note 11: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31 were as follows:

	2012
Accounts Payable - Vendors	\$ 962,963
Compensated Absence Payable	84,333
Haulers Deposit Payable	58,536
	\$ 1,105,832

Note 12: Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenditures, income, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a noncapital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

Note :13 Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority is involved in various collection matters for payments due and owing to it. Failure of the Authority to be successful in these litigations will not have an adverse material impact on the Authority's operations.

The Authority participates in federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

Note 14: Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with section 457 of the Internal Revenue Code. The plan, which is administered by Variable Annuity Life Insurance Company, is available to all Authority employees and permit participants to defer a portion of their salary. The deferred compensation is not available to employees until termination, retirement, unforeseeable emergency or upon death to their beneficiaries.

POLLUTION CONTROL FINANCING AUTHORITY
OF WARREN COUNTY

SUPPLEMENTARY DATA

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Net Investment in Capital Assets	Memo Total 2012
Operating Revenue:			
Haulers Revenue	\$ 5,547,096		\$ 5,547,096
Other Income	3,113		3,113
Gas to Energy Plant Revenue	115,362		115,362
Solid Waste Services Tax Grant	78,128		78,128
Covanta Service Agreement Payments	284,696		284,696
Recycling Revenue	30,900		30,900
Total Operating Revenue	<u>6,059,295</u>		<u>6,059,295</u>
Operating Expenses:			
Administrative and Cost of Providing Services	5,611,706		5,611,706
Depreciation	1,294,609		1,294,609
Amortization of Prepaid Ground Lease	88,316		88,316
Provision for Landfill Escrow Closure Costs	1,926,517		1,926,517
Total Operating Expenses	<u>8,921,148</u>		<u>8,921,148</u>
Operating Income/(Loss)	<u>(2,861,853)</u>		<u>(2,861,853)</u>
Nonoperating Revenue (Expenses):			
Interest Income	14,196		14,196
Interest Income and Haulers' Taxes - Landfill Escrow Closure Costs	<u>813,244</u>		<u>813,244</u>
Total Nonoperating Revenue (Expenses)	<u>827,440</u>		<u>827,440</u>
Increase/(Decrease) in Net Position (Before Transfers)	(2,034,413)		(2,034,413)
Transfers:			
Capital Acquisitions	(2,850,720)	\$ 2,850,720	
Depreciation	<u>1,294,609</u>	<u>(1,294,609)</u>	
Increase/(Decrease) in Net Position (After Transfers)	(3,590,524)	1,556,111	(2,034,413)
Net Position, January 1	<u>14,148,572</u>	<u>12,221,128</u>	<u>25,784,010</u>
Net Position, December 31	<u>\$ 10,558,048</u>	<u>\$ 13,777,239</u>	<u>\$ 24,335,287</u>

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SCHEDULE OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Annual Budget After Mod- ification	Actual 2012	Excess or (Deficit)
Revenue:			
Operating Revenues:			
Gas to Energy Plant Revenue		\$ 115,362	\$ 115,362
Covanta Service Agreement Payments	\$ 275,000	284,696	9,696
Recycling Revenues	20,000	30,900	10,900
Haulers Charges and Fees	5,586,000	5,547,096	(38,904)
Miscellaneous Revenue	7,500	3,113	(4,387)
Total Operating Revenues	<u>5,888,500</u>	<u>5,981,167</u>	<u>(43,291)</u>
Non-Operating Revenues:			
Solid Waste Services Grant	100,000	78,128	(21,872)
Interest on Investments	10,000	14,196	4,196
Total Non-Operating Revenue	<u>110,000</u>	<u>92,324</u>	<u>(17,676)</u>
Total Revenue	<u>\$ 5,998,500</u>	<u>\$ 6,073,491</u>	<u>\$ (60,967)</u>
Budgeted Appropriations:			
Administration:			
Salaries & Wages	\$ 198,100	\$ 193,456	\$ 4,644
Fringe Benefits	87,480	85,894	1,586
Other Expenses	395,063	362,638	32,425
Total Administration	<u>680,643</u>	<u>641,988</u>	<u>38,655</u>
Cost of Providing Service:			
Salaries & Wages	479,725	467,512	12,213
Fringe Benefits	273,269	252,906	20,363
Other Expenses	4,289,863	4,249,300	40,563
Total Cost of Providing Service	<u>5,042,857</u>	<u>4,969,718</u>	<u>73,139</u>
Operating and Maintenance Reserve	275,000		275,000
Total Operating Appropriations	<u>\$ 5,998,500</u>	<u>\$ 5,611,706</u>	<u>\$ 386,794</u>

POLLUTION CONTROL FINANCING AUTHORITY
OF WARREN COUNTY

SINGLE AUDIT *SECTION*

YEAR ENDED DECEMBER 31, 2012

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2012

<u>State Grantor/Program Title</u>	<u>Grant or State Project Number</u>	<u>Award Amount</u>	<u>Grant Receipts</u>	<u>Grant Period</u>		<u>Grant Expenditures</u>	<u>Cumulative Grant Expenditures</u>
				<u>From</u>	<u>To</u>		
Department of Environmental Protection (Passed Through the County of Warren)	Solid Waste Services Tax Grant	<u>\$78,128</u>	<u>\$78,128</u>	01/01/12	12/31/12	<u>\$78,128</u>	<u>\$78,128</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

NOT APPLICABLE

SEE NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2012

Note 1. GENERAL

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state awards programs of the Pollution Control Financing Authority of Warren County. The Authority is defined in Note 1 to the Authority's financial statements. All federal and state financial awards received directly from federal and state agencies, as well as expenditures of federal and state financial awards passed through other government agencies are included on the schedules of expenditures of federal and state awards.

Note 2. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of the Pollution Control Financing Authority of Warren County and are presented on the cash basis of accounting. The information in these schedules is presented in accordance with the requirements of Federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.



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Mt. Arlington, NJ 07856
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Newton, NJ 07860
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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 Auditors' Report

The Honorable Chairman and Members
of the Pollution Control Financing
Authority of Warren County
Warren County, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("the Division"), 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 Pollution Control Financing Authority of Warren County (the "Authority") as of, and for the year ended, December 31, 2012, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated March 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority'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 the 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 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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
March 29, 2013

NISIVOCCIA LLP

William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant #452

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012

Summary of Auditors' Results:

- An unqualified report was issued on the Authority's financial statements.
- The audit did not disclose any noncompliance that is material in relation to the financial statements of the Authority.
- The audit did not disclose any significant deficiencies or material weaknesses in the internal controls of the Authority.
- The Authority was not subject to the single audit provisions of Federal OMB Circular A-133 and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* for 2012 as grant expenditures were less than the single audit thresholds of \$500,000 identified in the Circulars.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for State Awards:

- Not applicable – since State expenditures were below the single audit threshold.

Findings and Questioned Costs for Federal Awards:

- Not applicable – since there were no federal award expenditures.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Authority had no findings for the year ended December 31, 2011.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

N.J.S. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective January 1, 2011, the bid threshold in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$17,500 and with a qualified purchasing agent the threshold may be up to \$36,000.

The minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services", per N.J.S. 40A:11-5.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
COMMENTS AND RECOMMENDATIONS
(CONTINUED)

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq. (Cont'd)

Inasmuch as the system of records did provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Corrective Action Plan

The Authority had no comments noted in the 2011 audit report.

POLLUTION CONTROL FINANCING AUTHORITY OF WARREN COUNTY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

None.

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