

Annual
Financial Report

of the

Union County Utilities Authority

For the Years Ended December 31, 2014 and 2013

Prepared By

Union County Utilities Authority

Finance Department

UNION COUNTY UTILITIES AUTHORITY

I N D E X

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FINANCIAL SECTION



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Union County Utilities Authority
1499 Routes 1 & 9 North
Rahway, New Jersey 07065

We have audited the accompanying financial statements of the Union County Utilities Authority, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

SUPLEE, CLOONEY & COMPANY

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Union County Utilities Authority at December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America..

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Union County Utilities Authority's basic financial statements. The supplementary data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary data schedules are the responsibility of management and were derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary data schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SUPLEE, CLOONEY & COMPANY

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2015 on our consideration of the Union County Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Union County Utilities Authority's internal control over financial reporting and compliance.

June 2, 2015

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SUPLEE, CLOONEY & COMPANY

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**INDEPENDENT AUDITOR'S 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**

Union County Utilities Authority
1499 Routes 1 & 9 North
Rahway, New Jersey 07065

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Union County Utilities Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Union County Utilities Authority's financial statements, and have issued our report thereon dated June 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Union County Utilities Authority's 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 Union County Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Union County Utilities Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 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.

SUPLEE, CLOONEY & COMPANY

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Union 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 grants, 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 results 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.

June 2, 2015

A handwritten signature in cursive script that reads "Suplee, Clooney & Company". The signature is written in dark ink and is positioned to the right of the date.

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Unaudited

In this section of the annual report, management of the Union County Utilities Authority (the "Authority") presents a narrative discussion and analysis of the Authority's financial activities for the years ended December 31, 2014 and 2013. This section of the report should be read in conjunction with the Authority's audited financial statements and supplementary information for the years ended December 31, 2014 and 2013. The Authority's audited financial statements are presented in conformity with U.S. generally accepted accounting principles.

Audit Assurance

The unmodified opinion of our independent auditors, Suplee Clooney & Company is included in this report.

Financial Highlights

Total assets at year-end were \$154.5 million. Total liabilities were \$224.9 million.

Operating revenues totaled \$45.4 million which is a decrease of \$566 thousand or 1.2% over the prior year operating revenue of \$45.9 million.

The major source of revenue is from Tipping Fees which totaled \$27.4 million. This represents a decrease of \$100 thousand over 2013 tipping fees of \$27.5 million. Another major source of revenue is from the Facility Lease which totaled \$12.5 million which is unchanged from 2013 revenues of \$12.5 million.

Operating expenses were \$36.1 million which is a decrease of \$3.4 million or 8.6% over prior year expenses of \$39.5 million. Total expenses budgeted for 2013 were \$37.2 million.

Interest expense for 2014 was \$10.3 million which is a decrease of \$200 thousand from 2013 expense of \$10.5 million.

Cash and Investments of \$47.8 million increased \$600 thousand or 1.4% from prior year's total of \$47.2 million.

Bonds Payable of \$212.7 million decreased \$6.4 million or 2.9% from prior year's total of \$219.2 million.

Overview of Annual Financial Report

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 MD&A 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 budget, and bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and notes to the financial statements.

The Statement of Net Position presents the financial position of the Authority on a full accrual historical cost basis. This statement 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 Revenues, Expenses and Changes to Net Position presents the results of the business activities over the course of the fiscal 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.

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 about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Summary of Organization and Business

The Union County Utilities Authority (UCUA) is a public body corporate and politic organized and existing under the Municipal and County Utilities Authorities Law. Pursuant to 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 by virtue of an ordinance adopted by the Board of Chosen Freeholders of the County of Union, New Jersey on June 5, 1986, as amended December 11, 1986.

The Authority has entered into a lease agreement with Covanta of Union, Inc. for the lease of the facility and facility site. In addition, the Authority entered into a waste disposal agreement with the Company for the disposal of waste by the Authority.

Other agreements entered into by the Authority include a landfill agreement with Alliance Sanitary Landfill, Inc. for the disposal of ash and bypass waste, local waste disposal agreements with 14 municipalities and the County of Union, and a county deficiency agreement with the County of Union.

The Authority receives rental payments under the lease agreement for its facilities. In addition, the Authority receives tipping fees and landfill service fees for the disposal of solid waste. Revenues for services provided but not yet billed are accrued for in the financial statement presentation.

The major activity in Calendar Year 2013 involved the UCUA's procurement and designation of disposal sites for the remainder of the Union County solid waste streams not already under an existing flow control program or pursuant to a long-term contract with the UCUA. This flow control program over 1D-10 and 1D-25 was done by way of a Solid Waste Plan Amendment, pursuant to the Solid Waste Management Act, N.J.S.A. 13:1E-1, *et seq.*

This action was taken to allow the UCUA to collect sufficient revenues to pay the remainder of the debt and related expenses, associated with the design, permitting and construction of the Union County Resource Recovery Facility (UCRRF). The UCUA had previously attempted to impose an Environmental Investment Charge (EIC) to collect these needed revenues; however, on June 22, 2000 the New Jersey Supreme Court ruled that the EIC was not a legally valid method to collect this remaining stranded debt resulting from the Atlantic Coast court decision.

The UCUA estimated the 1D-10 and 1D-25 waste stream in the system, which was to be subject to the new flow control program, to be approximately 150,000 tons. As a result of a non-discriminatory procurement process, Covanta Energy Company, the lowest responsible bidder, was awarded the disposal contract effective July 21, 2008. This procurement enabled the UCUA to direct all Type 10 Program Waste to the UCRRF.

An overall rate of \$102.40 per ton was established to provide the monies required by the UCUA. The procurement and rate were approved and certified by the New Jersey Department of Environmental Protection (NJDEP). The plan was formally implemented on July 21, 2003.

For 2013, the revenues brought in through the new program were as follows:

1. UCRRF	<u>134,067</u>	Tons	<u>\$4,962,501</u>	Revenue
Total	<u>134,067</u>	Total Tons	<u>\$4,962,501</u>	Total Revenue

In order to ensure compliance with the new system, the County of Union (County) and the UCUA arranged for the transfer of the solid waste enforcement program from the County to the UCUA. This transfer occurred on May 1, 2003. Thereafter, additional enforcement staff was hired by the UCUA to deal with the added solid waste enforcement responsibilities. The additional administrative cost to the UCUA resulting from this action was \$569,504 in 2013 net of fines and penalties collected. It is anticipated that the on-going enforcement costs to the UCUA will be reduced by fines and penalties derived from violation of the plan.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as key financial data and indicators for management, monitoring and planning:

Union County Utilities Authority
Condensed Financial Statements
Condensed Statement of Net Position

	December 31		Variance		
	2014	2013	Dollars	%	2012
<u>Assets</u>					
Cash and Investments	\$ 47,836,440	\$ 47,157,268	\$ 679,172	1.4%	\$ 49,687,074
Accounts Receivable	8,430,407	9,439,791	(1,009,384)	-10.7%	7,528,819
Property, Plant and Equipment - Net	90,998,851	97,562,499	(6,563,648)	-6.7%	103,945,964
Other Assets	7,251,877	8,838,624	(1,586,747)	-18.0%	10,425,371
Total Assets	\$ 154,517,575	\$ 162,998,182	\$ (8,480,607)	-5.2%	\$ 171,587,228
<u>Liabilities</u>					
Current Liabilities	\$ 9,763,496	\$ 6,720,081	\$ 3,043,415	45.3%	\$ 5,382,369
Deferred Gain on Refunding	2,436,899	2,580,246	(143,347)	100.0%	2,723,593
Bonds Payable	212,740,000	219,170,000	(6,430,000)	-2.9%	224,825,000
Total Liabilities	224,940,395	228,470,327	(3,529,932)	-1.5%	232,930,962
<u>Net Position</u>					
Restricted - Deficit	(70,422,820)	(65,472,145)	(4,950,675)	7.6%	(61,343,734)
Total Net Position	(70,422,820)	(65,472,145)	(4,950,675)	7.6%	(61,343,734)
Total Liabilities and Net Position	\$ 154,517,575	\$ 162,998,182	\$ (8,480,607)	-5.2%	\$ 171,587,228

Condensed Statement of Revenue, Expenses, and Changes in Net Position

	December 31		Variance		
	2014	2013	Dollars	%	2012
<u>Operating Revenues:</u>					
Facility Lease Revenue	\$ 12,460,117	\$ 12,460,280	\$ (163)	0.0%	\$ 8,012,914
Landfill Service Fees	4,282,738	5,473,548	(1,190,810)	-21.8%	5,681,081
Tipping Fees	12,443,119	12,310,954	132,165	1.1%	12,190,768
Program EIC	6,273,321	6,619,519	(346,198)	-5.2%	6,329,587
Program Tipping Fees	8,675,973	8,546,338	129,635	1.5%	8,488,349
Miscellaneous	1,231,660	522,193	709,467	135.9%	467,442
Total Operating Revenues	45,366,928	45,932,832	(565,904)	-1.2%	41,170,141
<u>Operating Expenses:</u>					
Operations and Maintenance	29,510,757	32,979,768	(3,469,011)	-10.5%	28,771,952
Depreciation	6,563,648	6,510,242	53,406	0.8%	6,519,728
Total Operating Expenses	36,074,405	39,490,010	(3,415,605)	-8.6%	35,291,680
Operating Income	9,292,523	6,442,822	2,849,701	44.2%	5,878,461
Non Operating (Revenues) Expenses	(14,243,198)	(10,571,233)	(3,671,965)	34.7%	(17,413,915)
Change in Net Position	(4,950,675)	(4,128,411)	(822,264)	19.9%	(11,535,454)
Net Position, Beginning of Year, as Previously Reported	(65,472,145)	(61,343,734)	(4,128,411)	6.7%	(46,519,026)
Prior Period Adjustment			0	0.0%	(3,289,254)
Net Position - Beginning of Year as Restated	(61,343,734)	(61,343,734)	0	0.0%	(61,343,734)
Net Position, End of Year	\$ (70,422,820)	\$ (65,472,145)	\$ (4,950,675)	7.6%	\$ (61,343,734)

Union County Utilities Authority

Waste Flow (Tonnage)

Tonnage Delivered to the Union County Resource Recovery Facility (UCRRF):

	<u>Total Delivered Tons</u>	<u>Total Contract Delivered Tons (a)</u>
2010	545,630 Tons	175,516 Tons
2011	548,869 Tons	175,516 Tons
2012	547,516 Tons	169,701 Tons
2013	545,692 Tons	168,659 Tons
2014	536,687 Tons	168,335 Tons

(a) 14 Contracted Union County Municipalities & Union County

Union County Program Type 10 Tonnage Delivered to the UCRRF (b):

2010	143,945 Tons
2011	145,830 Tons
2012	132,264 Tons
2013	131,179 Tons
2014	134,067 Tons

(b) Non-Contracted Waste Generated in Union County Under Flow Control

Ash Tonnage Delivered to the Waste Management Landfill in Pennsylvania:

2010	122,469 Tons
2011	122,445 Tons
2012	115,230 Tons
2013	117,944 Tons
2014	115,144 Tons

Type 13 & 27 waste delivered to the NJ Meadowlands Commission:

2010	60,076 Tons
2011	76,532 Tons
2012	51,850 Tons
2013	58,812 Tons
2014	60,277 Tons

Bonds Payable

The Authority issues bonds to finance its major projects and improvements. A summary of the Bonds Payable activity for the year is as follows:

Bonds Payable at 12/31/2013	\$219,170,000
New Bonds Issued	
Scheduled Bond Retirements	<u>(6,430,000)</u>
Bonds Payable at 12/31/2014	<u>\$212,740,000</u>

Capital Plan

The Union County Utilities Authority does not anticipate any capital improvements in the next calendar year.

Contacting the Authority's Management

Any questions about the Authority's report or if additional information is needed, please contact the Executive Director of the Union County Utilities Authority at 1499 Routes 1 and 9 North, Rahway, New Jersey 07065.

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BASIC FINANCIAL STATEMENTS

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Assets:		
Revenue Account:		
Cash and Cash Equivalents:		
Revenue	\$ 3,359,755	\$ 2,882,928
Unemployment Reserve	112,611	137,392
Environmental Investment Charge Reserve	3,140,512	3,138,725
Accounts Receivable	4,130,035	5,360,095
Lease Payments Receivable	4,300,372	4,079,696
Operating Account:		
Cash and Cash Equivalents	8,930,132	8,329,234
Bond Reserve Account:		
Cash and Cash Equivalents	5,377,953	6,718,253
Investments	19,281,879	18,406,756
Debt Service Account:		
Cash and Cash Equivalents	4,736,991	4,647,409
Working Capital Account:		
Cash and Cash Equivalents	2,879,856	2,879,820
Project Account:		
Cash and Cash Equivalents	16,751	16,751
	<u>56,266,847</u>	<u>56,597,059</u>
<u>Total Assets</u>		
Fixed Assets:		
Land-Facility	3,610,128	3,610,128
Resource Recovery Facility	240,878,951	240,878,951
Vehicles	208,385	208,385
Equipment	237,530	237,530
Furniture and Fixtures	110,108	110,108
	<u>245,045,102</u>	<u>245,045,102</u>
Less: Accumulated Depreciation	<u>154,046,251</u>	<u>147,482,603</u>
	<u>90,998,851</u>	<u>97,562,499</u>
<u>Net Fixed Assets</u>		
Other Assets:		
Landfill Service Fees	5,989,679	7,502,179
Deferred Outflows:		
Premiums on Debt	<u>1,262,198</u>	<u>1,336,445</u>
	<u>7,251,877</u>	<u>8,838,624</u>
<u>Total Other Assets</u>		
<u>TOTAL ASSETS</u>	<u>\$ 154,517,575</u>	<u>\$ 162,998,182</u>

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

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Accounts Payable - Operating	\$ 8,119,921	\$ 4,768,940
Deposits Payable	231,077	286,920
Accrued Interest Payable on Project Bonds	1,123,107	1,217,832
Accrued Expenses	289,391	446,389
Project Bonds Payable - Current Maturities	<u>6,815,000</u>	<u>6,430,000</u>
<u>Total Current Liabilities</u>	<u>16,578,496</u>	<u>13,150,081</u>
Long-Term Liabilities Payable from Restricted Assets:		
Project Bonds Payable	<u>205,925,000</u>	<u>212,740,000</u>
<u>Total Liabilities</u>	<u>222,503,496</u>	<u>225,890,081</u>
Deferred Inflows:		
Deferred Gain on Refunding	<u>2,436,899</u>	<u>2,580,246</u>
Net Position:		
Net Investment in Capital Assets	(115,751,470)	(114,105,322)
Restricted		
Bond Reserve Account	24,659,832	25,125,009
Debt Service Account	4,736,991	4,647,409
Working Capital Account	2,879,856	2,879,820
Project Account	16,751	16,751
Unrestricted	<u>13,035,220</u>	<u>15,964,188</u>
Total Net Position	<u>(70,422,820)</u>	<u>(65,472,145)</u>
<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 154,517,575</u>	<u>\$ 162,998,182</u>

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

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Revenue:		
Facility Lease Revenue	\$ 12,460,117	\$ 12,460,280
Landfill Service Fees	4,282,738	5,473,548
Tipping Fees-Resource Recovery	12,443,119	12,310,954
Miscellaneous Income	1,231,660	522,193
Program EIC	6,273,321	6,619,519
Program Tipping Fees	<u>8,675,973</u>	<u>8,546,338</u>
<u>Total Operating Revenues</u>	<u>45,366,928</u>	<u>45,932,832</u>
Cost of Providing Services:		
Operating Expenses	29,510,757	32,979,768
Depreciation	<u>6,563,648</u>	<u>6,510,242</u>
<u>Total Operating Expenses</u>	<u>36,074,405</u>	<u>39,490,010</u>
Operating Income	<u>9,292,523</u>	<u>6,442,822</u>
Non Operating Revenues (Expenses):		
Interest Income	820,680	6,418
Unrealized Gain on Investments		3,810,035
Other Expense	(4,787,588)	(3,866,462)
Interest Expense	<u>(10,276,290)</u>	<u>(10,521,224)</u>
Net Income	(4,950,675)	(4,128,411)
Net Position, Beginning of Year	<u>(65,472,145)</u>	<u>(61,343,734)</u>
Net Position, End of Year	<u>\$ (70,422,820)</u>	<u>\$ (65,472,145)</u>

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

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE YEARS
ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<u>Cash Flows from Operating Activities:</u>		
Receipts from Facility Lease	\$ 12,239,441	\$ 10,937,007
Receipts for Landfill Service Fees	5,795,238	6,986,049
Receipts for Tipping Fees	28,622,473	27,089,111
Miscellaneous Receipts	1,231,660	522,193
Payments to Suppliers	(25,490,451)	(30,526,384)
Payments to Employees	(882,166)	(1,031,297)
Net Cash Provided by Operating Activities	21,516,195	13,976,679
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets		(126,777)
Principal Payments on Long-Term Debt	(11,217,588)	(9,521,462)
Deferred Gain on Refunding	(143,347)	(143,347)
Premium and Cost of Issuance of New Debt	74,247	247,365
Interest Paid on Bonds	(10,371,016)	(10,778,718)
Net Cash Used in Capital and Financing Activities	(21,657,704)	(20,322,939)
<u>Cash Flows from Investing Activities:</u>		
Interest Received	820,681	6,418
Realized Loss on Investments	(875,123)	(35,819)
Net Cash Provided (Used) by Investing Activities	(54,442)	(29,401)
Net Increase (Decrease) in Cash and Cash Equivalents	(195,951)	(6,375,661)
Cash and Cash Equivalents, Beginning of Year	28,750,512	35,126,173
Cash and Cash Equivalents, End of Year	\$ 28,554,561	\$ 28,750,512
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income:	\$ 9,292,523	\$ 6,442,822
Depreciation	6,563,648	6,510,242
Changes in Operating Assets and Liabilities:		
Accounts Receivable	1,230,060	(387,699)
Lease Payments Receivable	(220,676)	(1,523,274)
Deposit on Landfill	1,512,500	1,512,500
Accounts Payable	3,350,981	1,407,162
Deposits Payable	(55,843)	(21,923)
Accrued Expenses	(156,998)	36,849
Net Cash Provided by Operating Activities	\$ 21,516,195	\$ 13,976,679

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

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(1) GENERAL

The Union County Utilities Authority is a public body corporate and politic, organized and existing under the municipal and county utilities authorities law, constituting Chapter 183 of the pamphlet laws of 1957, of the State of New Jersey, as amended and supplemented and was created by virtue of an ordinance of the Board of Chosen Freeholders of the County of Union, New Jersey finally adopted June 5, 1986, as amended December 11, 1986.

The Authority has been designated by the County of Union as the official implementation agency of the County's solid waste management plan. The Authority is empowered to plan, design, construct, acquire and operate facilities for processing, disposal or recycling of solid waste in an environmentally sound manner, throughout the County of Union, New Jersey.

As part of the solid waste management plan, the Authority has contracted with Ogden Martin Systems, Inc. for the construction and operation of a mass-burn, waste-to-energy, resource recovery facility. Income is primarily derived from facility lease revenue payments, tipping fees from the processing of solid waste and service fees from the dumping of residual ash.

Resource Recovery Facility Lease

In 1998, the Authority agreed to lease the facility and facility site to Covanta Union, Inc. (the "Company"). In 2011, the Authority amended the lease with the refunding of the Solid Waste Senior Lease Revenue Bonds and Solid Waste Subordinate Lease Revenue Bonds.

Pursuant to the agreement, the Company is required to make rental payments in amounts sufficient to pay the debt service on the Resource Recovery Facility Lease Revenue Refunding Bonds and the Resource Recovery Facility Lease Revenue Bonds.

Lease revenue earned for the years ended December 31, 2014 and 2013 consisted of:

	<u>2014</u>	<u>2013</u>
2011A Facility Lease	\$ 6,276,310	\$ 5,950,825
2011B Facility Lease	2,183,807	2,509,455
Lease Extension Payment	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$12,460,117</u>	<u>\$12,460,280</u>

The lease amendment extends the term of the lease to 2031. Under the terms of the amended lease, the Authority and the Company have entered a revenue sharing agreement based on the actual gross revenues for the Company from 2027 to 2031.

During the period of the lease, the Company is required to pay all operating, maintenance and repair costs of the facility, except where such repairs or maintenance are a result of Authority fault.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

(1) GENERAL (CONTINUED)

Waste Disposal Agreement

In 1998, the Authority entered into the waste disposal agreement with Covanta of Union, Inc. (the "Company"). In 2011, the Authority amended the 1998 agreement with the refunding of the Solid Waste Senior Lease Revenue Bonds and Solid Waste Subordinate Lease Revenue Bonds.

Pursuant to the waste disposal agreement, the Company is required to accept and dispose of all acceptable waste delivered to the facility by or on behalf of the Authority. The Authority is required to deliver an amount of acceptable waste, at least equal to the guaranteed tonnage of 430,000 tons.

In the event the Authority fails to deliver the guaranteed tonnage amount, they are obligated to make shortfall payments to the Company; however, the Company is required to mitigate any shortfall deliveries of the solid waste on behalf of the Authority.

Landfill Agreement

In 1998, the Authority entered into the landfill agreement with Alliance Sanitary Landfill, Inc. under the terms of the landfill agreement, the Authority paid Alliance \$30,250,000.00 for the right to dispose of 2,500,000 tons of bypassed waste and residue for a period of 20 years. The Authority's rights under this agreement have been assigned to Ogden Martin Systems of Union, Inc.

Local Waste Agreements

In order to satisfy its obligation under the waste disposal agreement, the Authority has entered into local waste agreements with 14 municipalities and the County of Union. These agreements require the contracting participants to deliver, or cause to be delivered, all acceptable waste generated within the geographic boundaries that is collected by the participant, or on its behalf, but in no less than the participants' guaranteed tonnage. The Authority, in turn, is required to dispose of this waste in accordance with the waste disposal agreements. The Authority has executed local waste agreements providing for delivery of acceptable waste to the facility, in an aggregate amount that is at least equal to 149,100 tons.

In the event contracting municipalities fail to deliver their guaranteed tonnage amount, they are obligated to make shortfall payments to the Authority.

In July 2003, the Authority re-established regulatory flow control over all non-contract solid waste type 10 and 25 generated in Union County to provide the delivery of an additional 70,000 tons to the facility.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

(1) GENERAL (CONTINUED)

County Deficiency Agreement

In 1998, the Authority entered into the county deficiency agreement with the County of Union (the "County"). In 2011, the Authority amended the 1998 agreement with the refunding of the Solid Waste Senior Lease Revenue Bonds and Solid Waste Subordinate Lease Revenue Bonds.

The agreement provides that, in the event of a shortfall in an amount necessary to pay the service charge or any other amount due the Company, the County of Union is obligated pursuant to the Limited Deficiency Agreement to make a Disposal Fee Shortfall Payment in the amount of such a shortfall.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the GASB's accounting policies are described below.

Reporting Entity

The Authority's financial statements include the operations and management of the solid waste management plan for which the Union County Utilities Authority has financial accountability. The Board members are appointed to five-year terms by The Board of Chosen Freeholders. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An enterprise fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

The accounting and financial reporting applied by the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. 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 (totals assets and deferred outflows net of total liabilities and deferred inflows) are segregated into investment in capital assets, restricted and unrestricted components.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash equivalents are stated at cost which approximates market. The Authority considers all monies in banks and highly liquid investments with maturity dates of less than three months to be cash equivalents.

Investments

Investments in marketable securities and debt securities in the statement of financial position are valued at their fair values based on quoted market prices or prices which are provided by investment managers that are obtained from independent sources they believe to be reliable. Realized and unrealized gains and losses are included in the statement of activities.

Inventory

Inventory of supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

Accounts Receivable

The Authority has determined that substantially all amounts recorded as tipping fees accounts receivable will be collected and, accordingly, a provision for bad debts is not necessary.

Compensated Absences

Based upon the Authority's policies regarding compensated absences, there was an accrued liability of \$73,528 and \$177,973 at December 31, 2014 and 2013, respectively.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Fixed Assets

Fixed Assets are stated at cost which includes direct construction costs and other expenditures related to construction and certain professional costs. Construction costs are aggregated by individual project and charged to construction-in-progress until such time as projects are completed and put into operation. Depreciation is determined on a straight-line basis over various economic lives, which are fixed by management.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

Depreciation expense related to assets acquired through debt financing is charged to operations.

Details of fixed assets as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 3,610,128	\$ 3,610,128
Resource Recovery Facility	240,878,951	240,878,951
Vehicles	208,385	208,385
Equipment	237,530	237,530
Furniture and Fixtures	<u>110,108</u>	<u>110,108</u>
	245,045,102	245,045,102
 Less: Accumulated Depreciation	 <u>154,046,251</u>	 <u>147,482,603</u>
 Net Fixed Assets	 <u><u>\$90,998,851</u></u>	 <u><u>\$97,562,499</u></u>

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of 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. Actual results could differ from those estimates.

Net Position

Equity is classified as net position and displayed in three components:

- 1) Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition; construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond indenture), grantors, or laws or regulations of other governments or b) imposed by law.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "net investment in capital assets."

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

In accordance with the bond resolutions securing the 2011 Resource Recovery Facility Lease Bonds, the 1998 Solid Waste Landfill Bonds and the 2011 Solid Waste System Bonds, the Authority has established various cash and investment accounts with a trustee. In addition, the bond resolutions provide restrictions on the use of funds in the accounts.

<u>FUND</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	Operating revenues received by the Authority	Transfers to various accounts described below
Operating	Transfers from Revenue Fund	Operating Expenses
Bond Reserve Accounts	As outlined in the bond agreements	Provide additional security to bondholders
Debt Service	Amount needed for principal and interest on the Authority's bonds	Compliance with bond resolutions
General Account	Excess revenues after other accounts have required amounts by the bond resolution	For any lawful purpose of the Authority, provided certain requirements are met
Rebate Account	Funds subject to rebate to the United States Government pursuant to the Internal Revenue Code and Arbitrage Regulations	Required Rebates, as applicable
Project Account	Funds received for payment of costs of the project	Project costs
Working Capital	Transfers as needed	Service charges and disposal shortfall payments

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(3) BUDGETARY PROCEDURES

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director (Director) prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of loan agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

(4) SUPPLEMENTARY CASH FLOW INFORMATION

Interest paid in the years ended December 31, 2014 and 2013, amounted to \$10,440,116 and \$10,674,701, respectively.

(5) SOLID WASTE BONDS

In 1998, the Authority issued \$323,727,990.00 of Solid Waste Bonds to provide funds to retire the 1991 Solid Waste System Bonds and to finance the restructuring of the Solid Waste System.

In 2011, the Authority issued \$228,985,000.00 of Solid Waste and System Bonds to provide funds to retire the 1998 Lease Revenue and County Deficiency Bonds.

Principal payments due on the bonds for the next five years are as follows:

2015	\$ 6,815,000
2016	7,235,000
2017	7,690,000
2018	8,200,000
2019	3,925,000
Thereafter	<u>178,875,000</u>
Total	<u>\$212,740,000</u>

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(5) SOLID WASTE BONDS (CONTINUED)

Interest expense incurred for the year ended December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
2011 Facility Lease Revenue Bonds	\$ 6,427,198	\$ 6,455,277
2011 Solid Waste System Bonds	2,812,812	2,832,399
1998 Landfill Taxable Revenue Bonds	<u>1,036,280</u>	<u>1,233,548</u>
	<u>\$10,276,290</u>	<u>\$10,521,224</u>

(6) ADVANCE REFUNDINGS – 1998 AND 2011

In 1998, the Authority issued \$323,727,990.00 of Solid Waste Bonds for the purpose of advance refunding a portion of the 1991 bonds. The proceeds of this issue were to establish an Irrevocable Escrow Account to pay the principal and interest on the 1991 bonds as they become due.

The portions of the 1991 bonds that are to be paid from this escrow are not reflected in these statements due to the creation of this Irrevocable Escrow Account.

In 2011, The Authority issued \$228,985,000 of Solid Waste Bonds for the purpose of advance refunding a portion of the 1998 bonds. The proceeds of this issue were to establish an Irrevocable Escrow Account to pay the principal and interest on the 1998 bonds as they become due.

The portions of the 1998 bonds that are to be paid from this escrow are not reflected in these statements due to the creation of this Irrevocable Escrow Account.

(7) PENSION AND RETIREMENT PLAN

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 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 plans provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits vest after 8-10 years of service for pension benefits and 25 years for post-retirement health care coverage. The plans are cost sharing multi-employer defined benefit plans and as such do not maintain separate records for each Authority in the state and, therefore, the actual data for the Authority is not available. 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, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(7) PENSION AND RETIREMENT PLAN (CONTINUED)

Covered employees are required by State Statute to contribute a certain percentage of their salary to the plan. Each member's percentage is based on age determined at the effective date of enrollment. In addition, the PERS may bill the Authority annually at an actuarially determinable rate for its required contribution. The current required employee contribution rate is 6.92% in 2014 and 6.78% in 2013 of base salary and the Authority makes the full amount of this payment annually.

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. For the years ended December 31, 2014 and 2013, the Authority was required to contribute \$94,672 and \$109,591 respectively. In 2012, the Authority contributed \$97,361.

(8) CASH AND INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents - Restricted	<u>\$28,554,561</u>	<u>\$28,750,512</u>

Deposits

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey, which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan 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 depositor insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds; or if the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

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.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(8) CASH AND INVESTMENTS (CONTINUED)

Investments

N.J.S.A. 40A:5-15.1 provides that public funds may be invested in the following types of securities when authorized by resolution adopted by a majority vote of all its members:

- a. Bonds or other obligations of the United States of America or obligation guaranteed by the United States of America, including securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the "Investment Company Act of 1940", 54 Stat. 847 (16 U.S.C. 80a-1 et seq.), purchase and redeemed only through the use of National or State banks located within this State, if the portfolio of that investment company or investment trust is limited to bonds or other obligations of the United States of America, bonds or other obligations guaranteed by the United States of America and repurchase agreements fully collateralized by bonds or other obligations guaranteed by the United States of America, which collateral shall be delivered to or held by the investment company or investment trust, either directly or through an authorized custodian;
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal Land Bank, Federal National Mortgage Associates or of any United States Bank for Cooperatives which have a maturity date not greater than 12 months from the date of purchase.
- c. Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part of within which the school district is located;
- d. Bonds or other obligations, having a maturity date not more than 12 months from the date of purchase, approved by the Division of Investment of the Department of the Department of Treasury for investment by local units.

N.J.S.A. 52:18A-90.4 provides that the Director of the Division of Investment may, subject to the approval of the State Investments Council and the State Treasurer, establish, maintain and operate a common trust fund to be known as the State of New Jersey Cash Management Fund in which may be deposited the surplus public moneys of the state, its counties, municipalities and school districts and the agencies or authorities created by any of these entities. This fund shall be considered a legal depositor for public moneys.

At December 31, investments of the Authority at market value consisted of the following:

	<u>2014</u>	<u>2013</u>
U.S. Government Agency Bonds and Corporate Bonds	<u>\$19,281,879</u>	<u>\$18,406,756</u>

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(8) CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Authority does not have a specific deposit policy for custodial credit risk other than those policies that adhere to the requirements of statute. As of December 31, 2013, based upon the coverage provided by FDIC and NJGUDPA, no amount of the bank balances was exposed to custodial credit risk.

Based upon the limitation set forth by New Jersey Statutes and existing investment practices, the Authority is generally not exposed to credit risks and interest rate risks for its investments, nor is it exposed to foreign currency risk for its deposits and investments.

The fair-value hierarchy of inputs the Authority uses to value an asset or liability. The three levels of the fair value hierarchy are described as follows:

Level 1 – Quoted prices for identical instruments in active markets. Assets utilizing Level 1 inputs are marketable securities and other investments that are actively traded and provide the basis for fair value measurement.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly. Currently, the Authority does not have any Level 2 financial instrument inputs.

Level 3 – Significant inputs to the valuation model are unobservable. Currently, the Authority does not have any Level 3 financial instrument inputs.

(9) FIXED ASSETS

The following is a summary of the changes in fixed assets for the year ending December 31, 2014:

	BALANCE JANUARY 1, 2014	ADDITIONS (DISPOSALS)	BALANCE DECEMBER 31, 2014
Fixed Assets:			
Land-Facility	\$ 3,610,128		\$ 3,610,128
Resource Recovery Facility	240,878,951		240,878,951
Vehicles	208,385		208,385
Equipment	237,530		237,530
Furniture and Fixtures	110,108		110,108
	245,045,102		245,045,102
Less: Accumulated Depreciation	147,482,603	\$6,563,648	154,046,251
Net Fixed Assets	<u>\$ 97,562,499</u>	<u>\$6,563,648</u>	<u>\$ 90,998,851</u>

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

(10) OTHER ASSETS

The Authority has entered into an agreement with Alliance Sanitary Landfill, Inc. for the acquisition of certain easement and landfill license rights. Under the terms of this agreement, the Authority has paid Alliance a fee of \$30,250,000 for the right to dispose of 2,500,000 tons of ash. This fee is being amortized at \$12.10 per 125,000 tons annually resulting in expenses of \$1,512,500 and \$1,512,500 in 2014 and 2013, respectively.

During 2014 and 2013, actual tonnage delivered to the landfill was 115,144 tons and 117,944 tons, respectively.

(11) RISK MANAGEMENT

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (JIF).

The Fund was created on September 15, 1991, in accordance with P.L. 1983, C.372, entitled "An act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of Title 40A of the New Jersey statutes." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

The following coverage's are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability other than Motor Vehicles
- c. Property Damage other than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability

The Joint Insurance Fund is also a member of The Municipal Excess Liability Joint Insurance Fund which provides excess insurance for worker's compensation and employer's liability.

(12) DEBT ISSUE COSTS AND PRIOR PERIOD ADJUSTMENT

All debt issue costs related to prior bond issues have been expensed in accordance with GASB Statement No. 65.

(13) SUBSEQUENT EVENTS

The Authority evaluated subsequent events occurring after the financial statement date through June 2, 2015, which is the date the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

(14) SHARED SERVICES AGREEMENT

In August 2013, the Authority entered into a six month Shared Services Agreement with the Union County Improvement Authority. Under the terms of this agreement the Authority will be paid the sum of \$15,000 per month for providing to the Union County Improvement Authority Executive Director Services, Office Space and Staff Services. The agreement was renewed for an addition six month term in 2014.

In August 2014, the Authority's governing body voted to extend the Shared Services Agreement per a period of five years, through August 1, 2019. The Authority will receive \$6,340.34 per month. In 2014 and 2013, the Authority received \$91,702 and \$60,000, respectively, under this agreement.

(15) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

Potential Claim of Covanta Union Against the Authority under the Amended and Restated Disposal Agreement

The Authority and Covanta Union, Inc. ("Covanta") are parties to an Amended and Restated Waste Disposal Agreement ("Waste Disposal Agreement") and a Facility Lease pertaining to the operation of the Union County Resource Recovery Facility ("Facility") in Rahway, New Jersey. These agreements, and their predecessors, have governed the lease and operation of the Facility since 1992. In 2010, the Authority and Covanta agreed to extend the terms of the Facility Lease and the Waste Disposal Agreement from June 14, 2023 to December 31, 2031.

In exchange for the extensions and amendments to the Facility Lease and Waste Disposal Agreement, the Authority committed to deliver 430,000 tons of processible waste annually to the Facility on a "put or pay" basis. The Authority's annual "put or pay" obligation will be satisfied through the delivery of 330,000 tons of processible waste from Union County resulting from, among other things, amendments to the Local Waste Agreements with certain Union County municipalities, and the remaining 100,000 tons pursuant to interlocal agreements with governmental entities outside the County, starting October 13, 2011 (the "Effective Date") – the date the Order of Approval issued by the New Jersey Department of Environmental Protection and the New Jersey Department of Community Affairs, Division of Local Government Services – and prorated for the balance of 2011.

Covanta is obligated to use reasonable commercial efforts to mitigate any delivery shortfalls and the amount of any shortfall payments by the Authority to Covanta are to be calculated in accordance with the formula in the Waste Disposal Agreement. From the Effective Date through December 31, 2014, the Authority did not have any new Local Waste Agreements or other arrangements to satisfying the 100,000 tons (particularly for Out-of-County Waste) of its Guaranteed Annual Tonnage. As a consequence of that fact, the Authority had a short-fall in its waste delivery obligation in 2014 and was obligated to make a short-fall payment to Covanta in accordance with the provisions of the Waste Disposal Agreement. Additionally, certain additional sums have been placed in escrow pending resolution of a dispute with Covanta regarding calculation of the actual short-fall amount owed by the Authority to Covanta. It is anticipated that this dispute will be resolved in 2015 without the necessity of litigation.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(15) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES (CONTINUED)

Potential Claim of Covanta Union Against the Authority under the Amended and Restated Disposal Agreement (Continued)

The Authority continues to discuss and negotiate with various municipalities and counties in New Jersey for the delivery of solid waste for disposal at the Facility in order to satisfy its waste delivery obligation to Covanta. It is reasonably expected that the Authority will successfully enter into such agreements during 2015 and/or the Authority and Covanta will reach an agreement to satisfy this obligation. Additionally, the Authority and Covanta continue to discuss and implement alternative contractual arrangements that will partially satisfy and/or eliminate this obligation.

In the years ended December 31, 2014 and 2013 the Out-of-County Waste Shortfall expense was \$2,645,555 and \$2,140,357 (including \$76,219 in interest), respectively. In 2015, the Authority paid \$939,746 of the outstanding 2013 fee and the remaining balance was placed in escrow as negotiations are ongoing.

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SUPPLEMENTARY INFORMATION

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED
BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 BUDGET	2014 ACTUAL	2013 ACTUAL
<u>REVENUE</u>			
Tipping Fees: Resource Recovery Facility	\$ 11,889,800	\$ 11,773,371	\$ 11,673,416
Covanta Project Payments	5,305,000	12,460,117	12,460,280
Program Waste	13,520,000	13,747,819	13,455,932
Non-Processible Type 13	5,167,200	1,201,475	1,709,925
Administrative Fees	425,000	420,838	421,647
EIC Type 27	250,000	248,910	215,891
Mitigation Revenue	4,500	4,413	4,412
Landfill Service Fees		4,282,738	5,473,548
	<u>36,561,500</u>	<u>44,139,681</u>	<u>45,415,051</u>
Interest Income	12,000	820,680	6,418
Miscellaneous Income	50,000	1,227,247	1,517,781
	<u>62,000</u>	<u>2,047,927</u>	<u>1,524,199</u>
<u>TOTAL REVENUE</u>	<u>\$ 36,623,500</u>	<u>\$ 46,187,608</u>	<u>\$ 46,939,250</u>
<u>APPROPRIATIONS</u>			
Administration:			
Salaries and Wages	\$ 973,000	\$ 782,510	\$ 921,706
Fringe Benefits	278,000	300,028	300,604
Pension Assessment (PERS)	100,000	99,358	109,591
	<u>1,351,000</u>	<u>1,181,896</u>	<u>1,331,901</u>
Other Expenses:			
Accounting	36,000	30,875	34,800
Advertising	9,000	1,076	5,407
Auto Gas, Repairs and Maintenance	12,000	10,624	9,411
Trustee Fees	21,000	28,500	22,500
Bank Fees	22,000	19,633	21,084
Computer Consultant	25,000	20,852	27,962
Oversite Services - County of Union	132,000	143,477	131,348
Facility Costs		978,089	4,787,827
Dues and Subscriptions	9,000	5,855	7,173
Financial Consultant	25,000	15,619	17,480
Host Community Fee	2,800,000	2,787,588	2,866,462
General Counsel	345,000	283,162	235,209
Engineering	145,000	103,952	90,830
Insurance	50,000	41,237	41,636
Insurance Consultant	1,000		
Lease Expense - Environmental Assessment Site			
Miscellaneous Office Expense	9,000	11,574	12,812
Office Equipment, Copiers and Pagers	13,000	10,941	11,891
Office, Park and Property Maintenance	40,800	16,703	35,704
Permits and Fees	12,000	69,675	69,509
Postage and Delivery	5,000	5,978	4,333
Printing and Office Supplies	3,000	4,859	1,595
Public Relations	6,000		
Safety and First Aid Equipment	2,400		
Landfill Disposal Costs		1,512,500	1,512,500
Service Fee - Covanta	11,248,900	11,133,184	11,009,049
Service Fee - Covanta - Program 10	8,602,100	8,871,194	8,684,775
Service Fee - Covanta - NJMC Type 13	3,420,000		
Tipping Fee Reimbursement to Towns	2,100,000	2,164,823	2,249,269
Mitigation - Covanta Shortfall	2,100,000	2,815,443	2,596,789
Interlocal Agreement - County of Union	2,000,000	2,000,000	2,000,000
Telephone	12,000	6,404	9,769
Utilities		8,322	3,570
Travel, Seminars, and Conferences	6,000	5,696	15,579
Uniforms and Equipment	3,000	5,850	2,779
UCUA Meetings	2,400	2,703	2,450
<u>Total Other Expenses</u>	<u>33,217,600</u>	<u>33,116,388</u>	<u>36,521,502</u>
<u>Total Expenses</u>	<u>34,568,600</u>	<u>34,298,284</u>	<u>37,853,403</u>
Issuance of Debt			
Principal Payments on Debt Service in Lieu of Depreciation	1,450,000	11,217,588	9,521,462
<u>TOTAL OPERATING APPROPRIATIONS</u>	<u>36,018,600</u>	<u>45,515,872</u>	<u>47,374,865</u>
Non Operating Appropriations:			
Interest Expense	2,897,937	10,276,290	10,521,224
Unreserved Retained Earnings Utilized	(2,293,037)		
<u>Total Non Operating Appropriations</u>	<u>604,900</u>	<u>10,276,290</u>	<u>10,521,224</u>
<u>TOTAL COST FUNDED BY OPERATIONS</u>	<u>\$ 36,623,500</u>	<u>\$ 55,792,162</u>	<u>\$ 57,896,089</u>

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2014

1998 SOLID WASTE LANDFILL TAXABLE REVENUE BONDS, SERIES A

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL</u>
2015	6.75%	\$ 3,260,000
2016	6.75%	3,605,000
2017	6.75%	3,980,000
2018	6.75%	<u>4,385,000</u>
		<u>\$ 15,230,000</u>

NOTE: The Bonds pay interest January 15 and July 15
Principal is paid January 15

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2014

2011A RESOURCE RECOVERY FACILITY LEASE REVENUE REFUNDING BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES A INTEREST RATE</u>	<u>PRINCIPAL</u>
2015		
2016		
2017		
2018		
2019		
2020		
2021	3.31%	\$ 560,000
2022	3.31%	2,540,000
2023	3.31%	2,670,000
2024	3.31%	2,810,000
2025	3.31%	2,950,000
2026	3.31%	2,700,000
2027	3.31%	4,550,000
2028	3.31%	4,750,000
2029	3.31%	4,950,000
2030	3.31%	5,150,000
2031	3.31%	82,100,000
<u>TOTAL BONDS PAYABLE</u>		<u>\$ 115,730,000</u>

NOTE: The Bonds pay interest June 1 and December 1
Principal is paid June 1

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2014

2011B RESOURCE RECOVERY FACILITY LEASE REVENUE BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES B INTEREST RATE</u>	<u>PRINCIPAL</u>
2015	2.14%	\$ 2,080,000
2016	2.18%	2,125,000
2017	2.57%	2,170,000
2018	3.10%	2,230,000
2019	3.10%	2,295,000
2020	3.31%	2,365,000
2021	3.52%	<u>1,885,000</u>
<u>TOTAL BONDS PAYABLE</u>		<u>\$ 15,150,000</u>

NOTE: The Bonds pay interest June 1 and December 1
Principal is paid June 1

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2014

2011A SOLID WASTE SYSTEM BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES A INTEREST RATE</u>	<u>PRINCIPAL</u>
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026	4.00%	\$ 1,580,000
2027	4.00%	2,220,000
2028	4.00%	2,310,000
2029	4.00%	2,400,000
2030	4.00%	2,495,000
2031	4.00%	2,595,000
2032	4.00%	2,700,000
2033	5.00%	2,805,000
2034	5.00%	2,945,000
2035	5.00%	3,095,000
2036	5.00%	3,250,000
2037	5.00%	3,410,000
2038	5.00%	3,585,000
2039	5.00%	3,760,000
2040	5.00%	3,950,000
2041	5.00%	4,145,000
<u>TOTAL BONDS PAYABLE</u>		<u>\$ 47,245,000</u>

NOTE: The Bonds pay interest June 1 and December 1
Principal is paid June 1

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2014

2011B SOLID WASTE SYSTEM BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES B INTEREST RATE</u>	<u>PRINCIPAL</u>
2015	2.23%	\$ 1,475,000
2016	2.31%	1,505,000
2017	2.67%	1,540,000
2018	2.99%	1,585,000
2019	3.28%	1,630,000
2020	3.50%	1,685,000
2021	3.71%	1,740,000
2022	3.92%	1,805,000
2023	4.23%	1,875,000
2024	4.33%	1,955,000
2025	4.53%	2,040,000
2026	4.74%	550,000
<u>TOTAL BONDS PAYABLE</u>		<u>\$ 19,385,000</u>

NOTE: The Bonds pay interest June 1 and December 1
Principal is paid June 1

UNION COUNTY UTILITIES AUTHORITYSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL C.F.D.A. NUMBER	GRANT AWARD AMOUNT	GRANT PERIOD		FISCAL YEAR	
			FROM	TO	RECEIPTS	EXPENDITURES
United States Department of Homeland Security (DHS):						
Federal Emergency Management Agency (FEMA):						
FEMA Disaster Assistance - Hurricane Sandy						
Pass-Through New Jersey State Police	97.036	\$ 220,000	10/30/12	04/30/14	<u>\$ 27,578</u>	<u>\$ 133,484</u>

UNION COUNTY UTILITIES AUTHORITY

OFFICIALS IN OFFICE

The following officials were in office during the period under audit:

Members for the Authority:

James Huff	Chairperson
Reni Erdos	Vice Chairperson
James J. Kennedy	Secretary
Clifton People, Jr.	Treasurer
Sharda Badri	Member
Roy Eastman	Member
Edward Kahn	Member
Edward Jackus	Member
John G. Kulish	Member
Angelo Bonanno	Alternate Member
Charles Lombardo	Alternate Member

Other Officials:

Daniel Sullivan	Executive Director
Thomas M. Brennan	Deputy Executive Director/Controller
Joseph C. Bodek	Clerk of the Authority

UNION COUNTY UTILITIES AUTHORITY

DECEMBER 31, 2014

GENERAL COMMENTS AND RECOMMENDATIONS

NONE

