

Annual
Financial Report

of the

Union County Utilities Authority

For the Years Ended December 31, 2015 and 2014

Prepared By

Union County Utilities Authority

Finance Department

UNION COUNTY UTILITIES AUTHORITY

I N D E X

	<u>PAGE NUMBER</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-3
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	4-5
Management Discussion and Analysis	6-11
BASIC FINANCIAL STATEMENTS	
<u>EXHIBITS</u>	
"A" Statements of Net Position - December 31, 2015 and 2014	12-13
"B" Statements of Revenue, Expenses and Changes in Net Position for the Years Ended December 31, 2015 and 2014	14
"C" Statements of Cash Flows for the Years Ended December 31, 2015 and 2014	15
Notes to Financial Statements - December 31, 2015 and 2014	16-38
SUPPLEMENTAL INFORMATION	
<u>SCHEDULES</u>	
R-1 Schedule of Authority's Proportionate Share of the Net Pension Liability – Public Employees Retirement System – Last Ten Years	39
R-2 Schedule of Authority's Contributions – Public Employees Retirement System – Last Ten Years	40
R-3 Schedule Related to Accounting and Reporting for Pension (GASB 68) – Note to RSI III	41
1 Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget for the Year Ended December 31, 2015	42
2 Schedule of Bonds Payable - December 31, 2015	43-47
3 Schedule of Expenditures of Federal Awards – December 31, 2015	48
Roster of Officials	49
General Comments and Recommendations	50

FINANCIAL SECTION



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

Telephone 908-789-9300

Fax 908-789-8535

E-mail info@senco.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Union County Utilities Authority, as of and for the years ended December 31, 2015 and 2014, 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.

SUPLEE, CLOONEY & COMPANY

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.

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, 2015 and 2014, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the basic financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68). Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to accounting and reporting for pensions in Schedules R-1 through R-3 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.

SUPLEE, CLOONEY & COMPANY

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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2016 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 30, 2016



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

Telephone 908-789-9300

Fax 908-789-8535

E-mail info@senco.com

**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, 2015, 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 30, 2016.

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.

SUPLEE, CLOONEY & COMPANY

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 30, 2016

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, 2015 and 2014. 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, 2015 and 2014. 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 \$145.8 million. Total liabilities were \$219.8 million.

Operating revenues totaled \$48.6 million which is an increase of \$3.3 million or 7.2% over the prior year operating revenue of \$45.4 million.

The major source of revenue is from Tipping Fees which totaled \$31.7 million. This represents an increase of \$3.7 million over 2014 tipping fees of \$27.4 million. Another major source of revenue is from the Facility Lease which totaled \$12.2 million which is a decrease of \$300 thousand from 2014 revenues of \$12.5 million.

Operating expenses were \$36.3 million which is an increase of \$217 thousand or 0.6% over prior year expenses of \$36.1 million. Total expenses budgeted for 2015 were \$34.9 million.

Interest expense for 2015 was \$10 million which is a decrease of \$283 thousand from 2014 expense of \$10.3 million.

Cash and Investments of \$44.8 million decreased \$3 million or 6.3% from prior year's total of \$47.8 million.

Bonds Payable of \$205.9 million decreased \$6.8 million or 3.2% from prior year's total of \$212.7 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.

In 2015, the Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Authority participates in the pension plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Authority employees participating in PERS (Public Employee Retirement System) be reported in the audited financial statements to promote better financial clarity. Understandably, the net pension liability of \$2,643,293, shown within non-current liabilities, is a significant amount at December 31, 2015. Notes to the Financial Statements No. 2, 7, 8 and 14 explain pension plan accounting in greater detail.

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:IE-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 ID-10 and ID-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. The rate has increased to 105.05 in 2015.

For 2015, the revenues brought in through the new program were as follows:

1. UCRRF	<u>146,047</u>	Tons	<u>\$5,561,347</u>	Revenue
	<u>Total</u>	<u>146,047</u>	<u>Total Tons</u>	<u>\$5,561,347</u>
			<u>Total Revenue</u>	

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 \$400,666 in 2015 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		2013
	2015	2014	Dollars	%	
<u>Assets</u>					
Cash and Investments	\$ 44,836,120	\$ 47,836,440	\$ (3,000,320)	-6.3%	\$ 47,157,268
Accounts Receivable	10,324,951	8,430,407	1,894,544	22.5%	9,439,791
Property, Plant and Equipment - Net	84,448,139	90,998,851	(6,550,712)	-7.2%	97,562,499
Other Assets	4,477,179	5,989,679	(1,512,500)	-25.3%	8,838,624
Deferred Outflows	1,694,206	1,325,618	368,588	27.8%	
Total Assets	\$ 145,780,595	\$ 154,580,995	\$ (8,800,400)	-5.7%	\$ 162,998,182
<u>Liabilities</u>					
Current Liabilities	\$ 8,543,990	\$ 9,763,496	\$ (1,219,506)	-12.5%	\$ 6,720,081
Deferred Inflows	2,732,832	3,043,236	(310,404)	100.0%	2,580,246
Net Pension Liability	2,643,293	2,016,840	626,453	100.0%	2,580,246
Bonds Payable	205,925,000	212,740,000	(6,815,000)	-3.2%	219,170,000
Total Liabilities	219,845,115	227,563,572	(7,718,457)	-3.4%	231,050,573
<u>Net Position</u>					
Restricted - Deficit	(74,064,520)	(72,982,577)	(1,081,943)	1.5%	(65,472,145)
Total Net Position	(74,064,520)	(72,982,577)	(1,081,943)	1.5%	(65,472,145)
Total Liabilities and Net Position	\$ 145,780,595	\$ 154,580,995	\$ (8,800,400)	-5.7%	\$ 165,578,428

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

	December 31		Variance		2013
	2015	2014	Dollars	%	
<u>Operating Revenues:</u>					
Facility Lease Revenue	\$ 12,181,508	\$ 12,460,117	\$ (278,609)	-2.2%	\$ 12,460,280
Landfill Service Fees	4,410,769	4,282,738	128,031	3.0%	5,473,548
Tipping Fees	12,907,372	12,443,119	464,253	3.7%	12,310,954
Program EIC	9,032,137	6,273,321	2,758,816	44.0%	6,619,519
Program Tipping Fees	9,806,848	8,675,973	1,130,875	13.0%	8,546,338
Miscellaneous	309,141	1,231,660	(922,519)	-74.9%	522,193
Total Operating Revenues	48,647,775	45,366,928	3,280,847	7.2%	45,932,832
<u>Operating Expenses:</u>					
Operations and Maintenance	29,741,227	29,510,757	230,470	0.8%	32,979,768
Depreciation	6,550,713	6,563,648	(12,935)	-0.2%	6,510,242
Total Operating Expenses	36,291,940	36,074,405	217,535	0.6%	39,490,010
Operating Income	12,355,835	9,292,523	3,063,312	33.0%	6,442,822
Non Operating (Revenues) Expenses	(13,437,778)	(14,243,198)	805,420	-5.7%	(10,571,233)
Change in Net Position	(1,081,943)	(4,950,675)	3,868,732	-78.1%	(4,128,411)
Net Position, Beginning of Year, as Previously Reported	(72,982,577)	(65,472,145)	(7,510,432)	11.5%	(61,343,734)
Prior Period Adjustment		(2,559,757)	2,559,757	-100.0%	
Net Position - Beginning of Year as Restated	(72,982,577)	(68,031,902)	(4,950,675)	7.3%	(61,343,734)
Net Position, End of Year	\$ (74,064,520)	\$ (72,982,577)	\$ (1,081,943)	1.5%	\$ (65,472,145)

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>
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
2015	547,466 Tons	172,123 Tons

(a) 14 Contracted Union County Municipalities & Union County

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

2011	145,830 Tons
2012	132,264 Tons
2013	131,179 Tons
2014	134,067 Tons
2015	146,047 Tons

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

Ash Tonnage Delivered to the Waste Management Landfill in Pennsylvania:

2011	122,445 Tons
2012	115,230 Tons
2013	117,944 Tons
2014	115,144 Tons
2015	122,481 Tons

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

2011	76,532 Tons
2012	51,850 Tons
2013	58,812 Tons
2014	60,277 Tons
2015	119,188 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 12/31/2014	\$212,740,000
New Bonds Issued	
Scheduled Bond Retirements	<u>(6,815,000)</u>
Bonds Payable at 12/31/2015	<u>\$205,925,000</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.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Assets:		
Revenue Account:		
Cash and Cash Equivalents:		
Revenue	\$ 3,186,275	\$ 3,359,755
Unemployment Reserve	112,611	112,611
Environmental Investment Charge Reserve	3,143,552	3,140,512
Accounts Receivable	5,794,769	4,130,035
Lease Payments Receivable	4,530,182	4,300,372
Operating Account:		
Cash and Cash Equivalents	5,463,862	8,930,132
Bond Reserve Account:		
Cash and Cash Equivalents	4,432,474	5,377,953
Investments	19,556,475	19,281,879
Debt Service Account:		
Cash and Cash Equivalents	4,724,008	4,736,991
Working Capital Account:		
Cash and Cash Equivalents	4,200,112	2,879,856
Project Account:		
Cash and Cash Equivalents	16,751	16,751
	<u>55,161,071</u>	<u>56,266,847</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	184,929	237,530
Furniture and Fixtures	36,189	110,108
	<u>244,918,582</u>	<u>245,045,102</u>
Less: Accumulated Depreciation	<u>160,470,443</u>	<u>154,046,251</u>
	<u>84,448,139</u>	<u>90,998,851</u>
<u>Net Fixed Assets</u>		
Other Assets:		
Landfill Service Fees	4,477,179	5,989,679
Deferred Outflows:		
Pension Related	506,255	63,420
Premiums on Debt	1,187,951	1,262,198
	<u>1,694,206</u>	<u>1,325,618</u>
<u>Total Other Assets</u>	<u>6,171,385</u>	<u>7,315,297</u>
<u>TOTAL ASSETS</u>	<u>\$ 145,780,595</u>	<u>\$ 154,580,995</u>

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

UNION COUNTY UTILITIES AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

<u>LIABILITIES AND NET POSITION</u>	<u>2015</u>	<u>2014</u>
Current Liabilities:		
Accounts Payable - Operating	\$ 6,987,773	\$ 8,119,921
Deposits Payable	237,385	231,077
Accrued Interest Payable on Project Bonds	1,017,170	1,123,107
Accrued Expenses	301,662	289,391
Project Bonds Payable - Current Maturities	7,235,000	6,815,000
	<hr/>	<hr/>
<u>Total Current Liabilities</u>	<u>15,778,990</u>	<u>16,578,496</u>
Long-Term Liabilities Payable from Restricted Assets:		
Project Bonds Payable	198,690,000	205,925,000
Net Pension Liability	2,643,293	2,016,840
	<hr/>	<hr/>
<u>Total Liabilities</u>	<u>217,112,283</u>	<u>224,520,336</u>
Deferred Inflows:		
Pension Related	439,280	606,337
Deferred Gain on Refunding	2,293,552	2,436,899
	<hr/>	<hr/>
	<u>2,732,832</u>	<u>3,043,236</u>
Net Position:		
Net Investment in Capital Assets	(116,999,682)	(115,751,470)
Restricted		
Bond Reserve Account	23,988,949	24,659,832
Debt Service Account	4,724,008	4,736,991
Working Capital Account	4,200,112	2,879,856
Project Account	16,751	16,751
Unrestricted	10,005,342	10,475,463
	<hr/>	<hr/>
Total Net Position	<u>(74,064,520)</u>	<u>(72,982,577)</u>
<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 145,780,595</u>	<u>\$ 154,580,995</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Revenue:		
Facility Lease Revenue	\$ 12,181,508	\$ 12,460,117
Landfill Service Fees	4,410,769	4,282,738
Tipping Fees-Resource Recovery	12,907,372	12,443,119
Miscellaneous Income	309,141	1,231,660
Program EIC	9,032,137	6,273,321
Program Tipping Fees	9,806,848	8,675,973
	<hr/>	<hr/>
<u>Total Operating Revenues</u>	48,647,775	45,366,928
Cost of Providing Services:		
Operating Expenses	29,741,228	29,510,757
Depreciation	6,550,712	6,563,648
	<hr/>	<hr/>
<u>Total Operating Expenses</u>	36,291,940	36,074,405
Operating Income	<hr/>	<hr/>
	12,355,835	9,292,523
Non Operating Revenues (Expenses):		
Interest Income	43,096	820,680
Unrealized Gain on Investments	325,685	
Other Expense	(16,561)	
Rahway Host Fee	(1,797,535)	(2,787,588)
County of Union	(2,000,000)	(2,000,000)
Interest Expense	(9,992,463)	(10,276,290)
	<hr/>	<hr/>
Net Income	(1,081,943)	(4,950,675)
Net Position, Beginning of Year, as Previously Reported	(72,982,577)	(65,472,145)
Prior Period Adjustment - GASB 68		(2,559,757)
	<hr/>	<hr/>
Net Position, End of Year	<u>\$ (74,064,520)</u>	<u>\$ (72,982,577)</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Facility Lease	\$ 11,951,698	\$ 12,239,441
Receipts for Landfill Service Fees	5,923,269	5,795,238
Receipts for Tipping Fees	30,081,622	28,622,473
Miscellaneous Receipts	309,141	1,231,660
Payments to Suppliers	(29,852,194)	(25,490,451)
Payments to Employees	(1,002,603)	(882,166)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	17,410,933	21,516,195
	<hr/>	<hr/>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets		
Principal Payments on Long-Term Debt	(6,815,000)	(6,430,000)
Rahway Host Fee	(1,797,535)	(2,787,588)
County of Union	(2,000,000)	(2,000,000)
Interest Paid on Bonds	(10,167,499)	(10,440,116)
	<hr/>	<hr/>
Net Cash Used in Capital and Financing Activities	(20,780,034)	(21,657,704)
	<hr/>	<hr/>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	43,096	820,681
Realized Loss on Investments	51,089	(875,123)
	<hr/>	<hr/>
Net Cash Provided (Used) by Investing Activities	94,185	(54,442)
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,274,916)	(195,951)
	<hr/>	<hr/>
Cash and Cash Equivalents, Beginning of Year	28,554,561	28,750,512
	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 25,279,645	\$ 28,554,561
	<hr/>	<hr/>
<u>Reconciliation of Operating Income to Net Cash Provided by</u>		
<u>Operating Activities:</u>		
Operating Income:	\$ 12,355,834	\$ 9,292,523
Depreciation	6,550,712	6,563,648
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,664,735)	1,230,060
Lease Payments Receivable	(229,808)	(220,676)
Deposit on Landfill	1,512,500	1,512,500
Accounts Payable	(1,132,148)	3,350,981
Deposits Payable	6,308	(55,843)
Accrued Expenses	12,270	(156,998)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 17,410,933	\$ 21,516,195
	<hr/>	<hr/>

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

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(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, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
2011A Facility Lease	\$ 6,273,394	\$ 6,276,310
2011B Facility Lease	2,186,979	2,183,807
Lease Extension Payment	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$12,460,373</u>	<u>\$12,460,117</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, 2015 AND 2014

(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, 2015 AND 2014

(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, 2015 AND 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions

The Authority implemented GASB 68 in the Year 2015. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

The Authority has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (continued)

At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Under GAAP, Authorities are required to recognize the pension liability in Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority has only one item that qualifies for reporting in this category, deferred amounts related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies in this category, deferred amounts related to pension.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(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 \$70,064 and \$73,528 at December 31, 2015 and 2014, 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, 2015 AND 2014

(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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 3,610,128	\$ 3,610,128
Resource Recovery Facility	240,878,951	240,878,951
Vehicles	208,385	208,385
Equipment	184,929	237,530
Furniture and Fixtures	<u>36,189</u>	<u>110,108</u>
	244,918,582	245,045,102
Less: Accumulated Depreciation	<u>160,470,443</u>	<u>154,046,251</u>
Net Fixed Assets	<u>\$84,448,139</u>	<u>\$90,998,851</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, 2015 AND 2014

(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, 2015 AND 2014

(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, 2015 and 2014, amounted to \$10,167,499 and \$10,440,116, 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:

2016	\$ 7,235,000
2017	7,690,000
2018	8,200,000
2019	3,925,000
2020	4,050,000
Thereafter	<u>174,825,000</u>
Total	<u>\$205,925,000</u>

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(5) SOLID WASTE BONDS (CONTINUED)

Interest expense incurred for the year ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
2011 Facility Lease Revenue Bonds	\$ 6,376,623	\$ 6,427,198
2011 Solid Waste System Bonds	2,867,796	2,812,812
1998 Landfill Taxable Revenue Bonds	<u>817,144</u>	<u>1,036,280</u>
	<u>\$10,061,563</u>	<u>\$10,276,290</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 required full-time employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes financial statements and required supplementary information for the system. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or online at www.state.nj.ustreasury/pensions.

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provision of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The Defined Contribution Retirement Program (DCRP) was established under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage to elected and certain appointed officials and part-time employees, effective July 1, 2007. Part-time employees that earn an annual salary of at least \$5,000 and work less than 35 hours per week are eligible to enroll in the New Jersey Defined Contribution Plan (DCRP). The DCRP is offered through the Prudential Retirement Insurance and Annuity Company. Employees contribute 5.5% of salary and the Authority contributes 3% of salary, for a total contribution of 8.5%. Membership is mandatory for such individuals with vesting occurring after one year of membership.

Significant Legislation

Effective June 28, 2011, P.L. 2011, c. 78 enacted certain changes in the operations and benefit provisions of the PERS system.

Pension Plan Design Changes

Effective June 28, 2011, P.L. 2011, c. 78, new members of PERS, hired on or after June 28, 2011, will need 30 years of creditable service and have attained the age of 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65.

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS was changed. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30-year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PFRS), the UAAL will be amortized over a closed 30-year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20-year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by N.J.S.A. 43:15A and 43.3B. All benefits vest after ten years of service, except for post-retirement healthcare benefits that vest after 25 years of service.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(7) PENSION PLAN (CONTINUED)

Contribution Requirements

The contribution policy is set by N.J.S.A. 43:15A, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Effective June 28, 2011, P.L. 2011, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for PERS.

Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

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, 2015 and 2014, the Authority was required to contribute \$107,139 and \$94,672 respectively. In 2013, the Authority contributed \$109,591.

Contribution Requirements:

Three Year Trend Information for PERS

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2015	\$107,139	100%	\$107,139
2014	94,672	100%	94,672
2013	109,591	100%	109,591

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(8) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

At December 31, 2015, the Authority reported a liability of \$2,643,293 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating local units, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0117751838 percent, which was a decrease of 0.0020082024 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Authority recognized pension expense of \$107,164. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>
Changes of assumptions	--	\$283,869
Net difference between projected and actual earnings on pension plan investments	\$ 42,499	63,060
Changes in proportion and differences between Authority contributions and proportionate share of contributions	396,781	159,326
Authority contributions subsequent to the measurement date	--	--
	<u>\$439,280</u>	<u>\$506,255</u>

The \$506,255 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the period ending June 30, 2015, the plan measurement date is June 30, 2014) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>June 30</u>	<u>Amount</u>
2016	\$55,421
2017	\$55,421
2018	\$55,421
2019	\$88,268
2020	\$49,897

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(8) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Additional Information

Collective balances at June 30, 2015 and 2014 are as follows:

	<u>6/30/2015</u>	<u>6/30/2014</u>
Collective deferred outflows of resources	\$ 5,086,138,484	\$ 1,032,618,058
Collective deferred inflows of resources	478,031,236	1,726,631,532
Collective net pension liability	22,447,996,119	18,722,735,003
Authority's Proportion	0.0117751838%	.0137833862%

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. These actuarial valuations used the following assumptions, applied to all periods in the measurement.

	<u>6/30/2015</u>	<u>6/30/2014</u>
Inflation	3.04 Percent	3.01 Percent
Salary Increases (based on age):		
2012-2021	2.15-4.40 Percent	2.15-4.40 Percent
Thereafter	3.15-5.40 Percent	3.15-5.40 Percent
Investment Rate of Return	7.90 Percent	7.90 Percent

The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more that the experience deviates, the larger the impact on future financial statements.

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(8) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>6/30/2015</u>		<u>6/30/2014</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	0.80%
Core Bond			1.00%	2.49%
Intermediate Term Bonds			11.20%	2.26%
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad U.S. Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Markets	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds/Absolute Returns	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
U.S. Treasuries	1.75%	1.64%		
Investment Grade Credit	10.00%	1.79%		
Global Debt ex US	3.50%	(0.40)%		
REIT	4.25%	5.12%		
	100.00%		100.00%	

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(8) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.30% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2015 calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2015		
	1% Decrease <u>3.90%</u>	At Current Discount Rate <u>4.90%</u>	1% Increase <u>5.90%</u>
Authority's proportionate share of the pension liability	\$2,720,226	\$2,643,293	\$2,566,360

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(9) OTHER POST-EMPLOYMENT BENEFITS

The Authority provides post-retirement health benefits to employees who retire with 25 years or more of service within the system. Employees with ten (10) or more years of service may also qualify for benefits under the Disability Retirement Provisions of the Plan. There are currently sixteen (16) retirees who meet this requirement and are receiving benefits.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP.

That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's contributions to SHBP for the years ended December 31, 2015 and 2014 were \$949,063 and \$901,169, respectively, which equaled the required contributions for each year.

(10) CASH AND INVESTMENTS

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

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents - Restricted	<u>\$25,279,645</u>	<u>\$28,554,561</u>

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(10) CASH AND INVESTMENTS (CONTINUED)

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.

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.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(10) CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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>2015</u>	<u>2014</u>
U.S. Government Agency Bonds and Corporate Bonds	<u>\$19,556,475</u>	<u>\$19,281,879</u>

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, 2015, 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.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(11) FIXED ASSETS

The following is a summary of the changes in fixed assets for the year ending December 31, 2015:

	<u>BALANCE</u> <u>JANUARY 1, 2015</u>	<u>ADDITIONS</u> <u>(DISPOSALS)</u>	<u>BALANCE</u> <u>DECEMBER 31, 2015</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	(52,601)	184,929
Furniture and Fixtures	<u>110,108</u>	<u>(73,919)</u>	<u>36,189</u>
	245,045,102	(126,520)	244,918,582
Less: Accumulated Depreciation	<u>154,046,251</u>	<u>\$6,424,192</u>	<u>160,470,443</u>
Net Fixed Assets	<u>\$ 90,998,851</u>	<u>\$6,550,712</u>	<u>\$84,448,139</u>

(12) 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 2015 and 2014, respectively.

During 2015 and 2014, actual tonnage delivered to the landfill was 122,481 tons and 115,144 tons, respectively.

(13) 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 coverages 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

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

- d. Motor Vehicle
- e. Environmental Liability

(13) RISK MANAGEMENT (CONTINUED)

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.

(14) RESTATEMENT

As stated in Note 8, in 2015, the Authority implemented GASB 68. As a result, the Authority's Net Position at December 31, 2014 was restated as follows:

	<u>Governmental Activities</u>
Beginning Net Position 12/31/2014	\$ (65,472,145)
Adjustments:	
Recognition of Net Pension Liability (Measurement Date)	<u>(2,559,757)</u>
Beginning Net Position 12/31/14 (as Restated)	\$ <u>(72,982,577)</u>

The Unrestricted Net Asset balance was restated to properly reflect the Authority's Net Position under GASB 68.

(15) SUBSEQUENT EVENTS

The Authority evaluated subsequent events occurring after the financial statement date through June 30, 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.

(16) 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 additional 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 2015 and 2014, the Authority received \$-0- and \$91,702, respectively, under this agreement.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(17) 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 (NJDEP) 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, 2015, the Authority did not have any new Local Waste Agreements or other arrangements to satisfying the 100,000 tons obligation for out-of-County waste of its Guaranteed Annual Tonnage.

The Authority and Covanta began negotiations in 2015 of an extension of the term of lease for the Facility for a period of twenty-two (22) years from December 15, 2031 to December 15, 2053. In addition to agreeing upon annual rent during the lease extension period, UCUA and Covanta agreed to eliminate the 100,000 delivery requirement for the delivery of out-of-County waste in 2016 through the balance of the extended lease term. With regard to the shortfall payment obligations incurred during calendar years 2013 to 2015, UCUA paid to Covanta the undisputed portions of the shortfall payments for 2013 and 2014, formally disputed the balance of the shortfall payments amounts for each year, and placed funds in escrow pending further negotiations between the parties.

UNION COUNTY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

As part of the negotiations for the extension of the lease term, the parties agreed UCUA will pay to Covanta the balance of the amounts due for shortfalls in waste deliveries for calendar years 2013 and 2014 in full satisfaction of UCUA's delivery obligations for those years. Additionally, because UCUA did not fulfill its waste delivery obligation for 2015, it will make the appropriate shortfall payment to Covanta for 2015 based upon the methodology set forth in the Amended and Restated Waste Disposal Agreement, as subsequently amended. These payments will be made on the date when all approvals are received from NJDEP of the modifications to the Facility Lease Agreement and the Waste Disposal Agreement, which are also the subject of a Plan Amendment. Currently, the amendments to the Facility Lease Agreement and Waste Disposal Agreement, and the Plan Amendment are pending before NJDEP.

In the years ended December 31, 2015 and 2014 the Out-of-County Waste Shortfall expense was \$2,109,467 and \$2,645,555, respectively.

In 2015, the Authority paid \$1,879,501 of outstanding Out-of-County Waste Shortfall fees.

At December 31, 2015, the remaining balance payable of \$1,820,241 for the 2013 and 2014 Out-of-County Waste Shortfall fees was placed in escrow as negotiations are ongoing.

SUPPLEMENTARY INFORMATION

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PUBLIC EMPLOYEES RETIREMENT SYSTEM LAST TEN YEARS

Fiscal Year Ending <u>June 30,</u>	Authority's Proportion Share of the Net Pension <u>Liability (Asset)</u>	Authority's Proportionate Share of the Net Pension <u>Liability (Asset)</u>	Authority's Covered Employee <u>Payroll</u>	Authority's Proportion Share of the Net Pension Liability (Asset) as a percentage of it's Covered- <u>Employee Payroll</u>	Plan Fiduciary Net Position as a percentage of the total <u>Pension Liability</u>
2015	0.0117751838%	\$ 2,643,293	\$ 765,366	345.36%	38.21%
2014	0.0137833862%	\$ 2,016,840	\$ 787,228	256.20%	40.71%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

UNION COUNTY UTILITIES AUTHORITY
 SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM LAST TEN YEARS

Fiscal Year Ending <u>June 30,</u>	Contractually Required <u>Contribution</u>	Contributions in Relation to the Contractually Required <u>Contributions</u>	Contribution Deficiency <u>(Excess)</u>	Authority's Covered- Employee <u>Payroll</u>	Contributions as a Percentage of Covered- Employee <u>Payroll</u>
2015	\$ 107,139	\$ 107,139	-0-	\$ 765,366	14.00%
2014	\$ 94,672	\$ 94,672	-0-	\$ 787,228	12.03%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

UNION COUNTY UTILITIES AUTHORITY

SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)

NOTE TO RSI III
FOR THE YEAR ENDED DECEMBER 31, 2015

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms None

Change in assumptions The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (4.29%) to the current measurement date (3.80%), resulting in a change in the discount rate from 5.39% to 4.90%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED
BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015 BUDGET	2015 ACTUAL	2014 ACTUAL
REVENUE			
Tipping Fees: Resource Recovery Facility	\$ 12,434,500	\$ 12,158,764	\$ 11,773,371
Covanta Project Payments		12,181,508	12,460,117
Program Waste	18,944,133	15,368,217	13,747,819
Non-Processible Type 13		3,470,768	1,201,475
Administrative Fees		430,307	420,838
EIC Type 27		318,301	248,910
Mitigation Revenue		4,389	4,413
Landfill Service Fees		4,410,769	4,282,738
Other	7,858,333		
	<u>39,236,966</u>	<u>48,343,023</u>	<u>44,139,681</u>
Interest Income	12,000	43,096	820,680
Miscellaneous Income		304,752	1,227,247
	<u>12,000</u>	<u>347,848</u>	<u>2,047,927</u>
TOTAL REVENUE	\$ 39,248,966	\$ 48,690,871	\$ 46,187,608
APPROPRIATIONS			
Administration:			
Salaries and Wages	\$ 959,200	\$ 894,725	\$ 782,510
Fringe Benefits	222,000	319,690	300,028
Pension Assessment (PERS)	100,000	107,164	99,358
	<u>1,281,200</u>	<u>1,321,579</u>	<u>1,181,896</u>
Other Expenses:			
Accounting	36,000	53,104	30,875
Advertising	9,000	1,500	1,076
Auto Gas, Repairs and Maintenance	12,000	6,566	10,624
Trustee Fees	21,000	22,500	28,500
Bank Fees	22,000	22,487	19,633
Computer Consultant	25,000	18,958	20,852
Oversite Services - County of Union	135,000	136,789	143,477
Facility Costs			978,089
Dues and Subscriptions	9,000	5,002	5,855
Financial Consultant	25,000	30,204	15,619
Host Community Fee	2,800,000	1,797,535	2,787,588
General Counsel	325,000	190,220	283,162
Engineering	145,000	95,703	103,952
Insurance	50,000	35,095	41,237
Insurance Consultant	1,000		
Bad Debt		58,600	
Miscellaneous Office Expense	9,000	18,541	11,574
Office Equipment, Copiers and Pagers	13,000	13,664	10,941
Office, Park and Property Maintenance	40,800	25,364	16,703
Permits and Fees	75,000	68,987	69,675
Postage and Delivery	5,000	3,388	5,978
Printing and Office Supplies	3,000	4,513	4,859
Public Relations	6,000		
Safety and First Aid Equipment	2,400		
Landfill Disposal Costs		1,512,500	1,512,500
Service Fee - Covanta	11,384,900	11,727,954	11,133,184
Service Fee - Covanta - Program 10	8,706,100	9,950,644	8,871,194
Service Fee - Covanta - NJMC Type 13		3,540,000	
Tipping Fee Reimbursement to Towns	2,100,000	2,211,762	2,164,823
Mitigation - Covanta Shortfall	2,100,000	2,109,467	2,815,443
Interlocal Agreement - County of Union	2,000,000		2,000,000
Telephone	12,000	7,982	6,404
Utilities		8,537	8,322
Travel, Seminars, and Conferences	6,000	4,845	5,696
Uniforms and Equipment	3,000	4,183	5,850
UCUA Meetings	2,400	3,125	2,703
Total Other Expenses	33,623,600	30,149,719	33,116,388
Total Expenses	34,904,800	31,471,298	34,298,284
Issuance of Debt			
Principal Payments on Debt Service in Lieu of Depreciation	1,475,000	6,815,000	11,217,588
TOTAL OPERATING APPROPRIATIONS	36,379,800	38,286,298	45,515,872
Non Operating Appropriations:			
Interest Expense	2,869,166	9,992,463	10,276,290
Unreserved Retained Earnings Utilized			
Total Non Operating Appropriations	2,869,166	9,992,463	10,276,290
TOTAL COST FUNDED BY OPERATIONS	\$ 39,248,966	\$ 48,278,761	\$ 55,792,162

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE - DECEMBER 31, 2015

1998 SOLID WASTE LANDFILL TAXABLE REVENUE BONDS, SERIES A

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL</u>
2016	6.75%	\$ 3,605,000
2017	6.75%	3,980,000
2018	6.75%	<u>4,385,000</u>
		<u>\$ 11,970,000</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, 2015

2011A RESOURCE RECOVERY FACILITY LEASE REVENUE REFUNDING BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES A INTEREST RATE</u>	<u>PRINCIPAL</u>
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
		<hr/>
	<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, 2015

2011B RESOURCE RECOVERY FACILITY LEASE REVENUE BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES B INTEREST RATE</u>	<u>PRINCIPAL</u>
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>\$ 13,070,000</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, 2015

2011A SOLID WASTE SYSTEM BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES A INTEREST RATE</u>	<u>PRINCIPAL</u>
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, 2015

2011B SOLID WASTE SYSTEM BONDS

<u>YEAR OF MATURITY</u>	<u>SERIES B INTEREST RATE</u>	<u>PRINCIPAL</u>
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
		<hr/>
<u>TOTAL BONDS PAYABLE</u>		<u>\$ 17,910,000</u>

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

UNION COUNTY UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

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>\$ 231,808</u>	<u>\$ 125,902</u>

UNION COUNTY UTILITIES AUTHORITY

OFFICIALS IN OFFICE

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

Members for the Authority:

Roy Eastman	Chairperson
Reni Erdos	Vice Chairperson
James J. Kennedy	Secretary
Clifton People, Jr.	Treasurer
Sharda Badri	Member
Jeanette Criscione	Member
Edward Kahn	Member
Edward Jackus	Member
Laura Scutari	Member
Margaret McManus	Alternate Member
Charles Lombardo	Alternate Member

Other Officials:

Daniel Sullivan	Executive Director
Thomas M. Brennan	Deputy Executive Director / Comptroller
Joseph C. Bodek	Clerk of the Authority
Lisa M. da Silva	Deputy Clerk of the Authority / Office Manager

UNION COUNTY UTILITIES AUTHORITY

DECEMBER 31, 2015

GENERAL COMMENTS AND RECOMMENDATIONS

NONE

