BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

April 30, 2013

David Puma, Esquire
406 Lincoln Avenue
Pitman, NJ 08071

Dear Dave:

Enclosed for your records is an unbound copy of the 2013/2012 Audit Report of the Pollution Control Financing Authority of Salem County.

If you have any questions, contact me at your convenience.

Sincerely,

BOWMAN & COMPANY LLP

David C. Rollison, RMA
Certified Public Accountant

DCR/rp
Enclosure

# The Pollution Control Financing Authority of Salem County

## Report of Audit

For the Fiscal Years Ended
January 31, 2013 and 2012

# THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

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**THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY**
**Roster of Officials**

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

| **MEMBERS** | **POSITION** |
|---|---|
| Sherman Wood | Chairman (A) |
| Richard Gatanis | Vice Chairman (A) |
| Charles Washington, Jr. | Secretary (A), Assistant Treasurer (A) |
| Fran Granier | Assistant Secretary (A) |
| Joseph Hiles | Treasurer (A) |
| **OTHER OFFICIALS** | |
| Puma, Telsey & Rhea, P.A. | Solicitor |
| Philip A. Norcross, Esq. | Special Counsel |
| Irene Wanner | Recording Secretary |
| CME Associates | Engineer |

(A) Covered by Admiral Insurance Company - $1,000,000.00

THE POLLUTION CONTROL

FINANCING AUTHORITY OF SALEM COUNTY

PART 1

FINANCIAL SECTION

FOR THE FISCAL YEARS ENDED JANUARY 31, 2013 AND 2012

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Chairman and Members of
The Pollution Control Financing Authority
Of Salem County
Salem, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Pollution Control Financing Authority of Salem County, State of New Jersey, a component unit of the County of Salem, as of and for the years ending January 31, 2013 and 2012 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in compliance with the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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


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36600

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pollution Control Financing Authority, in the County of Salem, State of New Jersey as of January 31, 2013 and 2012, and the its changes in financial position and its cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

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

## Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
April 24, 2013

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

**INDEPENDENT AUDITORS' REPORT**

The Chairman and Members of
The Pollution Control Financing Authority
of Salem County
Salem, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey the financial statements of the business-type activities of the Pollution Control Financing Authority of Salem County, State of New Jersey, a component unit of the County of Salem, as of and for the year ended January 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 24, 2013.

**Internal Control Over Financial Reporting**

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

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

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



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**Compliance and Other Matters**

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

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
April 24, 2013

**THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED JANUARY 31, 2013 AND 2012**

This section of The Pollution Control Financing Authority of Salem County's ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended on January 31, 2013. This section should be read along with the Authority's financial statements and related notes.

## RESPONSIBILITY AND CONTROL

The Authority has prepared, and is responsible for, the financial statements and related information in this report. The opinion of the independent auditors, Bowman & Company, is included in this report. In management's opinion the financial statements represent fairly, in all material aspects, the financial position, results of operations and cash flows of the Authority for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Summary of Organization and Business:**
The Authority, a public body corporate and politic of the State of New Jersey, was created by resolution adopted March 6, 1974 by the Board of Chosen Freeholders of Salem County, pursuant to Chapter 376 of the Pamphlet Laws of 1973, of the State of New Jersey, as amended and supplemented.

The Authority was created for the purpose of issuing revenue bonds of which the proceeds are to be used for construction or improving pollution control facilities in the County of Salem.

**Management Oversight:**
The governing body of the Authority consists of five board members who are appointed for five-year terms. All members are appointed on a staggered basis by the Board of Chosen Freeholders.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts: Management's Discussion and Analysis (this section), Independent Auditor's Reports, basic financial statements, including the notes thereto, and supplementary schedules. The Authority is a self-supporting entity that follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business, such as real estate development, investment banking, construction management and business consulting.

## FINANCIAL ANALYSIS OF THE AUTHORITY

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

## FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

The following table summarizes the Net Position of the Authority as of January 31, 2013, 2012 and 2011.

**Comparative Statement of Net Position**
**As of January 31, 2013, 2012 and 2011**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Assets: | | | |
| Unrestricted assets | $ 2,321,282.51 | $ 2,240,788.05 | $ 2,495,080.03 |
| Total Assets | 2,321,282.51 | 2,240,788.05 | 2,495,080.03 |
| Liabilities: | | | |
| Current Liabilities | 98,265.62 | 96,033.85 | 116,405.81 |
| Net Position: | | | |
| Unrestricted | $ 2,223,016.89 | $ 2,144,754.20 | $ 2,378,674.22 |

The following table summarizes the Revenues, Expenses, and Changes in Net Position of the Authority for the fiscal years ended January 31, 2013, 2012 and 2011.

**Comparitive Statements of Revenues, Expenses and Changes in Net Position**
**For the Fiscal Years Ended January 31, 2013, 2012 and 2011**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating Revenues: | | | |
| Other Revenues | $ 3,550.32 | $ 3,382.09 | $ 187,164.65 |
| Bond Financing Fees | 135,000.00 | 70,000.00 | 65,000.00 |
| | 138,550.32 | 73,382.09 | 252,164.65 |
| Operating Expenses: | | | |
| Other Expenses | 60,287.63 | 117,478.28 | 45,694.43 |
| Operating Income (Loss) | 78,262.69 | (44,096.19) | 206,470.22 |
| Non-operating Revenue (Expenses) | | | |
| Capital Expenditures: | | | |
| County Wastewater Management Plan | | (147,031.40) | |
| Alloway Quinton Sewer Project | | (42,792.43) | (99,041.84) |
| Total Non-Operating (Expenses) | - | (189,823.83) | (99,041.84) |
| Increase/(Decrease) in Net Position | 78,262.69 | (233,920.02) | 107,428.38 |
| Net Position February 1 | 2,144,754.20 | 2,378,674.22 | 2,271,245.84 |
| Net Position January 31 | | | |
| Unrestricted | $ 2,223,016.89 | $ 2,144,754.20 | $ 2,378,674.22 |

## DEBT ADMINISTRATION

**Capital Debt:**
The Authority has issued close to $800,000,000.00 regarding conduit bond financing. The Authority assumes no responsibility for repayment of this debt beyond the resources provided by the underlying leases or mortgage loans. As of January 31, 2013, there were 10 series of these Revenue Refunding Bonds outstanding. The corresponding aggregate principal outstanding as of January 31, 2013 totaling $613,150,000.00 is treated strictly as conduit debt obligations under Interpretation No. 2 of the Governmental Accounting Standards Board (GASB) and accordingly is not included in the financial statements. See Note 6 of the Notes to Financial Statements for a more detailed explanation of conduit debt.

## CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide New Jersey, and Salem County residents in particular, and our customers, clients, investors and creditors, with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Authority at 94 Market Street, Salem, New Jersey 08079.

# BASIC FINANCIAL STATEMENTS

**The Pollution Control Financing Authority of Salem County**
Comparative Statements of Net Position
As of January 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| Current Unrestricted Assets: | | |
| Cash and Cash Equivalents | $ 1,731,282.51 | $ 1,370,788.05 |
| Accounts Receivable | 10,000.00 | 10,000.00 |
| Grant Receivable | 300,000.00 | 300,000.00 |
| Intergovernmental Account Receivable | 280,000.00 | 560,000.00 |
| Total Assets | 2,321,282.51 | 2,240,788.05 |
| **LIABILITIES** | | |
| Current Unrestricted Liabilities: | | |
| Accounts Payable | 6,991.20 | 4,759.43 |
| Deferred Revenue: | | |
| State Grant | 91,274.42 | 91,274.42 |
| Total Liabilities | 98,265.62 | 96,033.85 |
| **NET POSITION** | | |
| Unrestricted | 2,223,016.89 | 2,144,754.20 |
| Total Net Position | $ 2,223,016.89 | $ 2,144,754.20 |

The accompanying Notes to Financial Statements are an integral part of this statement.

**The Pollution Control Financing Authority of Salem County**
Comparative Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended January 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Operating Revenues: | | |
| Bond Financing Fees | $ 135,000.00 | $ 70,000.00 |
| Other Revenues | 3,550.32 | 3,382.09 |
| Total Operating Revenues | 138,550.32 | 73,382.09 |
| Operating Expenses | | |
| Administration: | | |
| Other Expenses | 60,287.63 | 117,478.28 |
| Total Operating Expenses | 60,287.63 | 117,478.28 |
| Operating Income (Loss) | 78,262.69 | (44,096.19) |
| Non-Operating Expenses: | | |
| Capital Expenditures: | | |
| County Wastewater Management Plan | | 147,031.40 |
| Alloway Quinton Sewer Project | | 42,792.43 |
| Total Non-Operating Expenses | - | 189,823.83 |
| Net Income (Loss) | 78,262.69 | (233,920.02) |
| Change in Net Position | 78,262.69 | (233,920.02) |
| Net Position February 1 | 2,144,754.20 | 2,378,674.22 |
| Net Position, January 31 | | |
| Unrestricted | $ 2,223,016.89 | $ 2,144,754.20 |

The accompanying Notes to Financial Statements are an integral part of this statement.

**The Pollution Control Financing Authority of Salem County**
Comparative Statements of Cash Flows
For the Fiscal Years Ended January 31, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Payments to Suppliers | $ (58,055.86) | $ (137,850.24) |
| Other Operating Receipts | 3,550.32 | 3,382.09 |
| Intergovernmental Accounts Receivable | 280,000.00 | 280,000.00 |
| Bond Financing Fees | 135,000.00 | 60,000.00 |
| Net Cash Provided by Operating Activities | 360,494.46 | 205,531.85 |
| Cash Flows from Capital Activities: | | |
| Capital Expenditures: | | |
| County Wastewater Management Plan | | (147,031.40) |
| Alloway Quinton Sewer Project | | (42,792.43) |
| Net Cash Used in Capital Financing Activities | - | (189,823.83) |
| Net Increase in Cash and Cash Equivalents | 360,494.46 | 15,708.02 |
| Cash and Cash Equivalents - February 1 | 1,370,788.05 | 1,355,080.03 |
| Cash and Cash Equivalents - January 31 | $ 1,731,282.51 | $ 1,370,788.05 |

| | 2013 | 2012 |
|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | |
| Operating Income (Loss) | $ 78,262.69 | $ (44,096.19) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | 280,000.00 | 270,000.00 |
| Increase (Decrease) in Accounts Payable | 2,231.77 | (20,371.96) |
| Net Cash Provided by Operating Activities | $ 360,494.46 | $ 205,531.85 |

The accompanying Notes to Financial Statements are an integral part of this statement.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Pollution Control Financing Authority of Salem County (the "Authority") was created by a resolution of the Board of Chosen Freeholders of Salem County on March 6, 1974, pursuant to Chapter 376 of the Pamphlet Laws of 1973, of the State of New Jersey, as amended and supplemented.

The Authority was established to benefit organizations by issuing revenue bonds of which the proceeds are to be used for constructing or improving pollution control facilities situated in the County of Salem. Proceeds from the issuance of these bonds, generally, are subject to a lower cost of borrowing for private sector entities. The Authority does not become involved in the construction activities and is not responsible for the repayment of the issued and outstanding debt. Debt service and the proceeds from the issuance of bonds for construction purposes are administered by an appointed trustee as defined in each trust indenture.

The Authority consists of five members, appointed by the Board of Chosen Freeholders. One member is appointed each year for a five-year term. The Authority currently and for the fiscal year ended January 31, 2013, has no employees.

**Component Unit**

The Authority is a component unit of the County of Salem as described in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* These financial statements would be either blended or discreetly presented as part of the County's financial statements if the County reported using generally accepted accounting principles applicable to governmental entities.

GASB Statement No. 14 also provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* As of January 31, 2013; it has been determined by the Authority that no component units exist.

**Basis of Presentation**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned; expenses are recognized when there are incurred.

## Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. N.J.A.C. 5:31-2 requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt not later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal. Depreciation expense, bond issue costs, bond discounts, and deferred loss on defeasance are not included in the budget appropriations.

The legal level of budgetary control is established at the detail shown on the Statement of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended. The Authority did not amend their budget during the year.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

### Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governments units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

Local units are required by N.J.S.A. 40A:5-14 to annually adopt a cash management plan and must deposit its funds pursuant to that plan. The Authority utilizes the cash management plan of the County of Salem through the adoption of an interlocal agreement. Such cash management plan includes a designation of a depository or depositories as defined in section 1 of P.L. 1970, c.236 (C. 17.9-41).

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

## Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Inventory

The costs of inventories of supplies are recorded as expenditures at the time the individual items are purchased. The Authority has determined that inventories that are on hand are immaterial, and therefore, are not included in the financial statements.

### Property, Plant and Equipment

Property, Plant and Equipment directly related to conduit debt obligations are recorded on the respective financial statements of the entity responsible for the debt.

### Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**Net Invested in Capital Assets** - This component of net position consists of capital assets, net of accumulated depreciation, reduced, by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**Restricted** - This component of net position consists of external constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restricts the use of net position.

**Unrestricted** - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." This component includes net position that may be allocated for specific purposes by the Board.

### Income Taxes

The Authority operates as defined by the Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

### Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from bond financing fees, county appropriations and other revenue sources. Operating expenses include expenses associated with general administrative expenses.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Conduit Debt Obligations**

To provide within the County, public facilities, convention halls, equipment and facilities for public transportation, garbage and solid waste systems, the improvement, furtherance and promotion of tourist industries and recreational attractiveness and the planning and carrying out of redevelopment projects, the Authority has issued certain debt bearing its name to lower the cost of borrowing for specific governmental or non-governmental third parties. This debt is commonly referred to as conduit (or non-commitment) debt. Typically, the debt proceeds are used to finance facilities within the Authority's jurisdiction that are transferred to the third party either by lease or by sale. The underlying lease or mortgage loan agreement, which serves as collateral for the promise of payments by the third party, calls for payments that are essentially the same as those required by the debt. These payments are made by the third-party directly to an independent trustee, who is appointed to service and administer the arrangement. The Authority assumes no responsibility for repayment of this debt beyond the resources provided by the underlying leases or mortgage loans.

As of January 31, 2013, there were ten series of Special Revenue Bonds outstanding. The corresponding aggregate principal totaling $613,150,000.00 is treated strictly as conduit debt obligations under Interpretation No. 2 of the Governmental Accounting Standards Board (GASB) and accordingly is not included in the financial statements.

**New Accounting Standards Adopted**

During the year ended January 31, 2013, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

*Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

Issued in November 2010, the objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Implementation of this statement had no material impact on the Authority's fiscal year 2013 financial statements.

## Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### New Accounting Standards Adopted (Cont'd)

*Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

Issued in June 2011, this Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Implementation of this statement did not materially affect the Authority.

*Statement No. 65, Items Previously Reported as Assets and Liabilities*

Issued in March 2012, this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Implementation of this statement did not materially affect the Authority.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**New Accounting Standards Pronouncements to be Implemented in the Future**

The Authority plans to implement the following pronouncements by the required implementation dates or earlier, when deemed feasible:

*Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*

Issued in November 2010, the objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

*Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*

Issued in March 2012, The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.

## Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**New Accounting Standards Pronouncements to be Implemented in the Future (Cont'd)**

*Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62(Cont'd)*

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

*Statement No. 69, Government Combinations and Disposals of Government Operations*

Issued in January 2013, This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

## Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Compliance with Finance Related Legal and Contractual Provisions**

Management of the Authority is unaware of any material violations of finance related legal and contractual provisions

Management of the Authority is not aware of any "Events of Default" existing under the bond resolutions authorizing the issuance of the Authority's conduit debt.

## Note 3: DETAIL NOTES - ASSETS

### Cash and Cash Equivalents

**Custodial Credit Risk Related to Deposits -** Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first $250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below.

As of January 31, 2013 and 2012, the Authority's bank balances of $1,732,782.51 and $1,376,288.05, respectively, were exposed to custodial credit risk as follows:

| | 2013 | 2012 |
|---|---|---|
| FDIC Insured | $ 250,000.00 | $ 250,000.00 |
| Collateralized under GUDPA | 1,482,782.51 | 1,126,288.05 |
| | $1,732,782.51 | $1,376,288.05 |

### Intergovernmental Accounts Receivable

$280,000.00 is due from the Salem County Improvement Authority relative to an Interlocal Service Agreement in which the Salem County Improvement Authority will reimburse the Pollution Control Financing Authority for the cost of all offsite infrastructure work and professional fees related to the Gateway Industrial Park.

## Note 4: DETAIL NOTES - LIABILITIES

### Deferred Revenue

The Authority has received a grant from the State of New Jersey. The grant is recorded as deferred revenue until the Authority expends the funds.

## Note 5: DETAILED NOTES – NET POSITION

### Net Position Appropriated

As of January 31, 2013, the Authority had a balance in unrestricted net position balance of $2,223,016.89; however, $43,150.00 has been appropriated and included as support in the operating budget for the year ending January 31, 2014.

As of January 31, 2012, the Authority had a balance in unrestricted net position balance of $2,144,754.20; however, $43,150.00 was appropriated and included as support in the operating budget for the year ending January 31, 2013.

$360,000.00 has been designated for Salem County Remedial Projects as reflected in the Authority's 2013/2014 adopted capital budget.

## Note 6: CONDUIT DEBT OBLIGATIONS

To provide for construction of or improvements upon pollution control facilities within the County, the Authority has issued certain debt bearing its name to lower the cost of borrowing for specific governmental or non-governmental third parties. This debt is commonly referred to as conduit (or non-commitment) debt. Typically, the debt proceeds are used to finance facilities within the Authority's jurisdiction that are transferred to the third party either by lease or by sale. The underlying lease or loan agreement, which serves as collateral for the promise of payments by the third party, calls for payments that are essentially the same as those required by the debt. These payments are made by the third-party directly to an independent trustee, who is appointed to service and administer the arrangement. The Authority assumes no responsibility for repayment of this debt beyond the resources provided by the underlying leases or loans.

The corresponding aggregate principal totaling $613,150,000.00 is treated strictly as conduit debt obligations under Interpretation No. 2 of the Governmental Accounting Standards Board (GASB) and accordingly is not included in the financial statements. As of January 31, 2013, the following Special Revenue Bonds outstanding are as follows.

(A) The E. I. DuPont de Nemours and Company Projects

1. 1982 Series A

On March 1, 1982, the Authority and the E. I. DuPont de Nemours and Company (the Company) entered into a Lease Agreement. To provide the necessary funds to construct, acquire, install and equip certain property subject to the lease agreement, the Authority sold $32,000,000.00 of Floating Rate Monthly Demand Pollution Control Bonds, Series A, at a discount of $400,000.00. The subject property located at the Company's existing plant in Salem County, known as the Chambers Works, was equipped with certain solid waste disposal facilities and pollution control facilities at or adjacent to said plant.

The net proceeds from the sale of these Bonds ($31,600,000.00) were deposited with the Trustee, Philadelphia National Bank, (Current Trustee - Chase Manhattan Trust Company), in accordance with the Indenture dated March 1, 1982.

According to the terms of the Lease Agreement, the Authority agrees to lease to the Company, and the Company agrees to lease from the Authority, the premises subject to said agreement upon the Company making all payments required by said agreement.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption by the Authority upon direction of the Company, on any Interest Payment Date, in whole or from time to time in part, at the principal amount thereof.

The Bonds are due March 1, 2012. The payment of principal and interest on the Bonds is secured by the lease payments made by the Company and by certain other security set forth in the Indenture. The issuance of these bonds does not, directly or indirectly or contingently, obligates the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

These obligations were redeemed several years ago and are no longer outstanding as of January 31, 2013.

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

### (B) Atlantic City Electric Company Projects

#### 1. 1993 Series A

On November 16, 1993, the Authority and the Atlantic City Electric Company (the Company) entered into a Facilities Loan Agreement. To provide the necessary funds to finance a portion of the Company's share of the costs of construction and acquisition of certain sewage and waste disposal facilities at the Salem Generating Plant and the Hope Creek Generating Station in Salem County, New Jersey, the Authority sold $4,000,000.00 of 5.6% Pollution Control Bonds, Series A at a discount of $53,600.00.

The Bonds were issued as additional bonds in accordance with the Trust Indenture dated July 15, 1984, as supplemented by a First Supplemental Indenture dated July 15, 1987, and as further supplemented by the Second Supplemental Trust Indenture dated as of November 1, 1993.

According to the terms of the Facilities Loan Agreement, dated July 15, 1984, the Authority agreed to loan the proceeds from the sale of the Bonds to the Company to finance the Company's respective 5% and 7.41% in the Hope Creek Generating Station and Salem Plant in Salem County, New Jersey.

The net proceeds from the sale of the Bonds ($3,946,400.00) and the accrued interest thereon were deposited with the Trustee, The Bank of New York, in accordance with the Trust Indenture.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption by the Authority upon the direction of the Company prior to maturity on and after November 1, 2003 in whole, or in part, by lot.

| Redemption Period (both dates inclusive) | Redemption Price |
|---|---|
| November 1, 2003 to October 31, 2004 | 102% |
| November 1, 2004 to October 31, 2005 | 101% |
| November 1, 2005 and thereafter | 100%. |

The Bonds are due November 1, 2025 and are secured to the payment of principal, premium, if any and interest by The Company as described in the Indenture. The issuance of these bonds does not, directly or indirectly or contingently, obligates the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

These obligations were redeemed in September 2012 and are no longer outstanding as of January 31, 2013.

#### 2. 1997 Series A

On July 1, 1997, the Authority and the Atlantic City Electric Company (the Company) entered into a Facilities Loan Agreement. To provide the necessary monies to refund the costs of the 1984 Series B, the Authority sold $18,200,000.00 of Floating Interest Rate Pollution Control Bonds, Series A.

The proceeds of the 1997 Series A Bonds were used to provide a portion of the costs of refunding $18,200,000.00 aggregate principal amount of the Authority's Adjustable Rate Pollution Control Revenue Bonds of 1984, Series B (Atlantic City Electric Company Project), the proceeds of which were used to finance certain pollution control and solid waste disposal facilities at the Deepwater Generating Station and the Company's 5% undivided ownership interest in certain pollution control and solid waste disposal facilities at the Hope Creek Generating Station, both of which are electric power plants located in Salem County, New Jersey (the "1984 Project").

**Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)**

(B) Atlantic City Electric Company Projects (Cont'd)

2. 1997 Series A (Cont'd)

The proceeds from the sale of the Bonds, $18,200,000.00, were deposited in a 1984 Bonds Escrow Fund established with the Escrow Agent. On September 2, 1997, amounts remaining in the Escrow Fund were transferred to the trustee, Summit Bank, (Current Trustee – The Bank of New York), together with additional funds provided by the Company, to pay the redemption price of all such 1984 Series B debt remaining outstanding, in accordance with the Refunding Trust Agreement dated July 30, 1997.

The 1997 Series A Bonds were issued pursuant to and are secured by an Indenture of Trust, dated July 1, 1997, as the same has been amended and restated in its entirety by an amended and restated Trust Indenture, dated as of June 22, 2004, between the Authority and The Bank of New York Mellon as successor Trustee.

There is no sinking fund for the Bonds. The Bonds in certain interest rate modes are redeemable at the option of the Company, upon the terms and conditions set forth in the Indenture.

The Bonds are due April 15, 2014 and are secured as to the payment of principal, premium, if any, and interest by the Company and are further secured, while in a Daily Mode, Weekly Mode of Commercial Paper Mode by a direct pay letter of credit issued by The Bank of New York Mellon. The issuance of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

3. 1997 Series B

On July 1, 1997, the Authority and the Atlantic City Electric Company entered into a Facilities Loan Agreement. To provide the necessary monies to refund the costs of the 1987 Series A, the Authority sold $4,400,000.00 of Floating Interest Rate Pollution Control Bonds, Series A.

The proceeds of the 1997 Series B Bonds were used to provide a portion of the costs of refunding $4,400,000.00 aggregate principal amount of the Authority's Pollution Control Revenue Bonds of 1987, Series A (Atlantic City Electric Company Project), the proceeds of which were used to finance the Company's respective 5% and 7.41% undivided ownership interests in certain air or water pollution control facilities and/or sewage or solid waste disposal facilities at the Hope Creek Generating Station, and the Salem Generating Station, also an electric power plant located in Salem County, New Jersey.

The proceeds from the sale of the Bonds, $4,400,000.00, were deposited in a 1987 Bonds Escrow Fund established with the Escrow Agent. On September 2, 1997, amounts remaining in the Escrow Fund were transferred to the trustee, Summit Bank, (Current Trustee – The Bank of New York), together with additional funds provided by the Company, to pay the redemption price of all such 1987 Series A debt remaining outstanding, in accordance with the Refunding Trust Agreement dated July 30, 1997.

The 1997 Series B Bonds were issued pursuant to and are secured by an Indenture of Trust, dated July 1, 1997, as the same has been amended and restated in its entirety by an amended and restated Trust Indenture, dated as of June 22, 2004, between the Authority and The Bank of New York Mellon as successor Trustee.

There is no sinking fund for the Bonds. The Bonds in certain interest rate modes are redeemable at the option of the Company, upon the terms and conditions set forth in the Indenture.

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

### (B) Atlantic City Electric Company Projects (Cont'd)

#### 3. 1997 Series B (Cont'd)

The Bonds are due July 15, 2017 and are secured as to the payment of principal, premium, if any, and interest by the Company, and are further secured, while in a Daily Mode, Weekly Mode of Commercial Paper Mode by a direct pay letter of credit issued by The Bank of New York Mellon. The issuance of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

#### 4. 2004 Series A Bonds

On August 1, 2004, the Authority and the Atlantic City Electric Company (the Company) entered into a Facilities Loan Agreement. To provide the necessary monies to refund the costs of the 1994 Series A, the Authority sold $23,150,000.00 of Floating Interest Rate Pollution Control Bonds, Series A.

The proceeds of the 2004 Series A Bonds were used to provide a portion of the costs of refunding $23,150,000.00 aggregate principal amount of the Authority's Adjustable Rate Pollution Control Revenue Bonds of 1994, Series A (Atlantic City Electric Company Project), the proceeds of which were used to finance the Company's portion of the costs of acquisition and construction of certain air or water pollution control or sewage or solid waste disposal facilities (the ""Project Facilities") at the Salem Generating Station and the Hope Creek Generating Station, both nuclear generating plants located in Salem County, New Jersey.

The 2004 Series A Bonds were issued pursuant to and are secured by an Indenture of Trust, dated August 1, 2004, as the same has been amended and restated in its entirety by an amended and restated Trust Indenture, dated as of September 22, 2004, between the Authority and The Bank of New York as successor Trustee.

There is no sinking fund for the Bonds. The Bonds in certain interest rate modes are redeemable at the option of the Company, upon the terms and conditions set forth in the Indenture.

The Bonds are due June 1, 2029 and are secured as to the payment of principal, premium, if any, and interest by the Company and are further secured, while in a Daily Mode, Weekly Mode of Commercial Paper Mode by a direct pay letter of credit issued by The Bank of New York. The issuance of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

### (C) Public Service Electric and Gas Company Projects

#### 1. 1993 Series B

On September 9, 1993, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to pay for a portion of the Company's construction 42.59% share of the costs of certain sewage and solid waste disposal facilities, the Authority sold $23,000,000.00 of 5.2% Pollution Control Revenue Bonds, Series B, at a discount of $373,750.00.

According to the terms of the Facilities Agreement, dated May 1, 1993, the Authority agreed to loan the proceeds from the sale of the Bonds to the Company to finance the Company's 42.59% undivided interest in the Salem Generating Station in Salem County, New Jersey.

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

(C) Public Service Electric and Gas Company Projects (Cont'd)

1. 1993 Series B (Cont'd)

The net proceeds from the sale of these Bonds ($22,626,250.00) and the accrued interest thereon were deposited with the Trustee, First Fidelity Bank, National Association, (Current Trustee - Wachovia Bank, NA), in accordance with the Indenture of Trust dated May 1, 1993, as supplemented by the First Supplemental Indenture dated as of September 1, 1993.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption by the Authority upon the direction of the Company prior to maturity on and after September 1, 2003 in whole, or in part, by lot.

| Redemption Period (both dates inclusive) | Redemption Price |
|---|---|
| September 1, 2003 to August 31, 2004 | 102% |
| September 1, 2004 to August 31, 2005 | 101% |
| September 1, 2005 and thereafter | 100% |

The Bonds are due March 1, 2025 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

These obligations were paid off by the 2012 Refunding issue in (C)7 below and are no longer outstanding as of January 31, 2013.

2. 1994 Series A

On February 10, 1994, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to pay for a portion of the Company's construction 95% share of the costs of certain sewage and solid waste disposal facilities, the Authority sold $50,000,000.00 of 5.45% Pollution Control Revenue Bonds, Series A, at a discount of $950,000.00.

According to the terms of the Facilities Agreement, dated May 1, 1993, the Authority agreed to loan the proceeds from the sale of the Bonds to the Company to finance the Company's 95% undivided interest in the Hope Creek Generating Station in Salem County, New Jersey.

The net proceeds from the sale of these Bonds ($49,050,000.00) and the accrued interest thereon were deposited with the Trustee, First Fidelity Bank, National Association, (Current Trustee - Wachovia Bank, NA), in accordance with the Indenture of Trust dated May 1, 1993, as supplemented by the Third Supplemental Indenture dated as of February 1, 1994.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption by the Authority upon the direction of the Company prior to maturity on and after February 1, 2004 in whole, or in part, by lot.

| Redemption Period (both dates inclusive) | Redemption Price |
|---|---|
| February 1, 2004 to January 31, 2005 | 102% |
| February 1, 2005 to January 31, 2006 | 101% |
| February 1, 2006 and thereafter | 100% |

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

### (C) Public Service Electric and Gas Company Projects (Cont'd)

#### 2. 1994 Series A (Cont'd)

The Bonds are also subject to extraordinary optional redemption in whole and special mandatory redemption.

The Bonds are due February 1, 2032 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

These obligations were paid off by the 2012 Refunding issue in (C)7 below and are no longer outstanding as of January 31, 2013.

#### 3. 2001 Series A

On November 1, 2001, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to refund the 1997 Series A Bonds, the Authority sold $25,000,000.00 of Floating Interest Rate Pollution Control Revenue Refunding Bonds, Series A.

According to the terms of the Facilities Loan Agreement dated November 1, 2001, the Authority agreed to apply the proceeds of the Bonds to the refunding of the Pollution Control Revenue Bonds, 1997 Series A, which were issued by the Authority to assist the Company's in redeeming a corresponding principal amount of bonds issued to finance a portion of the Company's share of costs of certain air or water pollution control or sewage or solid waste disposal facilities constituting "pollution control facilities" for purposes of the New Jersey Act at the Hope Creek Generating Station located in Lower Alloways Creek Township.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption, extraordinary optional redemption in whole and special mandatory redemption by the Authority upon direction of the Company as defined in the Trust Indenture dated November 1, 2001.

| Redemption Period (both dates inclusive) | Redemption Price |
|---|---|
| April 1, 2012 through March 31, 2013 | 101% |
| April 1, 2013 to March 31, 2014 | 100.5% |
| April 1, 2014 and thereafter | 100% |

The Bonds are also subject to extraordinary optional redemption in whole and special mandatory redemption.

The Bonds are due April 1, 2031 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds will not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

These obligations were redeemed on December 28, 2012 and are no longer outstanding as of January 31, 2013.

**Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)**

(C) Public Service Electric and Gas Company Projects (Cont'd)

4. 2003 Series A

On December 1, 2003, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to refund the 1993 Series A Bonds, the Authority sold $64,000,000.00 of Variable Interest Rate Pollution Control Revenue Refunding Bonds, Series A.

According to the terms of the Facilities Loan Agreement dated December 1, 2003, the Authority agreed to apply the proceeds of the Bonds to the refunding of the Pollution Control Revenue Bonds, 1993 Series A, which were issued by the Authority to finance the Company's purchase of the 1983 Series A Bonds, which were issued by the Authority to finance the Company's 95% undivided interest in the Hope Creek Generating Station in Salem County, New Jersey. To evidence its obligation to repay the loan from the Authority under the Agreement with respect to the Bonds, the Company executed and delivered its First and Refunding Mortgage Bonds, Pollution Control Series Y (the "First Mortgage Bonds, Series Y") which correspond to the Bonds in respect of principal amount, interest rate, redemption (but not purchase) provisions and maturity. Pursuant to the Indenture, the Authority has assigned to the Trustee its rights under the Agreement, including its rights to receive the First Mortgage Bonds, Series Y and payments there under, to secure the payment of the principal or redemption price of and interest on the Bonds.

The net proceeds from the sale of these Bonds and the accrued interest thereon were deposited with the Trustee, Wachovia Bank, National Association, in accordance with the Indenture of Trust dated December 1, 2003.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption, extraordinary optional redemption in whole and special mandatory redemption by the Authority upon direction of the Company as defined in the Trust Indenture dated December 1, 2003.

The Bonds are due May 1, 2028 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds will not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

5. 2003 Series B-1, B-2, and B-3

On December 1, 2003, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to refund the 1993 Series C Bonds, the Authority sold $145,200,000.00 of Variable Interest Rate Pollution Control Revenue Refunding Bonds, Series B-1, B-2, and B-3.

According to the terms of the Facilities Loan Agreement dated December 1, 2003, the Authority agrees to apply the proceeds of the Bonds to the refunding of the Pollution Control Revenue Bonds, 1993 Series C, which were issued by the Authority to finance the Company's purchase of the 1984 Bonds (Series A, B, and C), which were sold to finance the Company's respective 95% and 42.59% undivided interests in the Hope Creek and Salem Generating Station in Salem County, New Jersey. To evidence its obligation to repay the loan from the Authority under the Agreement with respect to the Bonds, the Company executed and delivered its First and Refunding Mortgage Bonds, Pollution Control Series Z, AA, and AB (the "First Mortgage Bonds, Series Z, AA, and AB") which correspond to the Bonds in respect of principal amount, interest rate, redemption (but not purchase) provisions and maturity. Pursuant to the Indenture, the Authority has assigned to the Trustee its rights under the Agreement, including its rights to receive the First Mortgage Bonds, Series Z, AA, and AB and payments there under, to secure the payment of the principal or redemption price of and interest on the Bonds.

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

### (C) Public Service Electric and Gas Company Projects (Cont'd)

5. 2003 Series B-1, B-2, and B-3 (Cont'd)

The net proceeds from the sale of these Bonds and the accrued interest thereon were deposited with the Trustee, Wachovia Bank, National Association, in accordance with the Indenture of Trust dated December 1, 2003.

There is no sinking fund for the Bonds. The Bonds are subject to optional redemption, extraordinary optional redemption in whole and special mandatory redemption by the Authority upon direction of the Company as defined in the Trust Indenture dated December 1, 2003.

The Bonds are Due November 1, 2033 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds will not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

6. 2004 Series A, B, C Bonds

On August 1, 2004, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement. To provide the necessary funds to refund the 1994 Series B, C, D Bonds, the Authority sold $285,200,000.00 of Pollution Control Revenue Refunding Bonds, Series A, B, C.

According to the terms of the Facilities Loan Agreement dated August 1, 2004, the Authority agrees to apply the proceeds of the Bonds to the refunding of the Pollution Control Revenue Bonds, 1994 Series A, B, C, which were issued by the Authority to finance the Company's purchase of the 1984 Bonds (Series A, B, and C).

The net proceeds from the sale of these Bonds and the accrued interest thereon were deposited with the Trustee, Wachovia Bank, National Association, in accordance with the Indenture of Trust dated August 1, 2004.

Each series of Bonds will be subject to mandatory and optional redemption prior to maturity.

The Bonds are due on June 1, 2031, August 1, 2030 an October 1, 2029 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds will not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

7. 2012 Series A Bonds

On June 14, 2012, the Authority and the Public Service Electric and Gas Company entered into a Facilities Loan Agreement in connection with the refunding of the outstanding Pollution Control Revenue Bonds, 1993 Series B and 1994 Series A. In addition, to provide the necessary funds to refund the 1993 Series B Bonds and the 1994 Series A Bonds, the Authority sold $50,000,000.00 of its Pollution Control Revenue Refunding Bonds, Series A (2012 Series A Bonds).

According to the terms of the Facilities Loan Agreement referenced above, the Authority applied the proceeds of the 2012 Series A Bonds to the refunding of the Pollution Control Revenue Bonds, 1993 Series B, and 1994 Series A Bonds, which were issued by the Authority to finance the construction of certain sewage and solid waste disposal facilities.

## Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

### (C) Public Service Electric and Gas Company Projects (Cont'd)

#### 7. 2012 Series A Bonds (Cont'd)

To effect the refunding of the 1993 Series B Bonds and the 1994 Series A Bonds, the net proceeds from the sale of the 2012 Series A Bond were deposited with the Trustee, U.S. Bank, National Association, in accordance with the Indenture of Trust dated June 14, 2012.

The 2012 Series A Bonds are subject to mandatory and optional redemption prior to maturity upon the terms and conditions set forth in the Indenture.

The 2012 Series A Bonds are due on April 1, 2046 and are secured as to payment of principal, premium, if any, and interest by the Public Service Electric and Gas Company as described in the Indenture. The issuance of these bonds will not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

### (D) PECO Energy Company

#### 1. 1993 Series A

On September 9, 1993, the Authority and the PECO Energy Company (formerly the Philadelphia Electric Company) entered into a Facilities Loan Agreement. To provide the necessary funds to pay for a portion of the Company's construction 42.59% share of the costs of certain sewage and solid waste disposal facilities, the Authority sold $23,000,000.00 of Flexible Rate Pollution Control Revenue Bonds, Series A.

According to the terms of the Facilities Agreement, dated as of July 1, 1988, the Authority agreed to loan the proceeds from the sale of the Bonds to the Company to finance the Company's 42.59% undivided interest in the Salem Generating Plant in Salem County, New Jersey.

The Bonds are secured by pledge of payments to be made under a non-negotiable unsecured promissory note and from funds drawn under an irrevocable Letter of Credit issued by the Houston agency of the Toronto-Dominion Bank. The net proceeds from the sale of these Bonds and the accrued interest thereon were deposited with the Trustee, Mellon Bank, National Association, (Current Trustee – Chase Manhattan Trust Company), in accordance with the Indenture of Trust dated September 1, 1993. There is no sinking fund for the Bonds. The Bonds are subject to optional redemption by the Authority upon the direction of the Company prior to maturity on any Interest Payment Date, in whole or from time to time in part, at the principal amount thereof. The Bonds are also subject to extraordinary optional redemption in whole and special mandatory redemption.

The Bonds are due March 1, 2025 and are secured as to payment of principal, premium, if any, and interest by the PECO Energy Company. The issuances of these bonds does not, directly or indirectly or contingently, obligate the State of New Jersey or any political subdivision thereof, including the Authority, to levy any form of taxation therefore or to make any appropriation for their payment.

## Note 7: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded coverage for the past several years.

## SUPPLEMENTARY SCHEDULE

## The Pollution Control Financing Authority of Salem County

Schedule of Anticipated Revenues, and Operating Appropriations
Compared to Budget - Non-GAAP (Budgetary) Basis
For the Fiscal Year Ended January 31, 2013

| | Original/Final Budget | 2012-2013 Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Anticipated Revenues: | | | |
| Operating Revenues: | | | |
| Other Revenues | | | |
| Interest Income | | $ 3,550.32 | $ 3,550.32 |
| Bond Financing Fees | $ 65,000.00 | 135,000.00 | 70,000.00 |
| Total Non-Operating Revenues | 65,000.00 | 138,550.32 | 73,550.32 |
| Operating Appropriations: | | | |
| Administration: | | | |
| Other Expenses: | | | |
| Accounting and Auditing Fees | 22,500.00 | 13,454.70 | 9,045.30 |
| Advertising | 400.00 | 176.80 | 223.20 |
| Engineering Fees - Regional | 20,000.00 | 17,938.52 | 2,061.48 |
| Insurance | 5,000.00 | 3,324.66 | 1,675.34 |
| Legal Fees | 47,500.00 | 21,792.95 | 25,707.05 |
| Meeting Expense | 1,000.00 | | 1,000.00 |
| Miscellaneous | 5,000.00 | | 5,000.00 |
| Postage | 150.00 | | 150.00 |
| Secretary/Treasurer Fees | 3,600.00 | 3,600.00 | - |
| Support Services | 3,000.00 | | 3,000.00 |
| Total Operating Appropriations | 108,150.00 | 60,287.63 | 47,862.37 |
| Net Position Utilized: | | | |
| Unrestricted | (43,150.00) | - | (43,150.00) |
| Excess (Deficit) Anticipated Revenues over Operating Appropriations | $ - | $ 78,262.69 | $ 78,262.69 |

Reconciliation to Operating Income (Loss):

| | | | |
|---|---|---|---|
| Operating Income (Loss) (Exhibit B) | | $ 78,262.69 | |

# THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

## PART 2

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

## FOR THE YEAR ENDED JANUARY 31, 2013

# THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
## Schedule of Findings and Recommendations
## For the Year Ended January 31, 2013

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### *Schedule of Financial Statement Findings*

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Local Finance Board, Department of Community Affairs, State of New Jersey.

**None**

# THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
## Summary Schedule of Prior Year Audit Findings
## as Prepared by Management

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

**None**

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**APPRECIATION**

I express my appreciation for the assistance and courtesies rendered by the Authority officials during the course of the audit.

Respectfully submitted,

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

David C. Rollison
Certified Public Accountant
Registered Municipal Accountant