The Pollution Control Financing Authority of Salem County

Report of Audit

For the Fiscal Years Ended January 31, 2014 and 2013

36600

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)
Joseph Hiles	Vice Chairman (A)
Charles Washington, Jr.	Secretary (A)
Fran Granier	Assistant Secretary (A), Treasurer (A)
Joseph Racite	Assistant 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, 2014 AND 2013

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 ended January 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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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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, 2014 and 2013, and the changes in its 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

Required Supplementary Information

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 May 20, 2014 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
May 20, 2014

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

75 YEARS OF SERVICE
— 1939-2014 —

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 20, 2014.

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
May 20, 2014

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JANUARY 31, 2014 AND 2013

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, 2014. 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.

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, 2014, there were 10 series of Bonds outstanding. The corresponding aggregate principal outstanding as of January 31, 2014 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, 2014 and 2013

	2014	2013 *(Restated)*
ASSETS		
Current Unrestricted Assets:		
Cash and Cash Equivalents	$ 2,035,650.16	$ 1,731,282.51
Accounts Receivable	15,000.00	10,000.00
Grant Receivable	300,000.00	300,000.00
Intergovernmental Account Receivable		280,000.00
Total Assets	2,350,650.16	2,321,282.51
LIABILITIES		
Current Unrestricted Liabilities:		
Accounts Payable		6,991.20
Total Liabilities	-	6,991.20
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue - State Grant	91,274.42	91,274.42
Total Deferred Inflows	91,274.42	91,274.42
NET POSITION		
Unrestricted	2,259,375.74	2,223,016.89
Total Net Position	$ 2,259,375.74	$ 2,223,016.89

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, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Payments to Suppliers	$ (60,750.68)	$ (58,055.86)
Other Operating Receipts	2,839.32	3,550.32
Receipts from Intergovernmental Accounts Receivable	280,000.00	280,000.00
Receipts from Bond Financing Fees	45,000.00	135,000.00
Net Cash Provided by Operating Activities	267,088.64	360,494.46
Cash Flows from Capital Activities:		
Capital Expenditures:		
County of Salem Remedial Capital Expenditure	(109,752.39)	
County Wastewater Management Plan	147,031.40	
Net Cash Provided by Capital Activities	37,279.01	-
Net Increase in Cash and Cash Equivalents	304,367.65	360,494.46
Cash and Cash Equivalents - February 1	1,731,282.51	1,370,788.05
Cash and Cash Equivalents - January 31	$ 2,035,650.16	$ 1,731,282.51
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ (920.16)	$ 78,262.69
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	275,000.00	280,000.00
Increase (Decrease) in Accounts Payable	(6,991.20)	2,231.77
Net Cash Provided by Operating Activities	$ 267,088.64	$ 360,494.46

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

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

Basis of Presentation (Cont'd)

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.

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.

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

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.

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, 2014, 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.

Impact of Recently Issued Accounting Principles.

Recently Issued and Adopted Accounting Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34.* GASBS 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. The adoption of GASBS 61 does not have any impact on the Authority's financial statements.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities.* GASBS 65 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. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASBS 65 affected the classification of several balances on the statement of net position.

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

Impact of Recently Issued Accounting Principles (Cont'd)

Recently Issued and Adopted Accounting Pronouncements (Cont'd)

When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements although no impact is expected.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68.* The objective of GASBS 71 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 nonemployer 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 nonemployer 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 nonemployer 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 nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer 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 nonemployer 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.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

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 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, 2014, the following conduit debt obligations outstanding are as follows.

(A) Atlantic City Electric Company Projects

1. 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").

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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

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

3. 2004 Series A Bonds (Cont'd)

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.

(B) Public Service Electric and Gas Company Projects

1. 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.

2. 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONT'D)

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

4. 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.

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.

(C) 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.

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, 2014

	Original/Final Budget	2013-2014 Actual	Variance Favorable (Unfavorable)
Anticipated Revenues:			
Interest Income		$ 2,839.32	$ 2,839.32
Bond Financing Fees	$ 65,000.00	50,000.00	(15,000.00)
Total Non-Operating Revenues	65,000.00	52,839.32	(12,160.68)
Operating Appropriations:			
Administration:			
Other Expenses:			
Accounting and Auditing Fees	21,000.00	10,753.90	10,246.10
Advertising	400.00	177.12	222.88
Engineering Fees - Regional	20,000.00	12,537.70	7,462.30
Insurance	5,000.00	3,324.66	1,675.34
Legal Fees	47,500.00	17,275.10	30,224.90
Meeting Expense	500.00	-	500.00
Miscellaneous	4,000.00	91.00	3,909.00
Postage	150.00	-	150.00
Secretary/Treasurer Fees	9,600.00	9,600.00	-
Total Operating Appropriations	108,150.00	53,759.48	54,390.52
Net Position Utilized:			
Unrestricted	(43,150.00)	-	(43,150.00)
Excess (Deficit) Anticipated Revenues over Operating Appropriations	$ -	$ (920.16)	$ (920.16)

Reconciliation to Operating Income (Loss):

Operating Income (Loss) (Exhibit B)		$ (920.16)	

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

PART 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED JANUARY 31, 2014

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
Schedule of Findings and Recommendations
For the Year Ended January 31, 2014

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

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APPRECIATION

We express our 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