THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

REPORT OF AUDIT

FOR THE FISCAL YEARS ENDED JANUARY 31, 2015 AND 2014

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

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THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

ROSTER OF OFFICIALS

JANUARY 31, 2015

AUTHORITY MEMBERS	POSITION
Fran Granier	Chairman (A)
Joseph Racite	Vice-Chairman (A)
Paul Williams	Secretary (A)
Joseph Hiles	Assistant Secretary and Treasurer (A)
Marjorie Sperry	Treasurer (A)

OTHER OFFICIALS

George Rosenberger, Esq.	Solicitor
Archer & Greiner, P.C.	Special Counsel
Carey Bergholz	Recording Secretary
Fralinger Engineering	Engineer

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

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

PART 1

FINANCIAL SECTION

FOR THE FISCAL YEARS ENDED JANUARY 31, 2015 AND 2014

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

991 S. Black Horse Pike
P.O. Box 799
Williamstown, NJ 08094

(856) 629-3111
Fax (856) 728-2245

May 20, 2015

INDEPENDENT AUDITOR'S 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, 2015 and 2014 and the related notes to the financial statements, 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; 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 of 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 risks 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2015 and 2014, and the changes in financial position and its cash flows thereof for the years 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 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 a report dated May 20, 2015 on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Governments Auditing Standards*** in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

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Williamstown, NJ 08094

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May 20, 2015

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 AUDITOR'S 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 and 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, 2015, 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, 2015.

Internal Control Over Financial Reporting

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

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

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 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 is 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,

NIGHTLINGER, COLAVITA & VOLPA, PA

Raymond Colavita, CPA
Registered Municipal Accountant

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JANUARY 31, 2015 AND 2014

The section of The Pollution Control Financing Authority of Salem County's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended on January 31, 2015. 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, Nightlinger, Colavita, and Volpa, is included in this report. In the 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 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, Independent Auditor's Reports, Basic Financial Statements, including the notes to the financial statements and supplementary schedules. The Authority is a self-supporting entity that follows enterprise fund reporting; accordingly, the financial statements 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.

The following table summarizes the Net Position of the Authority as of January 31, 2015 and 2014.

Comparative Statement of Net Position
As of January, 31 2015 and 2014

	2015	2014
Assets		
Unrestricted Assets	$ 2,327,867	$ 2,350,650
Liabilities		
Current Liabilities		91,274
Net Position		
Restricted	1,143,150	
Unrestricted	1,184,717	2,259,376
Total Net Position	$ 2,327,867	$ 2,259,376

The following table summarizes the Revenues, Expenses, and Changes in Net Position of the Authority for the fiscal years ended January 31, 2015 and 2014.

Comparative Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended January 31, 2015 and 2014

	2015	2014
Operating Revenues		
Other Revenues	$ 3,342	$ 2,839
Bond Financing Fees	317,875	50,000
Total Operating Revenues	321,217	52,839
Operating Expenses		
Other Expenses	44,000	53,759
Operating Income (Loss)	277,217	(920)
Non-Operating Revenue (Expenses)		
Capital Expendtiures		
County of Salem Remedial Project		(109,752)
County Wastewater Management Plan		147,031
Total Non-Opertaing (Expenses)		37,279
Net Income (Loss)	277,217	36,359
Prior Year Cancellations:		
Grant Receivable	(300,000)	
Unearned Revenue-State Grants	91,274	
Increase/(Decrease) in Net Position	68,491	36,359
Net Position February 1	2,259,376	2,223,017
Net Position January 31	$ 2,327,867	$ 2,259,376

DEBT ADMINISTRATION

Capital Debt

The Authority has issued close to $800,000,000 regarding conduit bond financing. The Authority assumes no responsibility for repayment of this debt beyond the resources provided by the underlying lease or mortgage loans. As of January 31, 2015 there were eight series of Special Revenue Bonds outstanding and one Revolving Credit Facility. The corresponding aggregate principal totaling $714,415,000 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 any questions about this report or need additional financial information, contact the Authority at 94 Market Street, Salem, New Jersey 08079.

BASIC FINANCIAL STATEMENTS

EXHIBIT A

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
COMPARATIVE STATEMENT OF NET POSITION
AS OF JANUARY 31, 2015 AND 2014

	2015	2014
ASSETS		
Current Unrestricted Assets:		
Cash and Cash Equivalents	$ 2,312,867	$ 2,035,650
Accounts Receivable	15,000	15,000
Grant Receivable		300,000
Total Assets	2,327,867	2,350,650
LIABILITIES		
Current Unrestricted Liabilities:		
Accounts Payable		
Total Liabilities		
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue - State Grant		91,274
Total Deferred Inflows		91,274
NET POSITION		
Restricted:		
Other Purposes	1,143,150	
Unrestricted	1,184,717	2,259,376
Total Net Position	$ 2,327,867	$ 2,259,376

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

EXHIBIT B

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JANUARY 31, 2015 AND 2014

	2015	2014
Operating Revenues:		
Bond Financing Fees	$ 317,875	$ 50,000
Other Revenues	3,342	2,839
Total Operating Revenues	321,217	52,839
Operating Expenses:		
Administration:		
Other Expenses	44,000	53,759
Total Operating Expenses	44,000	53,759
Operating Income (Loss)	277,217	(920)
Non-Operating Revenue (Expenses):		
Capital Expenditures:		
County of Salem Remedial Project		(109,752)
County Wastewater Management Plan		147,031
Total Non-Operating Revenue (Expenses)		37,279
Net Income (Loss)	277,217	36,359
Prior Year Cancellations		
Grant Receivable	(300,000)	
Unearned Revenue - State Grant	91,274	
Change in Net Position	68,491	36,359
Net Position February 1	2,259,376	2,223,017
Net Position, January 31	$ 2,327,867	$ 2,259,376

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

EXHIBIT C

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JANUARY 31, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities:		
Payments to Suppliers	$ (44,000)	$ (60,751)
Other Operating Revenues	3,342	2,839
Intergovernmental Accounts Receivable		280,000
Receipts from Bond Financing Fees	317,875	45,000
Net Cash Provided from Operating Activities	277,217	267,088
Cash Flows from Capital Activities:		
Capital Expenditures:		
County of Salem Remedial Capital Expenditure		(109,752)
County Wastewater Management Plan		147,031
Net Cash Used in Capital Financing Activities		37,279
Net Increase (Decrease) in Cash and Cash Equivalents	277,217	304,367
Cash and Cash Equivalents, February 1	2,035,650	1,731,283
Cash and Cash Equivalents, January 31	$ 2,312,867	$ 2,035,650
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used in) by Operating Activities:		
Operating Income (Loss)	$ 277,217	$ (920)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
(Increase) Decrease in Accounts Receivable		275,000
Increase (Decrease) in Accounts Payable		(6,992)
Total Adjustments		268,008
Net Cash Provided by Operating Activities	$ 277,217	$ 267,088

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 construction 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 for 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, 2015, has no employees.

Component Unit

Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provide 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 Statements No. 14 and No. 39. In addition, GASB Statement No.61,The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, provides additional guidance 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. In addition, GASB Statement No. 61 clarifies the manner in which component units are presented, whether discretely presented, blended, or included in the fiduciary fund financial statements.

The Authority is a component unit of the County of Salem as described in Governmental Accounting Standards Board Statements described in the preceding paragraph. 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.

As of January 31, 2015, it has been determined by the Authority that no component units exist.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 established 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 accounting for using the accrual basis of accounting. Revenues are recognized when they are earned; expenses are recognized when they 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (continued)

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. 40-A: 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 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 the 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 (CONTINUED)

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 positions 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 responsibly for repayment of this debt beyond the resources provided by the underlying leases or mortgage loans.

As of January 31, 2015 there were eight series of Special Revenue Bonds outstanding and one Revolving Credit Facility. The corresponding aggregate principal totaling $714,415,000 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, 2015, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Adopted (continued)

In June 2012, the GASB Issued Statement 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27. GASBS 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for periods beginning after June 15, 2014. The adoption of this Statement will have no impact on the financial statements as there are no employees.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASBS 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 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 April 2013, the GASB issued Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. GASBS 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards Adopted (continued)

When a government is released as an obligor, the government should recognize revenue as 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 GASB 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 ACCOUNTABLITY

Compliance with 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, 2015 and 2014, the Authority's bank balances of $2,320,991 and $2,035,650, respectively, were exposed to custodial credit risk as follows:

	2015	2014
FDIC Insured	$ 250,000	$ 250,000
Collateralized under GUDPA	2,070,991	1,785,650
	$ 2,320,991	$ 2,035,650

Note 4: DEFERRED INFLOWS OF RESOURCES

The Authority had no Deferred Inflows of Resources, as of January 31, 2015.

Note 5: NET POSITION

Net Position Appropriated

As of January 31, 2015, the Authority had a balance in net position of $2,327,867, of which, $1,184,717 is unrestricted. The remaining $1,143,150 of net position is restricted and comprised of funds designated to support the 2015-16 operating budget and future capital projects, in the amounts of $43,150 and $1,100,000 respectively.

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 services 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 $714,415,000, 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, 2015, the following Special Revenue Bonds 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 cost of the 1984 Series B, the Authority sold $18,200,000 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 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 Bonds, $18,200,000, 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(A) Atlantic City Electric Company Projects (Continued)

1. 1997 Series A (Continued)

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 amendment 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 matured on April 15, 2014 and were secured as to the payment of principal, premium, if any, and interest by the Company and were 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 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. 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 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 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 Bonds, $4,400,000, 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(A) Atlantic City Electric Company Projects (Continued)

2. 1997 Series B (Continued)

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 amendment 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 were retired on May 30, 2013 and were secured as to the payment of principal, premium, if any, and interest by the Company and were 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 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.

3. 2004 Series A Bonds

On August 1, 2004, 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 1994 Series A, the Authority sold $23,150,000 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 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 amendment 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(A) Atlantic City Electric Company Projects (Continued)

3. 2004 Series A Bonds (Continued)

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 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.

(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 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 Bond 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(B) Public Service Electric and Gas Company Projects (Continued)

1. 2003 Series A (Continued)

The Bonds are due May 1, 2028 and are secured as 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, 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 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 agreed to apply the proceeds of the Bond 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 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 Z, AA, and AB (the "First Mortgage Bonds, Series Z, AA, 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.

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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(B) Public Service Electric and Gas Company Projects (Continued)

2. 2003 Series B-1, B-2, and B-3 (Continued)

The Bonds are due November 1, 2033 and are secured as 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.

3. 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 of Pollution Control Revenue Refunding Bonds, Series A, B, C.

According to the terms of the Facilities Loan Agreement, August 1, 1993, 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 and October 1, 2029 are secured as 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.

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 1994 Series A Bonds, the Authority sold $50,000,000 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 (CONTINUED)

(B) Public Service Electric and Gas Company Projects (Continued)

4. 2012 Series A Bonds (Continued)

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 of Flexible Rate Pollution Control Revenue Bonds, Series A.

According to the terms of the Facilities Loan 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 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.

Note 6: CONDUIT DEBT OBLIGATIONS (CONTINUED)

(D) Chambers Cogeneration Limited Partnership

1. 2014 Series A and B

On June 10, 2014 the Authority sold $113,640,000 in Revenue Refunding Bonds, Series 2014A and $5,225,000 in Revenue Bonds, Series 2014B to refund and redeem NJEDA Bonds issued by the Chambers Cogeneration Limited Partnership to finance certain air pollution control, water pollution control and sewage and solid waste facilities as part of the acquisition, construction, installation and equipping of the Chambers Cogeneration Plant, to fund one or more debt service reserve accounts and to pay any costs and expenses in connection with the issuance of the bonds.

The Bonds are secured by a lien on and a security interest in certain collateral of the Company consisting of: (i) real property owned or leased by the Company; (ii) personal property owned by the Company, including equipment, receivables, insurance and other tangible and intangible assets; (iii) all of the Company's right, title and interest in and to all Project Contracts (as such term shall be defined in the Indenture) that have been or may be entered into by the Company; (iv) all revenues of the Company and all accounts established pursuant to the Indenture; and (v) all permits and other governmental approvals to the extent permitted by law, which collateral shall be subject to any liens or rights created therein by a Collateral Agency and Intercreditor Agreement, by and among the Trustee, the Company, the Authority, a working capital provider and The Bank of New York Mellon Trust Company, N.A., as collateral agent; and

The Series 2014A Bonds are due December 1, 2023 and the Series 2014B Bonds are due December 1, 2019. These Bonds are secured as to payment of principal, premium, if any and interest by the Chambers Cogeneration Limited Partnership. 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. The Pollution Control Authority also issued $5,000,000 in Senior Secured Revolving Credit Facility Working Capital with Union Bank, N.A.

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.

Note 8: COUNTY WASTEWATER MANAGMENT PLAN

On or about January 4, 2010, Gloucester County, the Salem County Improvement Authority and the Pollution Financing Authority of Salem County entered into a Shared Services/Interlocal agreement relating the Salem-Gloucester Regional Sewer Plan Feasibility Study. The Authority joined this agreement so that a fund of $6,181,000 could be dedicated to the Study. At that time, it was agreed that the fund could be utilized to reimburse the Authority for a Grant set aside by the Authority for additional work relevant to the Study being done through the County of Salem. In the fiscal year 2012, the Authority paid $147,031 to Salem County under this Grant agreement. In the fiscal year 2014, the Authority received reimbursements from the fund for this same amount.

Note 9: SUBSEQUENT EVENTS

None

End of Notes to the Financial Statements

SUPPLEMENTARY SCHEDULE

SCHEDULE 1

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, 2015

	Original/Final Budget	2014-2015 Actual	Variance Favorable/ (Unfavorable)
Anticipated Revenues			
Interest Income	$	$ 3,342	$ 3,342
Bond Financing Fees	65,000	317,875	252,875
Total Anticipated Revenues	65,000	321,217	256,217
Operating Appropriations			
Administration			
Other Expenses			
Accounting and Auditing fees	21,000	10,751	10,249
Advertising	400	147	253
Engineering Fees- regional	20,000		20,000
Insurance	5,000	3,325	1,675
Legal Fees	47,500	20,177	27,323
Meeting Expense	500		500
Miscellaneous	4,000		4,000
Postage	150		150
Secretary/Treasurer Fees	9,600	9,600	
Total Appropriations	108,150	44,000	64,150
Net Position Utilized			
Unrestricted	(43,150)		(43,150)
Excess (Deficit) Anticipated Revenues over Operating Appropriations	$	$ 277,217	$ 277,217
Reconciliation to Operating Income (Loss):			
Prior Year Cancellations		(208,726)	
Change in Net Position (Loss) (Exhibit B)		$ 68,491	

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JANUARY 31, 2015

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

Summary Schedule of Prior Year Audit Findings

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

Appreciation

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

Respectfully submitted,
NIGHTLINGER, COLAVITA & VOLPA, PA

Raymond Colavita, C.P.A.
Registered Municipal Accountant