THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

REPORT OF AUDIT

FOR THE FISCAL YEARS ENDED
JANUARY 31, 2016 AND 2015

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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
Fran Grenier	Chairman (A)
Joseph Racite	Vice Chairman (A)
Marjorie Sperry	Secretary (A)
Joseph Hiles	Assistant Secretary/Treasurer (A)
Paul Williams	Treasurer (A)
OTHER OFFICIALS	
Jean Chetney	Solicitor
Carey Bergholz	Recording Secretary
Fralinger Engineering	Engineer

(A) Covered by Assured Partners of NJ - $1,000,000.00

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THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
Table of Contents

THE POLLUTION CONTROL

FINANCING AUTHORITY OF SALEM COUNTY

PART 1

FINANCIAL SECTION

FOR THE FISCAL YEARS ENDED JANUARY 31, 2016 AND 2015

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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 fiscal year ended January 31, 2016 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; 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. 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 of Salem County, State of New Jersey as of January 31, 2016, and the changes in its financial position and its cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Pollution Control Financing Authority of Salem County, as of and for the fiscal year ended January 31, 2015, were audited by a predecessor auditor. The predecessor auditor issued an unmodified opinion on the financial statements, stating that they present fairly, in conformity with accounting principles generally accepted in the United States of America. The predecessor audit report was dated May 20, 2015.

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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedule as listed in the table of contents is not a required part of the basic financial statements.

The accompanying supplementary schedule as listed in the table of contents is the responsibility of management and was derived from and relates 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, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017 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

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
February 8, 2017

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, 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 (Authority), State of New Jersey, a component unit of the County of Salem, as of and for the fiscal year ended January 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 8, 2017.

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

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
February 8, 2017

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JANUARY 31, 2016 AND 2015

The Pollution Control Financing Authority of Salem County (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. 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.

This section of the Authority's annual financial report provides a discussion and analysis of the financial performance for the fiscal years ended January 31, 2016 and 2015. The entire annual financial report consists of four parts; Independent Auditor's Reports, the management's discussion and analysis, the basic financial statements, and supplemental schedule. The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

FINANCIAL HIGHLIGHTS

- Total Assets – Total assets as of January 31, 2016 were $2,182,953.10. After deducting liabilities of $1,328.20, net position came to $2,181,624.90.

- Total Revenue – Revenues for the fiscal year ending January 31, 2016 totaled $51,612.03. These revenues were down from last year's revenue of $321,217.00.

- Total Operating Expenses - Operating expenses for the fiscal year ending January 31, 2016 totaled $197,853.82. These expenses were higher than the prior year's amount of $44,000.00.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The comparative statements of net position includes all of the Authority's assets and liabilities. As the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the comparative statements of revenues, expenses, and changes in net position regardless of when cash is received or paid. Net position – the difference between the Authority's assets and liabilities– is a measure of the Authority's financial health or position.

The comparative statements of revenues, expenses and changes in net position provide a breakdown of the various areas of revenues and expenses encountered during the current year.

The comparative statements of cash flows provide a breakdown of the various sources of cash flow, categorized as cash flows from operating activities.

After the statements, and the Notes to the Financial Statements which follow, is the Schedule of Anticipated Revenues and Operating Appropriations Compared to Budget that compares the budgeted revenues and expenses to actual revenues and expenses. This includes operating revenues and expenses, non-operating revenues, and non-operating expenses. Depreciation is not reported in this schedule as an expense. The budget to actual schedule is a very important document to the Authority's management since it is how we measure our financial performance.

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.

Statements of Net Position
As of January 31, 2016, 2015, and 2014

	2016	2015	2014
Assets:			
Unrestricted Assets	$ 2,182,953.10	$ 2,327,866.69	$ 2,350,650.16
Total Assets	2,182,953.10	2,327,866.69	2,350,650.16
Liabilities:			
Current Unrestricted Liabilities	1,328.20	-	-
Total Liabilities	1,328.20	-	-
Deferred Inflow of Resource:			
Unearned Revenue - State Grant	-	-	91,274.42
Total Deferred Inflows	-	-	91,274.42
Net Position:			
Restricted	1,000,000.00	1,143,150.00	-
Unrestricted	1,181,624.90	1,184,716.69	2,259,375.74
Total Net Position	$ 2,181,624.90	$ 2,327,866.69	$ 2,259,375.74

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended January 31, 2016, 2015 and 2014

	2016	2015	2014
Operating Revenues:			
Bond Financing Fees	$ 46,002.75	$ 317,875.00	$ 50,000.00
Other Revenues	5,609.28	3,341.95	2,839.32
Total Operating Revenues	51,612.03	321,216.95	52,839.32
Operating Expenses:			
Other Expenses	65,603.82	44,000.00	53,759.48
Remedial Grant	132,250.00	-	-
Total Operating Expenses	197,853.82	44,000.00	53,759.48
Operating Income (Loss)	(146,241.79)	277,216.95	(920.16)
Non-Operating Revenue (Expenses)			
Capital Expenditures			
County of Salem Remedial Project	-	-	(109,752.39)
County Wastewater Management Plan	-	-	147,031.40
Total Non-Operating Revenues (Expenses)	-	-	37,279.01
Net Income (Loss)	(146,241.79)	277,216.95	36,358.85
Prior Year Cancellations:			
Grant Receivable	-	(300,000.00)	-
Unearned Revenue-State Grants	-	91,274.00	-
Increase/(Decrease) in Net Position	(146,241.79)	68,490.95	36,358.85
Net Position February 1	2,327,866.69	2,259,375.74	2,223,016.89
Net Position January 31			
Unrestricted	$ 2,181,624.90	$ 2,327,866.69	$ 2,259,375.74

BUDGET VARIANCES

As the original budget was formulated in November 2015, certain events during the year caused the Authority to go over budget on the Administration – Accounting and Auditing Fees – Other Expenses line of the State Budget, but did not over expend the State Budget in total.

DEBT ADMINISTRATION

Capital Debt:
The Authority has issued over $900,000,000.00 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, 2016, there were 10 series of Bonds outstanding and one revolving credit line. The corresponding aggregate principal outstanding as of January 31, 2016 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 5 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, 2016 and 2015

	2016	2015
ASSETS		
Current Unrestricted Assets:		
Cash and Cash Equivalents	$ 1,066,222.90	$ 2,312,866.69
Accounts Receivable	15,000.00	15,000.00
Accrued Interest Receivable	1,730.20	
Revenue Bond Loan Receivable	1,100,000.00	
Total Unrestricted Assets	2,182,953.10	2,327,866.69
Total Assets	2,182,953.10	2,327,866.69
LIABILITIES		
Current Unrestricted Liabilities:		
Accounts Payable	1,328.20	
Total Liabilities	1,328.20	-
NET POSITION		
Restricted:		
Other Purposes	1,000,000.00	1,143,150.00
Unrestricted	1,181,624.90	1,184,716.69
Total Net Position	$ 2,181,624.90	$ 2,327,866.69

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

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY

Comparative Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended January 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Bond Financing Fees	$ 46,002.75	$ 317,875.00
Other Revenues	5,609.28	3,342.00
Total Operating Revenues	51,612.03	321,217.00
Operating Expenses:		
Administration:		
Other Expenses	65,603.82	44,000.00
Operations:		
Remedial Grant	132,250.00	
Total Operating Expenses	197,853.82	44,000.00
Net Income (Loss)	(146,241.79)	277,217.00
Prior Year Cancellations:		
Grant Receivable	-	(300,000.00)
Unearned Revenue-State Grants	-	91,274.00
Change in Net Position	(146,241.79)	68,491.00
Net Position February 1	2,327,866.69	2,259,375.69
Net Position, January 31	$ 2,181,624.90	$ 2,327,866.69

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, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Payments to Suppliers	$ (64,275.62)	$ (44,000.00)
Other Operating Receipts	3,879.08	3,342.00
Remedial Grant	(132,250.00)	
Issuance of Revenue Bond Loan	(1,100,000.00)	
Receipts from Bond Financing Fees	46,002.75	317,875.00
Net Cash Provided by (Used in) Operating Activities	(1,246,643.79)	277,217.00
Net (Decrease) Increase in Cash and Cash Equivalents	(1,246,643.79)	277,217.00
Cash and Cash Equivalents - February 1	2,312,866.69	2,035,649.69
Cash and Cash Equivalents - January 31	$ 1,066,222.90	$ 2,312,866.69
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating Income (Loss)	$ (146,241.79)	$ 277,217.00
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Change in Assets and Liabilities:		
(Increase) Decrease in Accrued Interest Receivable	(1,730.20)	
Increase (Decrease) in Accounts Payable	1,328.20	
Net Cash Provided by Operating Activities	$ (146,643.79)	$ 277,217.00

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of The Pollution Control Financing Authority of Salem County (the "Authority") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Reporting Entity

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

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

The Authority consists of five members, appointed by the Board of Chosen Freeholders. One member is appointed each year for a five-year term. The Authority currently and for the fiscal year ended January 31, 2016, has no employees.

Component Unit

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34.* Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units and is a component unit of the County of Salem.

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

Basis of Presentation

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

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

Basis of Accounting

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

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.

The legal level of budgetary control is established at the detail shown on the Comparative Statements 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 adopt an amending budget resolution 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 comparative statements 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.

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

Cash, Cash Equivalents and Investments (Cont'd)

New Jersey governmental 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. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or bonds or other obligations of school district of which the local unit is a part or within which the school district is located, bonds or other obligations approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

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

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

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 – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced, by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

Restricted - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." This component includes net position that may be allocated for specific purposes by the Board.

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

Income Taxes

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

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from bond financing fees, county appropriations and other revenue sources. Operating expenses include costs associated with general administrative expenses. Non-operating expenses include projects identified in the capital budget.

Accounting 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, 2016, there were ten series of Special Revenue Bonds outstanding. The corresponding aggregate principal totaling $714,415,000.00 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

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

Impact of Recently Issued Accounting Policies

Recently Issued and Adopted Accounting Pronouncements

For the fiscal year ended June 30, 2016, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption this Statement had no impact on the Authority's financial statements.

In addition the Authority adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

Lastly, the Authority adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption this Statement had no impact on the Authority's financial statements.

Recently Issued Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement is effective for periods beginning after June 15, 2017. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement will become effective for the Authority in fiscal year 2017. Management does not expect this Statement will have an impact on the financial statements.

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

Impact of Recently Issued Accounting Policies (Cont'd)

Recently Issued Accounting Pronouncements (Cont'd)

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The Statement will become effective for the Authority in fiscal year 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement will become effective for the Authority in fiscal year 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Statement will become effective for the Authority in fiscal year 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement will become effective for the Authority in fiscal year 2018. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement will become effective for the Authority in fiscal year 2017. Management does not expect this Statement will have an impact on the financial statements.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions
Management of the Authority is unaware of any material violations of finance related legal and contractual provisions.

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

Note 3: DETAIL NOTES - ASSETS

Cash and Cash Equivalents

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first $250,000.00 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, 2016 and 2015, the Authority's bank balances were exposed to custodial credit risk as follows:

	2016	2015
FDIC Insured	$ 250,000.00	$ 250,000.00
Collateralized under GUDPA	816,222.90	2,070,991.00
Total	$ 1,066,222.90	$ 2,320,991.00

Revenue Bond Loan Receivable

On September 30, 2015, the Salem County Improvement Authority issued a $1,100,000 Loan Revenue Bond to the Carney's Point Sewerage Authority with an interest rate of .45%. The term of the loan is ten years with $110,000 principal payments due annually on September 1st. The final payment is due September 1, 2025.

Note 4: DETAIL NOTES – NET POSITION

Net Position Appropriated

As of January 31, 2016, the Authority had a balance an unrestricted net position balance of $1,181,624.90.

$1,000,000.00 has been designated for various county/municipal capital projects as reflected in the Authority's 2016/2017 adopted capital budget.

Note 5: 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.

Note 5: CONDUIT DEBT OBLIGATIONS (CONT'D)

The corresponding aggregate principal totaling $714,415,000.00 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, 2016, the following conduit debt obligations outstanding are as follows.

(A) Atlantic City Electric Company Projects

1. 2004 Series A Bonds

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

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

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

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

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

(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.

Note 5: CONDUIT DEBT OBLIGATIONS (CONT'D)

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

1. 2003 Series A (Cont'd)

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.

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

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.

Note 5: CONDUIT DEBT OBLIGATIONS (CONT'D)

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

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

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

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

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 $285,200,000.00 of Pollution Control Revenue Refunding Bonds, Series A, B, C.

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

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

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

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

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.

Note 5: CONDUIT DEBT OBLIGATIONS (CONT'D)

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

4. 2012 Series A Bonds (Cont'd)

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.

(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.

Note 5: CONDUIT DEBT OBLIGATIONS (CONT'D)

(D) Chambers Cogeneration Limited Partnership (Cont'd)

1. 2014 Series A and B (Cont'd)

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 Partnership; (ii) personal property owned by the Partnership, including equipment, receivables, insurance and other tangible and intangible assets; (iii) all of the Partnership'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 Partnership; (iv) all revenues of the Partnership 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 Partnership, the Authority, a working capital provider and The Bank of New York Mellon Trust Company, N.A., as collateral agent.

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 6: CONTINGENCIES

Litigation - The Authority is not a defendant in any legal proceeding.

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 2016

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Anticipated Revenues:			
Operating Revenues:			
Bond Financing Fees	$ 65,000.00	$ 46,002.75	$ (18,997.25)
Interest Earned on Deposits		2,884.32	2,884.32
Miscellaneous		994.76	994.76
Interest on Loan Receivable		1,730.20	1,730.20
Total Revenues	65,000.00	51,612.03	(13,387.97)
Operating Appropriations:			
Administration:			
Other Expenses:			
Accounting and Auditing Fees	22,500.00	30,000.00	(7,500.00)
Advertising	400.00	259.08	140.92
Engineering Fees	20,000.00	20,059.15	(59.15)
Insurance	5,000.00	3,491.14	1,508.86
Legal Fees	47,500.00	7,997.25	39,502.75
Meeting Expense	1,000.00	-	1,000.00
Postage	150.00	38.20	111.80
Secretary/Treasurer	3,600.00	3,600.00	-
Support Services	3,000.00	-	3,000.00
Miscellaneous Administration	5,000.00	159.00	4,841.00
Total Other Expenses	108,150.00	65,603.82	42,546.18
Total Operating Appropriations	108,150.00	65,603.82	42,546.18
Unrestricted Net Position to Balance Budget	43,150.00	-	43,150.00
Total Net Appropriations	65,000.00	65,603.82	(603.82)
Excess (Deficit) of Anticipated Revenues over Operating Appropriations	$ 43,150.00	$ (13,991.79)	$ 29,158.21

<u>Reconciliation to Operating Income (Loss):</u>

Deficit of Budget Appropriations over Budget Revenues	(13,991.79)
<u>Less:</u>	
Remedial Grant	132,250.00
Operating Income (Loss) (Exhibit B)	$ (146,241.79)

THE POLLUTION CONTROL

FINANCING AUTHORITY OF SALEM COUNTY

PART 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED JANUARY 31, 2016

36600

THE POLLUTION CONTROL FINANCING AUTHORITY OF SALEM COUNTY
Schedule of Findings and Recommendations
For the Year Ended January 31, 2016

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 Bureau of Authority Regulation, Department of Community Affairs, State of New Jersey.

<u>None</u>

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APPRECIATION

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

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants