

*Financial Statements*

Essex Regional Health Commission

December 31, 2013

**ESSEX REGIONAL HEALTH COMMISSION  
AUDIT REPORT  
DECEMBER 31, 2013**

CONTENTS

|   | <u>PAGE</u> |
|---|-------------|
| <u>FINANCIAL STATEMENTS</u>   |             |
| Independent Auditor's Report  | 1,2         |
| Management's Discussion and Analysis  | 3-6         |
| Funds Balance Sheet/Statement of Net Assets   | 7           |
| Statement of Government Fund Revenues, Expenditures and<br>Changes in Fund Balances/Statement of Activities   | 8           |
| Statement of Cash Flows   | 9           |
| Notes to Financial Statements   | 10-14       |
| <u>SUPPLEMENTARY INFORMATION</u>  |             |
| Budgetary Comparison Schedules  | 15-16       |
| Schedule of Grants & Contracts Receivable   | 17          |
| Schedule of Accounts Receivable Municipalities  | 18          |
| Schedule of Federal and State Financial Assistance  | 19          |
| Schedules of Grant Expenditures, December 31, 2013  | 20-21       |
| <u>INDEPENDENT AUDITOR'S REPORTS</u>  |             |
| Report on Internal Control Over Financial Reporting and on<br>Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed In Accordance With Government<br>Auditing Standards | 22-23       |
| Report on Compliance With Requirements Applicable to<br>Each Major Program and Internal Control Over<br>Compliance In Accordance With OMB Circular A-133  | 24-25       |
| Schedule of Findings and Questioned Costs for the<br>Period Ended December 31, 2013   | 26-29       |



**DeSena & Company**

*Certified Public Accountants, LLC*

100 Eagle Rock Avenue, Suite 110  
East Hanover, NJ 07936  
(973) 602-3300  
Fax (973) 602-3317

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Essex Regional Health Commission  
Livingston, NJ 07039

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities of Essex Regional Health Commission (Essex), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Essex's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Essex, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance 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 and budgetary comparison information on pages 3-6 and 15-21 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 Essex's basic financial statements. The Schedule of Expenditures of Federal and State Financial Awards is presented for purposes of additional analysis and are not a required part of the basic financial statements by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of Essex'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 Essex's internal control over financial reporting and compliance.



DeSena & Company

East Hanover, New Jersey

September 5, 2014

# **ESSEX REGIONAL HEALTH COMMISSION**

**204 HILLSIDE AVE, LIVINGSTON, N.J. 07039**

**PHONE (973) 251-2059 FAX (973) 251-2779**

## **Management Discussion and Analysis Report**

The purpose of this statement is to provide management's perspective on the status and fiscal viability of the Commission. It should be read in conjunction with the full text of the annual audit report.

### **Authority**

The Commission is a duly authorized governmental agency established and operating under NJSA 26:3-83et.seq. It is governed by a Board of Commissioners which under NJSA 26:3-92 has the functional authority of a local board of health, including legislative powers to adopt ordinances. The Commission's regional ordinances are applicable to all member municipalities and are enforced by the court of local jurisdiction.

### **Board of Commissioners**

Fourteen of the twenty two municipalities of Essex County are represented by a Commissioner having a single vote. As a public body, the Board meets on a regular basis to set Commission policy, take legislative actions, adopt and/or amend an annual budget and take other appropriate actions. All meetings are duly advertised in accordance with the NJ Open Public Meetings Act.

### **Management-Staffing**

The Commission's Executive Director functions as both the CEO and CFO and has full responsibility for the day to day operation of the agency. At the end of the year the agency was being directed by an Interim Director for a period not to exceed 6 months.

The Commission staff presently comprises seven professional/administrative employees with diverse, education, training, and experience in public/environmental health.

### **Programs and Services**

The Commission is a regulatory agency with jurisdiction in two distinct areas:

Environmental Health  
Public Health

Environmental Health Programs include those specified under the County Environmental Health Act (CEHA) (NJSA 26:3A2-21 et. seq.) and the Air Pollution Control Act (NJSA 26:2C-1 et. seq.)

# **ESSEX REGIONAL HEALTH COMMISSION**

**204 HILLSIDE AVE, LIVINGSTON, N.J. 07039**

**PHONE (973) 251-2059 FAX (973) 251-2779**

Public health services performed pursuant to our designation by the NJSDHSS as the "LINCS" Agency for Essex County include a vast array of functions primarily related to public health emergency preparedness.

All of the foregoing programs are conducted in conjunction with both local and state agencies and are subject to extensive reporting requirements.

## **Financial Status and Assessment of Long Term Operational Liability**

The Commission's operational model is somewhat more like a business enterprise than a typical governmental agency. While it is, in fact, a duly authorized governmental agency, it does not exist by statutory mandate; rather, it functions as a discretionary vendor of service to contracting governmental units such as its member municipalities, the County of Essex, NJDEP, NJDOH and the USEPA. Each relationship is subject to termination on a year to year basis; thus, the viability of the Commission is a function of at least two factors: delivery of a quality service and the annual allocation of available resources by contracting units.

The Commission is able to attain certain economies through the regionalization of services. While this enables the Commission to provide cost efficient programs and services, it has the downside of requiring a critical level of participation in order to sustain such efficiencies.

By Statute, a regional health commission is authorized to receive funds from any source. Since the late eighties, the Commission has operated a registration/permit system which generates revenue from sources of air pollution throughout the County. In its original form, the system was adopted by ordinance for purposes of generating the revenue level necessary to continue operations as member municipalities were unable to increase, or perhaps even sustain, contributions at levels sufficient to meet basic program needs. At the time, the revenue system was strongly supported by the NJDEP as an appropriate and efficient means of program support.

Prior to 1995, the Commission was able to increase fee levels as additional funds were required. However, in 1995, there was a radical change in sentiment at the State level as to how and to what extent fee based revenue systems should be operated. Ultimately, in 1995, amendments to the NJ Air Pollution Control Act placed statutory limits on the ability of local, county and regional agencies to charge new fees or increase those in place as of June 15, 1995.

**ESSEX REGIONAL HEALTH COMMISSION**  
**204 HILLSIDE AVE, LIVINGSTON, N.J. 07039**  
**PHONE (973) 251-2059 FAX (973) 251-2779**

Fees are billed on a standard five year cycle and are accounted for as deferred revenue which is amortized against current revenue on an annual basis. Funds not needed for current operations are invested in the NJ Cash Management Fund.

In addition to the several other sources of revenue reflected in the budget, the Commission maintains a reserve balance which it uses as a separate revenue source to balance the budget. As a general planning guideline, a forward looking projection indicating a reserve balance to be less than the projected gap between appropriations and estimated revenues would indicate a potential structural deficit. This is a key indicator of the Commission's projected fiscal health.

As of 12/31/13, the Commission's fund balance of the General Fund was \$1,472,790.

**Projections and Critical Issues**

As referenced in our statement last year, over the past several years the Commission has dramatically increased its scope of activities. In addition to increased demands on our CEHA Program we have been designated as the LINCS/PHEP Program for Essex County. We have become somewhat of a hodgepodge of revenue sources, authority and jurisdictions, but with great and growing responsibility and formidable fiscal vulnerabilities.

If we include each municipality, our operating budget includes over seventeen independent sources of revenue, each to varying degrees vulnerable to abrupt discontinuance. Of these, there several which, if lost, could potentially place our ability to sustain operations in severe jeopardy. Even if all revenue sources remain in place, we are confronting potential issues of under funded contingent liabilities, a capped registration program and a dwindling reserve. Grant funding may decrease in the future and, in order to identify new revenue sources, the Commission began physical inventory in March of this year in our attempt to address a potential structural deficit.

The Commission is quite unique for reasons beyond its basic organizational structure, which in fact is a consortium of municipalities bound together by a joint agreement to provide specialized public/environmental health programs. As indicated above, this in and of itself is not an entirely stable situation; however, there are two other major factors which clearly do no bode well for the long prospects of term sustainability.

Presently only fourteen of the counties twenty two municipalities are members of the Commission.

# **ESSEX REGIONAL HEALTH COMMISSION**

**204 HILLSIDE AVE, LIVINGSTON, N.J. 07039**

**PHONE (973) 251-2059 FAX (973) 251-2779**

The Commission receives no financial support from the County for general operations.

The organizational issues and lack of secure stable sources of revenue discussed in last year's statement are yet to be resolved. Both the NJDOH and the NJDEP are aware of the problems and issues discussed herein.

## **Contacting the Commission's Management**

This financial report is designed to provide a general overview of the Commission's finances, comply with the finance-related laws and regulations, and demonstrate the Commission's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Commission's Interim Director Richard Budris, at 204 Hillside Avenue, Livingston, NJ 07039.



**ESSEX REGIONAL HEALTH COMMISSION  
FUND BALANCE SHEET/STATEMENT OF NET ASSETS  
DECEMBER 31, 2013**

|   | General<br>Fund     | Penalty<br>Enforcement<br>Activities | Adjustments      | Statement<br>of Net Assets |
|---|---------------------|--------------------------------------|------------------|----------------------------|
| <u>Assets</u>   |                     |                                      |                  |                            |
| Cash  | \$ 182,186          | \$ 33,381                            |                  | \$ 215,567                 |
| New Jersey Cash Management Fund                                 | 2,274,931           | 84,805                               |                  | 2,359,736                  |
| Accounts Receivable Grants & Contracts                          | 259,492             |                                      |                  | 259,492                    |
| Accounts Receivable Municipalities                              | 54,966              |                                      |                  | 54,966                     |
| Accounts Receivable Fines & Registrations                       | -                   | 94,020                               |                  | 94,020                     |
| Capital Assets Net of Accumulated<br>Depreciation (Note 2)      |                     |                                      | \$ 73,362        | 73,362                     |
| <b>Total Assets</b>   | <b>\$ 2,771,575</b> | <b>\$ 212,206</b>                    | <b>\$ 73,362</b> | <b>\$ 3,057,143</b>        |
| <u>Liabilities &amp; Reserves</u>                               |                     |                                      |                  |                            |
| Accounts Payable  | 65,968              |                                      |                  | 65,968                     |
| Accrued Payroll   | 2,647               |                                      |                  | 2,647                      |
| Payroll Deduction   | 4,030               |                                      |                  | 4,030                      |
| Unexpended Moving Expenses                                      | 28,832              |                                      |                  | 28,832                     |
| Due Post Retirement Benefits Fund                               | 406                 |                                      |                  | 406                        |
| Post Retirement Benefits Reserve                                | 95,247              |                                      |                  | 95,247                     |
| Unearned Registrations  | 1,086,047           |                                      |                  | 1,086,047                  |
| Unearned MRC Grant  | 7,524               |                                      |                  | 7,524                      |
| I-Pad Service   | 560                 |                                      |                  | 560                        |
| Reserve Vacation & Fringe                                       | 7,524               |                                      |                  | 7,524                      |
|   | <b>\$ 1,298,785</b> |                                      |                  | <b>\$ 1,298,785</b>        |
| Fund Balances/Net Assets Unreserved<br>Reported in General Fund | <b>\$ 1,472,790</b> |                                      |                  |                            |
| Reserve reported in Penalty<br>Enforcement Fund                 |                     | <b>\$ 212,206</b>                    |                  |                            |
| <b>Total Liabilities &amp; Fund Balances</b>                    | <b>\$ 2,771,575</b> | <b>\$ 212,206</b>                    |                  |                            |
| Net Assets:   |                     |                                      |                  |                            |
| Invested in Capital Assets                                      |                     |                                      |                  | \$ 73,362                  |
| Unrestricted General Fund                                       |                     |                                      |                  | 1,472,790                  |
| Restricted Penalty Enforcement Fund                             |                     |                                      |                  | 212,206                    |
| <b>Total Net Assets</b>   |                     |                                      |                  | <b>\$ 1,758,358</b>        |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
STATEMENT OF GOVERNMENT FUND REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

|  | Environmental<br>Activities | Public Health<br>Activities | Penalty<br>Enforcement<br>Activities | Total               | Adjustments<br>Note A | Statement<br>of Activities |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------|-----------------------|----------------------------|
| <u>Revenues</u>                            |                             |                             |                                      |                     |                       |                            |
| Registrations                              | \$ 365,083                  |                             |                                      |                     |                       |                            |
| Municipal                                  | 129,034                     |                             |                                      |                     |                       |                            |
| County                                     | 105,687                     |                             |                                      |                     |                       |                            |
| County (105 Grant)                         | 69,428                      |                             |                                      |                     |                       |                            |
| Interest                                   | 1,352                       |                             | \$ 48                                |                     |                       |                            |
| Miscellaneous                              | 2,948                       |                             |                                      |                     |                       |                            |
| NJDHSS/CDC XI & XII                        |                             | \$ 411,347                  |                                      |                     |                       |                            |
| MRC Grant                                  |                             | 5,209                       |                                      |                     |                       |                            |
| CHEA Fees - EQEF                           | 94,225                      |                             |                                      |                     |                       |                            |
| Penalty Fees                               |                             |                             | 21,775                               |                     |                       |                            |
| <b>Total</b>                               | <b>\$ 767,757</b>           | <b>\$ 416,556</b>           | <b>\$ 21,823</b>                     | <b>\$ 1,206,136</b> |                       | <b>\$ 1,206,136</b>        |
| <u>Expenses</u>                            |                             |                             |                                      |                     |                       |                            |
| Personnel                                  | \$ 654,086                  |                             |                                      |                     |                       |                            |
| Contract                                   | 75,438                      |                             |                                      |                     |                       |                            |
| Travel                                     | 16,732                      |                             |                                      |                     |                       |                            |
| Other                                      | 27,437                      |                             | \$ 36                                |                     |                       |                            |
| Equipment                                  | 21,936                      |                             |                                      |                     |                       |                            |
| NJDHSS/CDC X & XI                          |                             | \$ 411,347                  |                                      |                     |                       |                            |
| Depreciation/Amortization                  |                             |                             |                                      |                     | \$ 28,795             |                            |
| MRC Grant                                  |                             | 5,209                       |                                      |                     |                       |                            |
| Capital Outlay                             |                             |                             |                                      |                     | (19,459)              |                            |
| <b>Total</b>                               | <b>\$ 795,629</b>           | <b>\$ 416,556</b>           | <b>\$ 36</b>                         | <b>\$ 1,212,221</b> | <b>\$ 9,336</b>       | <b>\$ 1,221,557</b>        |
| <b>Excess Expenditures/Revenues</b>        | <b>\$ (27,872)</b>          | <b>\$ -</b>                 | <b>\$ 21,787</b>                     | <b>\$ (6,085)</b>   |                       | <b>\$ (15,421)</b>         |
| <b>Changes in Fund Balances/Net Assets</b> |                             |                             |                                      |                     |                       |                            |
| Beginning of Year                          |                             |                             |                                      | 1,691,082           |                       | 1,773,779                  |
| End of Year                                |                             |                             |                                      | <u>\$ 1,684,997</u> |                       | <u>\$ 1,758,358</u>        |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

|   |               |                                |
|---|---------------|--------------------------------|
| Cash Flow From Operating Activities:  |               |                                |
| Excess of Expenditures over Revenues  |               | \$ (15,421)                    |
| Adjustments to reconcile Excess of Revenues<br>Over Expenditures to Net Cash Provided by<br>Operating Activities: |               |                                |
| Depreciation/Amortization   | \$ 28,795     |                                |
| Increase in Receivables   | (214,744)     |                                |
| Decrease in Accounts Payable/Reserves   | (24,817)      |                                |
| Decrease in Accrual & Payroll Deductions  | (1,061)       |                                |
| Increase in Unearned Registration Fees  | <u>14,104</u> |                                |
|   |               | <u>(197,723)</u>               |
| <br>Net Cash Provided by Operating Activities   |               | <br>\$ (213,144)               |
| <br>Cash Flows From Capital Financing Activities:   |               |                                |
| Acquisition of Equipment  |               | <u>(19,459)</u>                |
| <br>Net Increase in Cash & Cash Equivalents   |               | <br>\$ (232,603)               |
| <br>Cash - Beginning of Period  |               | <br><u>2,807,906</u>           |
| <br>Cash - End of Period  |               | <br><u><u>\$ 2,575,303</u></u> |

See accompanying notes to financial statements.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 1

The financial statements of the Commission are prepared in accordance with generally accepted accounting principals (GAAP). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, ie., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related program liability is incurred.

Note 2

When Capital Assets (equipment) that are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in government funds. However, the Statement of Net Assets includes those Capital Assets among the assets of the Commission.

Capital Assets have been recorded at cost, and depreciated over their normal useful lives using the straight line method of depreciation:

|  | Net<br>Balance<br>12/31/2012 | Additions         | Deletions   | Net<br>Balance<br>12/31/2013 |
|--|------------------------------|-------------------|-------------|------------------------------|
| Capital Assets   | \$ 355,228                   | \$ 19,459         | \$(24,323)  | \$ 350,364                   |
| Leasehold Improvement  | 50,657                       | -                 |             | 50,657                       |
|  | \$ 405,885                   | \$ 19,459         | \$(24,323)  | \$ 401,021                   |
| Accumulated Depreciation<br>Amortization/ Leasehold<br>Improvement | (320,654)                    | (23,729)          | \$ 24,323   | (320,060)                    |
|  | (2,533)                      | (5,066)           | -           | (7,599)                      |
|  | <u>\$ 82,698</u>             | <u>\$ (9,336)</u> | <u>\$ -</u> | <u>\$ 73,362</u>             |

Note 3

Essex Regional Health Commission entered into a lease with the Township of Livingston for the rental of approximately 4,200 square feet of the Senior Community Center (the "Building") located at 204 Hillside Avenue, Livingston, New Jersey. The term of the lease is for five (5) years commencing on December 1, 2010 and ending on November 30, 2015 unless sooner terminated as provided in the lease. During the first year of the initial term, Essex Regional Health Commission agrees to pay the landlord \$37,800, or \$3,150 a month. Beginning with the rent due on December 1, 2011, the rent to be paid will be calculated in accordance with price indexes listed in Schedule B of the lease. Should the application of this formula result in a percentage increase of less than 1% in the year, Essex Regional Health Commission agrees that there will be a one percent (1%) increase in the rent for the year. In no event will the increase exceed three percent (3%) in the year.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 4

On May 2, 2013, the Commission entered into a lease agreement for a copier with Kyocera Document Solutions. The term of the lease is for sixty months, and aggregate payments under the lease total \$9,793. A five year agreement with Pitney Bowes for a mailing machine at a total cost of \$2,640 was authorized in the meeting of May 26, 2010.

Note 5

An Interlocal Services Agreement was signed on March 14, 2011 between the Township of Livingston and the Commission. Under the terms of this agreement the Commission shall institute and prosecute violations of the "Air Pollution Control Code of the Essex Regional Health Commission" in the Municipal Court of the Township of Livingston. The Township shall collect all fines associated with the violations of the Ordinance. Livingston shall keep 50% of the penalties or fines collected. The other 50% shall be paid over to the Commission. The Commission shall pay all legal fees necessary to prosecute all Ordinance violations out of its portion. On December 11, 1998 the Commission adopted a resolution establishing the disposition of penalty proceeds received from the Environmental Court. All penalty proceeds collected by the Commission will be maintained in the custody of the Commission and be utilized for purposes deemed appropriate by the Board. The term of the agreement is from June 1, 2011 to May 31, 2021, and may be extended for further periods of ten (10) years upon mutual agreement by the governing bodies of Livingston and the Commission. Either party may, at any time, cancel this agreement upon 60 days written notice to the other party. Payments due the Commission are to be paid by Livingston on a quarterly basis beginning September 2011.

Note 6

Registration and Certification Fees are recognized ratably over the registration period from January 1, 2012 to December 31, 2016. Registration fees collected during the twelve month period of January 1, 2013 to December 31, 2013 were collected for the 2012 registration period and income was recognized thru December 31, 2013.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 7

Substantially all of the Commission's employees participate in the Public Employee's Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employee Retirement System is considered a cost sharing multiple employer plan. The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contribution of 6.92%, as of 7/1/14, of employees annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for the cost-of-living adjustments and noncontributory death benefits. The commission offers a 457(b) Deferred Compensation Plan to its employees. Under this plan employee contributions are made pre-tax and are accumulated tax deferred. The plan is administered by Valic Retirement Services and AXA.

The Commission's Employees participate in the State of New Jersey's Health Insurance Plan. As of July 15, 2013 contributions will be based on percentage of salary range and the plan selected. Employee contributions are pre-tax under a Section 125 plan.

Note 8

In the normal course of operations the Commission receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 9

Vacation Time

The Commission allows employees to carry unused vacation and compensation time into the following year, at which time it must be used. As of December 31, 2013, the amounts earned but not paid amounted to \$45,256.

Note 10

As of February 1, 2005 the Commission was extended a line of credit by PNC Bank, NA in the amount of \$200,000. The initial rate of interest was 6.25% with the line of credit expiring February 1, 2015.

Note 11

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. The Commission adopted GASB Statement 34 for the year ended 12/31/04.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 12

Contracts for Service and Grant Agreement Contracts

The Commission has entered into Contracts for Services with:

NJ Dept. of Health & Senior

Services:

Public Health

|                        |                |           |
|------------------------|----------------|-----------|
| Emergency Preparedness | 7/1/13-6/30/14 | \$341,145 |
|------------------------|----------------|-----------|

Public Health

|                        |                |           |
|------------------------|----------------|-----------|
| Emergency Preparedness | 7/1/14-6/30/15 | \$341,145 |
|------------------------|----------------|-----------|

|                             |                 |           |
|-----------------------------|-----------------|-----------|
| Social Services Block Grant | 11/1/13-6/30/14 | \$121,024 |
|-----------------------------|-----------------|-----------|

|                             |                |           |
|-----------------------------|----------------|-----------|
| Social Services Block Grant | 7/1/14-6/30/15 | \$121,024 |
|-----------------------------|----------------|-----------|

National Association of County

|                         |                  |         |
|-------------------------|------------------|---------|
| & City Health Officials | 12/20/13-7/31/14 | \$4,000 |
|-------------------------|------------------|---------|

|                   |                 |           |
|-------------------|-----------------|-----------|
| Essex County CEHA | 1/1/14-12/31/14 | \$109,187 |
|-------------------|-----------------|-----------|

|                          |                 |          |
|--------------------------|-----------------|----------|
| Essex County (105 Grant) | 7/1/13- 6/30/14 | \$69,428 |
|--------------------------|-----------------|----------|

|                   |                 |  |
|-------------------|-----------------|--|
| Essex County EQEF | 1/1/14-12/31/14 | Based on Fines & Penalties<br>To be assessed |
|-------------------|-----------------|--|

Note 13

Other

As of December 31, 2013, the Commission had uninsured cash balances totaling \$2,359,736 in the New Jersey Cash Management Fund. Other operating cash accounts deposited in banks may also go over the FDIC insured limit of \$250,000 when reimbursement checks are received from the State of New Jersey.

Note 14

Other Post-Employment Benefits (“OPEB”)

The Commission contributes to the State Health Benefits Program (SHBP), a cost sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

Note 14 (Continued)

Other Post-Employment Benefits (“OPEB”) (Continued)

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. On October 8, 2013, the Commission authorized through resolution to adopt the provisions of NJSA 52:14.17.38 under which a public Employer may agree to pay for the SHBP coverage of certain retirees and recommended completion of the Resolution Addendum –Ch.48, P.L. 1999 based upon the July 30, 2013 recommendation of the Post Retirement Committee.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to:

State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295, or by visiting their website at: [www.state.nj.us/treasury/pensions/gasb-43-sept-2008.pdf](http://www.state.nj.us/treasury/pensions/gasb-43-sept-2008.pdf)

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP will be billed to the Commission on a monthly basis.



**SUPPLEMENTARY INFORMATION**

**ESSEX REGIONAL HEALTH COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
DECEMBER 31, 2013**

|                           | Budgeted<br>Original | Amounts<br>Final    | Actual Amounts<br>Budgetary Basis<br>(See Note A) |
|---------------------------|----------------------|---------------------|---|
| <u>Category</u>           |                      |                     |   |
| <u>Personnel</u>          |                      |                     |   |
| Salaries                  | \$ 544,938           | \$ 551,938          | \$ 486,981  |
| Overtime/On Call          | 15,000               | 15,000              | 1,437   |
|                           | <u>\$ 559,938</u>    | <u>\$ 566,938</u>   | <u>\$ 488,418</u>                                 |
| <u>Fringe</u>             |                      |                     |   |
| FICA                      | \$ 44,000            | \$ 45,000           | \$ 36,649   |
| PERS                      | 55,000               | 55,500              | 52,850  |
| Medical                   | 94,750               | 95,900              | 68,886  |
| Dental                    | 7,500                | 7,750               | 5,350   |
| Unemployment              | 2,300                | 2,400               | 1,933   |
|                           | <u>\$ 203,550</u>    | <u>\$ 206,550</u>   | <u>\$ 165,668</u>                                 |
| <u>Contract</u>           |                      |                     |   |
| Hartbridge Actuary        | \$ -                 | \$ 4,700            | \$ 4,600  |
| Legal                     | 5,500                | 5,500               | 384   |
| Office Rental             | 28,000               | 28,000              | 27,407  |
| Office Cleaning           | 8,000                | 8,000               | 7,213   |
| Auditor                   | 12,500               | 12,500              | 13,890  |
| Insurance                 | 30,000               | 30,000              | 20,083  |
| ADP                       | 4,000                | 4,000               | 1,861   |
|                           | <u>\$ 88,000</u>     | <u>\$ 92,700</u>    | <u>\$ 75,438</u>                                  |
| <u>Travel</u>             |                      |                     |   |
| Gas                       | \$ 4,750             | \$ 4,750            | \$ 2,972  |
| Gas Mileage Reimbursement | 2,000                | 2,000               | 2,241   |
| Auto Maintenance          | 4,500                | 4,500               | 2,821   |
| Convention/Meetings       | 3,500                | 10,500              | 8,698   |
|                           | <u>\$ 14,750</u>     | <u>\$ 21,750</u>    | <u>\$ 16,732</u>                                  |
| <u>Other</u>              |                      |                     |   |
| Telephone/Pagers          | \$ 7,500             | \$ 7,500            | \$ 4,935  |
| I-Pad Connectivity        | -                    | \$ 11,000           | \$ 11,000   |
| Medical Surveillance      | 1,200                | 1,200               | -   |
| Office Supplies/Printing  | 6,000                | 6,000               | 3,101   |
| Postage                   | 4,000                | 4,000               | 4,114   |
| Publication/Subscriptions | 3,000                | 3,000               | 55  |
| Photocopier               | 3,500                | 3,500               | 2,051   |
| Water Cooler              | 2,000                | 2,000               | 751   |
| Miscellaneous             | 2,500                | 2,500               | 1,430   |
|                           | <u>\$ 29,700</u>     | <u>\$ 40,700</u>    | <u>\$ 27,437</u>                                  |
| <u>Equipment</u>          |                      |                     |   |
| Cars                      | \$ -                 | \$ 14,300           | \$ 14,003   |
| Miscellaneous             | 2,500                | 2,500               | -   |
| Protection/Containment    | 3,000                | 8,456               | 5,960   |
| Office Equipment          | 3,000                | 3,000               | 79  |
| Equipment Maintenance     | 3,000                | 3,000               | 1,894   |
|                           | <u>\$ 11,500</u>     | <u>\$ 31,256</u>    | <u>\$ 21,936</u>                                  |
| CDC Grant XI & XII        | \$ 240,100           | \$ 531,696          | \$ 411,347  |
| MRC                       | -                    | 4,000               | 2,479   |
|                           | <u>\$ 240,100</u>    | <u>\$ 535,696</u>   | <u>\$ 413,826</u>                                 |
| <u>Total</u>              | <u>\$ 1,147,538</u>  | <u>\$ 1,495,590</u> | <u>\$ 1,209,455</u>                               |
| <u>Estimated Revenue</u>  |                      |                     |   |
| Municipal Assessments     | \$ 129,033           | \$ 129,033          | \$ 129,034  |
| CDC Grant XI & XII        | 240,100              | 531,696             | 411,347   |
| ERHC (EQEF Fund)          | 50,000               | 50,000              | 50,000  |
| Essex County (CEHA)       | 105,687              | 105,687             | 105,687   |
| Essex County (105 Grant)  | 69,428               | 69,428              | 69,428  |
| Reserve                   | 553,290              | 605,746             | 605,746   |
| MRC                       | -                    | 4,000               | 2,479   |
| <u>Total</u>              | <u>\$ 1,147,538</u>  | <u>\$ 1,495,590</u> | <u>\$ 1,373,721</u>                               |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
BUDGET TO GAAP RECONCILIATION GENERAL FUND  
DECEMBER 31, 2013**

Note A - Explanation of Differences between  
Budgetary Inflows and GAAP Revenues & Expenditures

General Fund

Sources/Inflows of Resources

Actual Amounts (budgetary basis) "available for appropriation"  
from the Budgetary Comparison Schedule \$ 1,373,721

Difference - Budget to GAAP

Reserve appropriation is not considered a current year revenue  
for financial reporting purposes (655,746)

Revenues considered a current year revenue for financial  
reporting purposes:

|                                   |    |         |         |
|-----------------------------------|----|---------|---------|
| MRC 2010                          | \$ | 2,730   |         |
| Interest Income                   |    | 1,352   |         |
| Sale Vehicles                     |    | 1,612   |         |
| CHEA Revenues - EQEF              |    | 94,225  |         |
| Interest Penalty Enforcement Fund |    | 48      |         |
| Commute Reimbursement             |    | 1,336   |         |
| Registration Fees                 |    | 365,083 |         |
| Penalty Enforcement Fines         |    | 21,775  |         |
|                                   |    | 488,161 | 488,161 |

Total Revenues as reported on Statement of Revenues,  
Expenditures and Changes in Fund Balances Governmental  
Funds/Statement of Activities \$ 1,206,136

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations"  
from Budgetary Comparison Schedule \$ 1,209,455  
Bank Charges Enforcement 36  
MRC-2010 Reserve 2,730

Differences - Budget to GAAP

Governmental Funds report Capital Outlay as expenditures.  
However in the Statement of Activities, the cost of these assets  
is allocated over their estimated useful lives as depreciation  
expense. This is the amount by which depreciation exceeded  
capital outlay in the current period. 9,336

Total Expenditures as reported on the Statement of Revenues,  
Expenditures and Changes in Fund Balances Governmental  
Funds/Statement of Activities \$ 1,221,557

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
SCHEDULE OF GRANTS AND CONTRACTS FOR SERVICES RECEIVABLE  
DECEMBER 31, 2013**

|                               |                          |
|-------------------------------|--------------------------|
| Essex County EQEF             | \$ 29,148                |
| Essex County CEHA & 105 Grant | 205,443                  |
| State of New Jersey- CDC XII  | <u>24,901</u>            |
| Total                         | <u><u>\$ 259,492</u></u> |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
SCHEDULE OF ACCOUNTS RECEIVABLE MUNICIPALITIES  
DECEMBER 31, 2013**

|               |                         |
|---------------|-------------------------|
| South Orange  | \$ 4,543                |
| East Orange   | 6,385                   |
| Cedar Grove   | 2,024                   |
| Belleville    | 3,572                   |
| Irvington     | 16,063                  |
| Livingston    | 1,523                   |
| Maplewood     | 1                       |
| Millburn      | 3,691                   |
| Montclair     | 3,392                   |
| Newark        | 10,284                  |
| Orange        | 1,611                   |
| West Caldwell | 1,878                   |
| West Orange   | <u>(1)</u>              |
| Total         | <u><u>\$ 54,966</u></u> |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED DECEMBER 31, 2013**

| Grantor/Pass Through<br>Grantor/Program Title  | Federal<br>CFDA Number<br>Contract Number | Program or<br>Award<br>Amount | Federal<br>Revenue<br>Recognition | State<br>Revenue<br>Recognition | Expenditures      |
|--|---|-------------------------------|-----------------------------------|---------------------------------|-------------------|
| <u>Federal Awards</u>  |   |                               |                                   |                                 |                   |
| NJ State DEP Section 105 Grants<br>County Essex CHEA Grant                           | 66.001                                    |                               |                                   |                                 |                   |
| 7/1/13 - 6/30/14   |   | <u>\$ 69,428</u>              | \$ 34,714                         |                                 | \$ 34,714         |
| 7/1/12 - 6/30/13   |   |                               | 34,714                            |                                 | 34,714            |
| Medical Reserve Corps<br>National Association of County<br>and City Health Officials | 93.008                                    |                               |                                   |                                 |                   |
| 2013   |   |                               | <u>2,479</u>                      |                                 | <u>2,479</u>      |
| Total  |   |                               | <u>\$ 71,907</u>                  |                                 | <u>\$ 71,907</u>  |
| <u>State of NJ Awards</u>  |   |                               |                                   |                                 |                   |
| NJ Dept of Health & Senior<br>Services:  |   |                               |                                   |                                 |                   |
| Hiper (Lincs Agencies)   |   |                               |                                   |                                 |                   |
| Public Health Emergency 8/10/12-6/30/13<br>Preparedness                              | 93.069                                    | <u>\$ 365,572</u>             |                                   |                                 |                   |
| <u>1/1/13-12/31/13</u>   |   |                               |                                   | \$ 215,885                      | \$ 215,885        |
| <u>8/10/12-12/31/12</u>  |   |                               | <u>\$ 149,687</u>                 |                                 | <u>149,687</u>    |
|  |   |                               | <u>\$ 149,687</u>                 | <u>\$ 215,885</u>               | <u>\$ 365,572</u> |
| Public Health Emergency<br>Preparedness  | 93.074                                    | <u>\$ 462,169</u>             |                                   |                                 |                   |
| <u>7/1/13-6/30/14</u>  |   |                               |                                   | <u>\$ 195,463</u>               | <u>\$ 195,463</u> |
|  |   |                               |                                   | <u>\$ 195,463</u>               | <u>\$ 195,463</u> |
| Total  |   |                               |                                   | <u>\$ 411,348</u>               |                   |

See accompanying notes to financial statements.

ESSEX REGIONAL HEALTH COMMISSION  
EX-LINCS 2-2013-0032  
PHILEPS (LINCS AGENCIES) 2013  
YEAR ENDED DECEMBER 31, 2013

| <u>Term 8/10/12 - 6/30/13</u>    | <u>Final<br/>Approved<br/>Budget</u> | <u>Expenditures<br/>2012</u> | <u>Expenditures<br/>2013</u> | <u>Audited<br/>Expenditures</u> | <u>Questioned<br/>Costs</u> |
|----------------------------------|--------------------------------------|------------------------------|------------------------------|---------------------------------|-----------------------------|
| <u>Cost Category</u>             |                                      |                              |                              |                                 |                             |
| Salaries & Wages                 | \$ 198,947                           | \$ 88,372                    | \$ 110,576                   | \$ 198,948                      | \$ -                        |
| Fringe Benefits                  | 76,913                               | 33,740                       | 43,174                       | 76,914                          | -                           |
| Consultant/Professional Services | 49,610                               | 18,428                       | 31,170                       | 49,598                          |                             |
| Office Expenses & Related Costs  | 13,376                               | 3,200                        | 10,194                       | 13,394                          | -                           |
| Program Expenses & Related Costs | 12,701                               | 783                          | 11,912                       | 12,695                          |                             |
| Travel, Conferences & Meetings   | 3,028                                | 721                          | 2,305                        | 3,026                           |                             |
| Facility Cost                    | <u>10,997</u>                        | <u>4,443</u>                 | <u>6,554</u>                 | <u>10,997</u>                   |                             |
| <br>Total                        | <br><u>\$ 365,572</u>                | <br><u>\$ 149,687</u>        | <br><u>\$ 215,885</u>        | <br><u>\$ 365,572</u>           | <br><u>\$ -</u>             |

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION  
PHILEP (LINCS AGENCIES) 2014  
YEAR ENDED DECEMBER 31, 2013**

| <u>Term 7/1/13 - 6/30/14</u>     | <u>Final<br/>Approved<br/>Budget</u> | <u>Expenditures<br/>2013</u> | <u>Audited<br/>Expenditures</u> | <u>Questioned<br/>Costs</u> |
|----------------------------------|--------------------------------------|------------------------------|---------------------------------|-----------------------------|
| <u>Cost Category</u>             |                                      |                              |                                 |                             |
| Salaries & Wages                 | \$ 264,395                           | \$ 134,531                   | \$ 134,531                      | \$ -                        |
| Fringe Benefits                  | 95,208                               | 45,356                       | 45,356                          | -                           |
| Office Expenses & Related Costs  | 19,730                               | 4,412                        | 4,412                           | -                           |
| Program Expenses & Related Costs | 12,308                               | 174                          | 174                             |                             |
| Staff Training                   | 3,290                                | 3,025                        | 3,025                           |                             |
| Travel, Conferences & Meetings   | 2,909                                | 617                          | 617                             |                             |
| Facility Cost                    | 15,428                               | 7,348                        | 7,348                           |                             |
| Reserve                          | <u>48,901</u>                        | <u>-</u>                     | <u>-</u>                        |                             |
| <br>                             |                                      |                              |                                 |                             |
| Total                            | <u>\$ 462,169</u>                    | <u>\$ 195,463</u>            | <u>\$ 195,463</u>               | <u>\$ -</u>                 |

See accompanying notes to financial statements.



**INDEPENDENT AUDITOR'S REPORTS**



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

To the Board of Commissioners  
Essex Regional Health Commission  
Livingston, NJ 07039

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Essex Regional Health Commission (Essex), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Essex's basic financial statements, and have issued our report thereon dated September 5, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Essex'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 Essex's internal control. Accordingly, we do not express an opinion on the effectiveness of Essex'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 Essex'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*.

**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* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "DeSena & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

DeSena & Company

East Hanover, New Jersey

September 5, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners  
Essex Regional Health Commission  
Livingston, NJ 07039

**Report on Compliance for Each Major Federal Program**

We have audited Essex Regional Health Commission's (Essex) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Essex's major federal programs for the year ended December 31, 2013. Essex's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Essex's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and NJ OMB Circular 04-04. Those standards and OMB Circular A-133 and NJ OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Essex's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Essex's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Essex complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

**Report on Internal Control over Compliance**

Management of Essex is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Essex's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and NJ OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Essex's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and NJ OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.



DeSena & Company

East Hanover, New Jersey

September 5, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

*Part 1 - Summary of Auditor's Results*

**Financial Statement Section**

- A) Type of auditor's report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified?   yes   Xno   n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses?   yes   Xno   n/a
- C) Noncompliance material to general purpose financial statements noted?   yes   Xno   n/a

**Federal Awards Section**

- D) Dollar threshold used to determine Type A programs   \$500,000
- E) Auditee qualified as low-risk auditee?   Xyes   no   n/a
- F) Type of auditor's report on compliance for major programs   Unqualified
- G) Internal control over compliance:
- 1) Material weakness(es) identified?   yes   Xno   n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses?   yes   Xno   n/a
- H) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)?   yes   Xno   n/a

I) Identification of major programs:

CFDA Number(s)                      Name of Federal Program or Cluster

N/A

N/A

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

*Part 1 - Summary of Auditor's Results (Continued)*

**State Awards Section**

- J) Dollar threshold used to determine Type A programs \$300,000
- K) Auditee qualified as low-risk auditee? X yes    no    n/a
- L) Type of auditor's report on compliance for major programs Unqualified
- M) Internal control over compliance:
- 1) Material weakness(es) identified?    yes X no    n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses?    yes X no    n/a
- H) Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular 04-04?    yes X no    n/a

I) Identification of major programs:

| <u>Contract Number(s)</u>      | <u>Name of State Program</u>  |
|--------------------------------|---|
| PHLP 13LNC015<br>PHLP 12LNC017 | NJ Dept. of Health & Senior<br>Services: Local Core Capacity<br>For Public Health<br>Emergency Preparedness Grant |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

*Part 2 - Schedule of Financial Statement Findings*

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that Government Auditing Standards requires reporting in a Circular A-133 audit, paragraphs 12.16 and 12.33.

NONE



SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

*Part 3 - Schedule of Federal and State Award Findings  
And Questioned Costs*

This section identifies the reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by section 510(a) of OMB Circular A-133 and New Jersey OMB Circular 04-04.

NONE