

**RARITAN TOWNSHIP MUNICIPAL UTILITIES
AUTHORITY**

Financial Statements

November 30, 2010 and 2009

With Independent Auditors' Report

Raritan Township Municipal Utilities Authority
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November 30, 2010 and 2009

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Raritan Township Municipal Utilities Authority
Roster of Officials
November 30, 2010

Authority Commissioners

Michael DelVecchio

Edward Dougherty

John Kendzulak

Patricia Stover

Peter L. Kinsella

Position

Chairperson

Vice Chairperson

Secretary

Treasurer

Asst. Treas./Asst. Sec.

Officials

Hatch Mott MacDonald

Watts, Tice & Skowronek

WithumSmith+Brown, PC

Wastewater Engineer

Attorney

Auditor

Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2010 and 2009

This section of the annual financial report of the Raritan Township Municipal Utilities Authority ("the Authority") presents a discussion and analysis of the financial performance of the Authority for the years ended November 30, 2010 and 2009. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial position and results of operations of the Authority for 2010 and 2009.

	2010	2009
Assets		
Unrestricted current assets	\$ 4,291,125	\$ 3,051,689
Restricted current assets	3,024,786	3,374,067
Unamortized bond premiums	101,873	--
Property, plant and equipment – net	<u>26,741,390</u>	<u>24,418,975</u>
	<u>\$ 34,057,301</u>	<u>\$ 30,844,731</u>
Liabilities and Net Assets		
Unrestricted current liabilities	\$ 417,074	\$ 580,666
Restricted current liabilities	1,215,279	1,165,647
Long-term debt	4,148,836	--
Net assets-invested in capital assets, net	22,490,681	24,418,975
Net assets-restricted	1,809,507	2,208,420
Net assets-unrestricted	<u>3,975,924</u>	<u>2,471,023</u>
	<u>\$ 34,057,301</u>	<u>\$ 30,844,731</u>
Revenue and Expenses		
Operating revenue:		
User charges	\$ 4,112,349	\$ 4,485,121
Other	<u>473,617</u>	<u>658,290</u>
	4,585,966	5,143,411
Operating expenses	<u>4,970,873</u>	<u>4,855,567</u>
Operating (loss) income	(384,907)	287,844
Non-operating revenue (expense), net	<u>(355,043)</u>	<u>(392,717)</u>
Decrease in net assets	<u>\$ (739,950)</u>	<u>\$ (104,873)</u>

Raritan Township Municipal Utilities Authority

Management's Discussion and Analysis

November 30, 2010 and 2009

Overview of the Financial Statements

The Authority's financial statements are prepared on the basis of accounting principles generally accepted for governmental units. The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

The three basic financial statements presented within the financial statements are as follows:

Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities.

Statement of Revenue, Expenses and Changes in Net Assets – This statement reflects the operating revenue and expenses as well as non-operating revenue and expenses during the year. The major source of operating revenue is user charges. Net income is similar to net income for a business enterprise.

Statement of Cash Flows – This statement presents changes in cash and cash equivalents resulting from operating activities, investing activities, and financing activities.

Financial Highlights

Total Operating Revenues were \$4,585,966 for the year ended November 30, 2010, a decrease of \$557,445, or 10.8% lower than total operating revenues of \$5,143,411 for the year ended November 30, 2009. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Revenues were \$4,585,966 for the year ended November 30, 2010 which was 5.8% of the adopted budget of \$4,871,273 (excluding the unrestricted net assets appropriated of \$1,758,523 for operations and for capital projects). Details can be found in the Schedule of Revenues for the year ended November 30, 2010 in the supplementary information section of this report.

Total Operating Expenditures were \$4,970,873, for the year ended November 30, 2010, an increase of \$115,306, or 2.4% higher than the total operating expenditures of \$4,855,567 for the year ended November 30, 2009. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Expenditures were \$4,467,286 (excluding depreciation of \$503,587) for the year ended November 30, 2010 which was 85.2% of the operating expenditures of the adopted budget of \$5,241,548 (excluding \$313,245, which was the special assessment to Raritan Township). Details will be found in the Schedule of Expenditures for the year ended November 30, 2010 in the supplementary information section of this report.

Included in other non-operating revenue (expense) is an amount of \$313,245 and \$403,615 for the years ended November 30, 2010 and 2009, respectively, that the Township of Raritan appropriated from the authority's unrestricted net assets for the use in the Township's budget pursuant to the provisions of N.J.S.A. 40A:5A-12.1.

In regard to capital projects, \$1,050,000 was budgeted for the year ended November 30, 2010 of which \$404,259 has been spent and capitalized as additional fixed assets.

The user fee for one EDU (Equivalent Dwelling Unit or 300 gallons per day) remained at \$420 per year and the base user fee portion also remained the same at \$54. The connection fee, set by statute, increased from \$3,812 to \$3,929.

During the year ended November 30, 2010, the Authority borrowed \$3,810,000 (delivered 8/12/2010) through a series of 2010 sewer system revenue bonds to fund nine separate projects with the first interest payments due 5/1/2011 and the first repayment of principal due 11/1/2011.

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2010 and 2009**

A description of currently known facts, decisions, or conditions expected to have significant affects on the financial position or the results of operations of the RTMUA follows:

According to a Notice of Rule Proposal, the NJ Department of Environmental Protection (Land Use Management) Division of Watershed Management is proposing changes to the Water Quality Management Planning rules, N.J.A.C. 7:15.

The Department is proposing to amend the rules in numerous ways to, among other things, include the following:

- Reassignment of wastewater management planning responsibility to the County Board of Chosen Freeholders.
- Withdrawal and re-designation of wastewater service areas where the applicable wastewater management plan (WMP) is not in compliance with the mandatory update schedule contained in the rules (statewide there are 193 non-complying plans (including RTMUA) and 12 that are in compliance).
- A requirement that municipalities pass an ordinance designed to assure septic system maintenance.
- A requirement that updated WMPs address septic density in a manner that demonstrates compliance with a 2 mg/L (ppm) nitrate-planning standard.

The first and second proposed amendments can be viewed as detrimental to RTMUA in that our involvement in the WMP process will be greatly reduced. We will no longer be able to lead the WMP process, instead, we will be relegated to the role of a source of data for the Plan. This process began in late 2008 with a required completion date of August 31, 2009 which date has been extended several times at the request of The Hunterdon County Planning Office and is now April 7, 2011.

The effect on lost revenues and probable legal action should these rules be adopted as proposed will be significant but is unknown at this time.

There is the probability that the NJDEP will require the permit level of the main plant effluent level of phosphorous to be somewhere in the range of 0.6 mg/l, which is an improvement over the previously anticipated level of less than or equal to 0.1 mg/l. The NJDEP will be setting this level after reviewing the final results of the Raritan River TMDL (Total Maximum Daily Load) study that has been completed and is awaiting publication.

NJDEP has stated that discharge permits will be revised as soon as the TMDL is published, not at the normal expiration of the permit, and authorities will be given about 36 months, not the usual 60 months, to comply. The cost of modifications to the main plant to meet these limits will be significant but is unknown until the permit parameters and implementation timing are published.

The RTMUA is currently operating under a Capacity Assurance Program with the NJDEP that limits the amount of new sewer connections RTMUA is allowed to make. This was caused by a discharge rate that exceeded 80% of the main plant's permitted capacity of 3.8 million gallons per day for a 90-day moving average. During 2008, 2009 and 2010, significant work was done by both RTMUA and the Boro of Flemington to reduce extraneous flows aimed at reducing our discharge rate to less than 80% of rated capacity. Should the unlikely situation arise wherein the plant is deemed to be over capacity by the NJDEP, a sewer hookup ban could be imposed with significant but unknown financial impact.

In this difficult economic period, the Governor and Legislature are attempting to bring about financial relief and a balanced budget by many means including Executive Orders and new legislation. If some of these are passed and made into law, Municipal Authorities will be affected, and the financial impact could be significant, but is unknown at this time.



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Independent Auditors' Report on Audit of the Financial Statements

Honorable Chairman and Commissioners of the
Raritan Township Municipal Utilities Authority
Flemington, New Jersey

We have audited the accompanying financial statements of the Raritan Township Municipal Utilities Authority ("the Authority") as of and for the years ended November 30, 2010 and 2009, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Raritan Township Municipal Utilities Authority as of November 30, 2010 and 2009 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Withum Smith + Brown, PC

March 14, 2011



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards (Material Weaknesses Identified, No Significant Deficiencies Identified, No reportable Instances of Noncompliance or Other Matters Identified)

Honorable Chairman and Commissioners of the
Raritan Township Municipal Utilities Authority
Flemington, New Jersey

We have audited the financial statements of the Raritan Township Municipal Utilities Authority ("the Authority") as of and for the years ended November 30, 2010 and 2009, and have issued our report thereon dated March 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management, the governing body, others within the entity, and the Division of Local Government Services, Department of Community Affairs, and the State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

Withum Smith & Brown, PC

March 14, 2011

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	\$ 1,487,867	\$ 2,226,445
Investments	1,250,000	-
Accrued interest	3,906	10,417
Sewer fees receivable	1,549,352	814,827
Total unrestricted assets	<u>4,291,125</u>	<u>3,051,689</u>
Restricted assets		
Cash and cash equivalents	2,269,970	1,370,905
Investments	754,487	2,000,979
Accrued interest	329	2,183
Total restricted assets	<u>3,024,786</u>	<u>3,374,067</u>
Total current assets	7,315,911	6,425,756
Noncurrent assets		
Unamortized bond issue costs, net of amortization of \$1,749 and \$0 at November 30, 2010 and 2009	101,873	-
Property, plant and equipment		
Land, building, machinery, equipment	38,113,973	37,987,146
Construction in progress	3,516,330	836,672
	<u>41,630,303</u>	<u>38,823,818</u>
Less: accumulated depreciation	<u>(14,990,786)</u>	<u>(14,404,843)</u>
Property, plant and equipment - net	<u>26,639,517</u>	<u>24,418,975</u>
Total noncurrent assets	<u>26,741,390</u>	<u>24,418,975</u>
	<u>\$ 34,057,301</u>	<u>\$ 30,844,731</u>

The Notes to Financial Statements are an integral part of these statements.

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2010 and 2009

	2010	2009
Liabilities and Net Assets		
Current liabilities		
Unrestricted		
Accounts payable	\$ 230,237	\$ 381,578
Accrued salaries	87,069	86,438
Accrued vacation and sick pay	99,768	112,650
Total unrestricted liabilities	<u>417,074</u>	<u>580,666</u>
Restricted		
Accrued interest payable	50,811	-
Funds held in trust	1,164,468	1,165,647
Total restricted liabilities	<u>1,215,279</u>	<u>1,165,647</u>
Total current liabilities	1,632,353	1,746,313
Long-term debt, plus unamortized premium of \$338,836 and \$0 at November 30, 2010 and 2009	<u>4,148,836</u>	<u>-</u>
Total liabilities	<u>5,781,189</u>	<u>1,746,313</u>
Net assets		
Invested in capital assets, net of related debt	22,490,681	24,418,975
Restricted for debt service	373,909	-
Restricted for renewal and replacement	90,956	89,966
Restricted for capital projects	1,344,642	2,118,454
Unrestricted	3,975,924	2,471,023
Total net assets	<u>28,276,112</u>	<u>29,098,418</u>
	<u>\$ 34,057,301</u>	<u>\$ 30,844,731</u>

The Notes to Financial Statements are an integral part of these statements.

Raritan Township Municipal Utilities Authority
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended November 30, 2010 and 2009

	2010	2009
Operating revenues		
User charges	\$ 4,112,349	\$ 4,485,121
Other income	446,397	598,028
Interest income	<u>27,220</u>	<u>60,262</u>
Total operating revenues	4,585,966	5,143,411
Operating expenses		
Cost of providing services	2,952,313	2,928,703
Administrative and general	<u>1,514,973</u>	<u>1,422,020</u>
	4,467,286	4,350,723
Depreciation	<u>503,587</u>	<u>504,844</u>
Total operating expenses	<u>4,970,873</u>	<u>4,855,567</u>
Operating (loss) income	(384,907)	287,844
Non-operating revenue (expenses)		
Special appropriation to Raritan Township	(313,245)	(403,615)
Interest income	998	6,707
Interest savings (expense)	<u>(42,796)</u>	<u>4,191</u>
Non-operating revenue (expenses) - net	<u>(355,043)</u>	<u>(392,717)</u>
Decrease in net assets, before contributed capital	(739,950)	(104,873)
Transfer of depreciation from operations to contributed capital	(82,356)	(82,356)
Net assets, December 1	<u>29,098,418</u>	<u>29,285,647</u>
Net assets, November 30	<u>\$ 28,276,112</u>	<u>\$ 29,098,418</u>

The Notes to Financial Statements are an integral part of these statements.

Raritan Township Municipal Utilities Authority
Statements of Cash Flows
Years Ended November 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Operating revenue collected	\$ 3,856,772	\$ 4,646,207
Cash payments to vendors for goods or services	(2,693,311)	(2,226,513)
Cash payments to employees for services	(1,935,087)	(1,883,588)
Net cash (used in) provided by operating activities	(771,626)	536,106
Cash flows from capital and related financing activities		
Advances of long-term debt	3,810,000	-
Repayment of long-term debt	-	(217,257)
Premium on bond issuance	348,600	-
Costs of bond issuance	(103,622)	-
Interest savings (paid)	-	4,191
Net cash provided by (used in) capital and related financing activities	4,054,978	(213,066)
Cash flows from investing activities		
(Increase) decrease in investments	(3,508)	3,691,975
Restricted interest income	2,852	8,425
Special appropriation to Raritan Township	(313,245)	(403,615)
Investment in property, plant and equipment	(2,808,964)	(1,782,576)
Net cash (used in) provided by investing activities	(3,122,865)	1,514,209
Net increase in cash and cash equivalents	160,487	1,837,249
Cash and cash equivalents		
Beginning of the year	3,597,350	1,760,101
End of year *	<u>\$ 3,757,837</u>	<u>\$ 3,597,350</u>
* Balance at end of year consists of		
Unrestricted	\$ 1,487,867	2,226,445
Restricted	2,269,970	1,370,905
	<u>\$ 3,757,837</u>	<u>\$ 3,597,350</u>
Reconciliation of decrease in net assets, before contributed capital to net cash (used in) provided by operating activities		
Operating (loss) income	\$ (384,907)	\$ 287,844
Adjustments to reconcile (decrease) increase in net assets, before contributed capital to net cash (used in) provided by operating activities		
Depreciation	503,587	504,844
(Increase) decrease in accrued interest receivable	6,511	82,232
(Increase) decrease in sewer fees receivable	(734,525)	(524,104)
Increase (decrease) in accounts payable and accrued expenses	(161,113)	240,623
Increase (decrease) in funds held in trust	(1,179)	(55,333)
Net cash (used in) provided by operating activities	<u>\$ (771,626)</u>	<u>\$ 536,106</u>

The Notes to Financial Statements are an integral part of these statements.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

1. Nature of Operations

The Raritan Township Municipal Utilities Authority ("the Authority") was created by Raritan Township, Hunterdon County, New Jersey to construct and operate a wastewater collection and treatment system to serve the residents of Raritan Township. The plant has 3.8 mgd of treatment capacity. The five commissioners of the Authority are appointed by the elected body of Raritan Township. The Borough of Flemington and Township of Readington are customers of the Authority. The Authority bills and collects its revenue from users of the system. The Authority has entered into a service agreement with Raritan Township to guarantee its debt.

As a public body, under existing statute, the Authority is exempt from both Federal and State taxes. The various funds used by the Authority to control its assets are authorized in the Bond Resolution adopted on June 17, 2010, the purpose of which was to provide financing for capital improvements of the Authority and pay the costs of issuance of the bonds. The Bond Resolution restricts various transactions and requires that certain transfers be made between funds. The Bond Resolution is on file in the Authority's office

2. Summary of Significant Accounting Policies

The accounting policies of the Authority are in accordance with accounting principles generally accepted in the United States of America 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 more significant of the Authority's accounting policies are described below.

Basis of Presentation – Fund Accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements that do not conflict with or contradict GASB pronouncements and that are developed for business enterprises.

These financial statements include GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments and related standards. The standard provides for significant changes in terminology; recognition of contributions in the Statements of Revenues, Expenses and Changes in Net Assets; inclusion of a management discussion and analysis as supplementary information; and other changes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statements of Net Assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

Budgetary Procedures and Budgetary Accounting

The Authority adheres to the following procedures in establishing the budgetary data reflected in these financial statements:

At least 60 days prior to November 30, the Authority must file its operating budget with the director of the Division of Local Government Services for his/her approval. Within 45 days after receipt of the Authority budget, the director shall either approve the budget or notify the Authority of his/her reasons for refusing to approve and state the conditions upon which approval will be granted. After the Director's approval, the Authority formally adopts the budget.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

The budgetary basis of accounting is utilized to determine if the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

The Authority prepares its budget on a basis of accounting that conforms to the practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Restricted Accounts and Restrictions on Net Assets

In accordance with the 2010 Bond Resolution, the Authority has established the following funds to maintain the cash and investments accounts for the deposit, in the priority of the order listed, of all revenues received by the Authority:

Fund	Amount	Use for Which Restricted
Revenue	All revenue received by the Authority using several bank accounts.	Authorized operating expense transfers to the various accounts described below.
Operating	Amount to cover operating expenses on a monthly basis as shown in the annual budget.	Operating expenses
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest due at the end of the current month plus all interest or principal accruing through the end of the month.	Principal and interest on the bonds.
Bond Reserve (Future Debt Service)	Amount needed to equal the maximum future annual debt service.	Transfers to meet minimum levels required in the bond service or sinking accounts. Any excess may be transferred into the General Fund.
Renewal and Replacement	Amount needed to increase the balance to equal the renewal and replacement requirements as defined by the resolution.	Transfers to meet minimum levels required in the bond service, sinking or bond reserve accounts for major repairs, renewals and extensions of the system.
Construction	Amount used for future capital projects as determined by Authority commissioners	For capital projects and improvements
General	Excess from other funds.	If all other funds are at required amounts, funds are not restricted.

Disbursements from these accounts are made by the Trustee upon requisition of the Authority. In addition to the above, the Authority has also established the following restricted account:

Funds Held in Trust - primarily customer deposits held to assure payment or performance.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

Basis of Accounting

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method, revenues are recorded in the accounting period in which they are earned and expenses are recorded as incurred.

Revenue Recognition

The Authority generates the vast majority of its revenues through user fees that are charged to residents and industrial customers who use the services provided by the Authority. User fees are billed on a quarterly basis, and are recorded on an accrual basis as earned.

Historically, the Authority has had very few delinquent accounts. Management does not deem it necessary to record an allowance against its receivables, as it has a tax lien placed against any delinquent accounts. Additionally, the Authority's customer base is fairly vast and individual delinquent account balances are normally insignificant.

Cash and Cash Equivalents

The Authority considers all unrestricted and restricted checking, savings, and money market accounts to be cash equivalents. All certificates of deposit with financial institutions are considered investments.

Fair Value of Financial Instruments

Effective December 1, 2008, the Authority adopted FASB ASC 820 (formerly, "Fair Value Measurements" (SFAS 157)). FASB ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under FASB ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under FASB ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement did not have a material impact on the Authority's financial statements.

In February 2007, the FASB issued FASB ASC 825 (formerly SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115"). This statement permits entities to choose to measure eligible financial instruments and certain other items at fair value. It became effective for fiscal years beginning after November 15, 2007. The Authority has not adopted FASB ASC 825.

Unamortized Bond Issue Costs

Bond issue costs are amortized over the life of the bond issue on a straight line basis, with the amortization being a component of interest expense. Amortization of bond issue costs included in interest expense was \$1,749 and \$0 for November 30, 2010 and 2009, respectively. The amortization of these costs to be included in interest expense will be \$5,247 per year until fully amortized in 2030.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

Property, Plant, and Equipment

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided using the straight-line method over the following estimated useful lives:

Building, Sewerage Treatment Plant and Pumping Stations	15-75 years
Sewer Mains	75 years
Other Equipment	5-15 years
Vehicles	7-10 years

Depreciation on assets acquired with government grants or other contributed capital is recorded as a reduction of contributed capital.

Unamortized Bond Premiums

Bond premiums are included in long term debt with the related bond issue debt and are being amortized over the lives of the bonds using the effective interest method. The current period amortization is a component of interest expense on the statements of revenues and expenses.

Compensated Absences

The Authority allows all employees to accumulate unused sick time, which may be paid as of the last day of the calendar year or at retirement at the employee's current rate of pay. Administrative personnel are allowed to accumulate up to 40 hours unused vacation pay, which may be paid at retirement or resignation at the employee's current rate of pay. The union contract does not allow union personnel to accumulate unused vacation. Any vacation accumulating because of work is credited to the individual employee and must be taken during the next six months. The Authority has accrued for these liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts for the year ended November 30, 2009 have been reclassified in these comparative financial statements. These reclassifications had no effect on the change in net assets.

3. Cash and Cash Equivalents

At November 30, 2010 and 2009, the carrying amount of the Authority's cash and cash equivalents was \$3,757,837 and \$3,597,350, respectively, which was comprised of:

	2010	2009
Bank checking and savings accounts (bank balances of \$2,354,836 and \$3,593,692 at November 30, 2010 and 2009, respectively)	\$ 2,413,186	\$ 3,597,350
First American Treasury Obligation Fund – Money Market	<u>1,344,651</u>	<u>—</u>
	<u>\$ 3,757,837</u>	<u>\$ 3,597,350</u>
Unrestricted cash and cash equivalents	\$ 1,487,867	\$ 2,226,445
Restricted cash and cash equivalents	<u>2,269,970</u>	<u>1,370,905</u>
	<u>\$ 3,757,837</u>	<u>\$ 3,597,350</u>

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

All of the bank balances have been deposited in public depositories, which are fully insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation (FDIC) and in excess of \$250,000 are fully collateralized by the bank through the Government Unit Deposit Protection Act (GUDPA).

4. Fair Value Accounting

Recurring Fair Value Measurements

Pursuant to the requirements of FASB ASC 820, the Authority has provided fair value disclosure information for relevant assets and liabilities in these financial statements. The following table summarizes assets which have been accounted for at fair value on a recurring basis as of November 30, 2010 and 2009, along with the basis for the determination of fair value:

	Total	Basis for Valuation		
		Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit at November 30, 2010	\$ 2,004,487	\$ --	\$ 2,004,487	\$ --
Certificates of deposit at November 30, 2009	\$ 2,000,979	\$ --	\$ 2,000,979	\$ --

For applicable assets and liabilities subject to this pronouncement, the Authority will value such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, the Authority will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Authority will develop measurement criteria based on the best information available. The Authority has used observable measurement criteria as a means to value all assets under this pronouncement.

5. Investments and Accrued Interest

At November 30, 2010, the face amount of the Authority's certificates of deposits and related interest rates and maturity dates were as follows:

<u>Fund</u>	<u>Bank</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>
Unrestricted:				
General	Hopewell Valley Comm.	.75%	12/6/10	\$ 1,250,000
Restricted – Reserved:				
Renewal and Replacement	Hopewell Valley Comm.	1.09%	2/7/11	90,627
Restricted - Trust:				
Reserve capacity	Team Capital	0.60%	10/31/11	630,180
Bond & coupon	Hopewell Valley Comm.	1.25%	5/24/11	33,680
Total restricted investments				<u>754,487</u>

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

At November 30, 2009, the face amount of the Authority's certificates of deposits and related interest rates and maturity dates were as follows:

<u>Fund</u>	<u>Bank</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>
Restricted – Reserved:				
Renewal and Replacement	Skylands	2.96%	1/8/2010	\$ 87,783
General (Reserved)	Team Capital	2.00%	12/04/09	1,250,000
Restricted - Trust:				
Reserve capacity	Hopewell Valley Comm.	1.50%	10/29/10	630,180
Bond & coupon	Hopewell Valley Comm.	1.98%	5/24/10	<u>33,016</u>
Total restricted investments				<u>2,000,979</u>
Total investments				<u>\$ 2,000,979</u>

At November 30, 2010 and 2009, investments at face amount approximate fair market value.

All of the certificates of deposit have been deposited in public depositories, which are fully insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation (FDIC) and in excess of \$250,000 are fully collateralized by the bank through the Government Unit Deposit Protection Act (GUDPA).

6. Contributed Capital Assets

The Authority's historical cost basis of the Capital Assets (Property, Plant and Equipment) includes assets that were contributed primarily through donations by the Township and developers. These assets are being depreciated on a straight line basis over generally a 75 year life from the date placed in service. The depreciation is not recorded through the statement of revenue and expenses but rather is charged directly against net assets on the statement of changes in net assets. In the years ended November 30, 2010 and 2009, depreciation of \$82,356 was charged to net assets.

Contributed Capital	\$ 5,852,891
Less: Accumulated Depreciation	<u>2,364,513</u>
Contributed Capital, net	<u>\$ 3,488,378</u>

7. Long Term Debt

Guaranteed Sewer System Revenue Bonds

The guaranteed sewer system revenue bonds, series 2010 (the "Bonds") were issued in the amount of \$3,810,000 with interest rates ranging from 3% to 5%, pursuant to, and secured by, a trust indenture dated July 27, 2010 by and between the Authority and TD Bank, National Association, Trustee. The Bonds are authorized and issued pursuant to the Municipal and County Utilities Authorities Law and a bond resolution of the Authority adopted June 17, 2010, as variously amended and supplemented (the "Resolution"). The Bonds constitute direct obligations of the Authority and are secured under the provisions of the Resolution pledging the revenues and all funds established by the Resolution to secure the payment of principal of and the interest on the bonds. The bonds are further secured by payments required to be made by the Township of Raritan (the "Township") under a service contract between the Authority and the Township. The bonds were issued to provide funds for certain capital improvements of the Authority and to pay the costs of the issuance of the bonds. Scheduled future principal and interest maturities with respect to the 2010 Series bonds from debt service accounts at November 30, 2010 are as follows.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011		\$ -	\$ 203,708	\$ 203,708
2012	3.00%	140,000	164,950	304,950
2013	3.00%	145,000	160,675	305,675
2014	3.00%	145,000	156,325	301,325
2015	3.00%	150,000	151,900	301,900
2016	3.00%	155,000	147,325	302,325
2017	4.00%	160,000	141,800	301,800
2018	4.00%	170,000	135,200	305,200
2019	4.00%	175,000	128,300	303,300
2020	4.00%	180,000	121,200	301,200
2021	4.00%	190,000	113,800	303,800
2022	5.00%	200,000	105,000	305,000
2023	5.00%	210,000	94,750	304,750
2024	5.00%	220,000	84,000	304,000
2025	5.00%	230,000	72,750	302,750
2030 (term bond)*	5.00%	<u>1,340,000</u>	<u>174,250*</u>	<u>1,514,250</u>
Total Debt Service		<u>3,810,000</u>	<u>\$ 2,155,933</u>	<u>\$ 5,965,933</u>
Plus: Unamortized bond premiums		<u>338,836</u>		
		<u>\$ 4,148,836</u>		

*See sinking fund requirements and details

The Bonds maturing prior to May 1, 2021 are not subject to redemption prior to their stated maturities. The Bonds maturing on May 1, 2021 are redeemable at the option of the Authority in whole on any date on or after May 1, 2020 upon notice as required in the Resolution at 100% of the of the principal plus accrued interest.

Sinking Fund Requirements

The bonds maturing on May 1, 2030 are subject to mandatory redemption prior to maturity by application of moneys required to be deposited for that purpose in the Sinking Fund Account on May 1 in each year set forth below at a redemption price equal to 100% of the principal amount thereof, plus interest accrued.

	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2026	5.00%	\$ 240,000	\$ 61,000	\$ 301,000
2027	5.00%	255,000	48,625	303,625
2028	5.00%	270,000	35,500	305,500
2029	5.00%	280,000	21,750	301,750
2030	5.00%	<u>295,000</u>	<u>7,375</u>	<u>302,375</u>
Total Sinking Fund payments		<u>\$ 1,340,000</u>	<u>\$ 174,250</u>	<u>\$ 1,514,250</u>

Bond Premiums

The original issue bond premiums of \$348,600 are being amortized over the lives of the respective series of bonds using the effective interest rate method. The bond premium amortization as a component of interest expense totaled \$ 9,764 and \$0 for November 30, 2010 and 2009, respectively. At November 30, 2010 and 2009, accumulated amortization on the bond premium totaled \$9,764 and \$0, respectively.

State of New Jersey Loans

The Authority received loans from the State of New Jersey, Department of Environmental Protection ("DEP") and the New Jersey Wastewater Treatment Trust ("WWT") in 1988 and 1989 to finance plant expansion, as follows:

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

	<u>DEP Amount</u>	<u>Interest Rates</u>	<u>WWT Amount</u>	<u>Remaining Interest Rates</u>
1988	\$4,517,500	0%	\$ 4,830,000	7.375%
1989	<u>1,467,899</u>	0%	<u>1,545,000</u>	7.00%
	<u>\$5,985,399</u>		<u>\$ 6,375,000</u>	

The DEP loans were interest free.

The New Jersey Wastewater Treatment Trust closed on a refinancing of four previously issued bond series on July 1, 1996. One of the refinancings refunded part of the Wastewater Treatment Loan Revenue Bonds Series 1988A. The Authority received a loan on November 1, 1988 from the 1988A financing. As a result of this refinancing, the Authority has incurred savings of \$368,482.

The New Jersey Wastewater Treatment Trust closed on a refinancing of four previously issued bond series on January 30, 1997. One of the refinancings refunded part of the Wastewater Treatment Loan Revenue Bonds Series 1989A. The Authority received a loan on November 1, 1989 from the 1989A financing. As a result of this refinancing, the Authority has incurred savings of \$83,134.

These bonds were fully paid-off during the fiscal year ended November 30, 2009.

Arbitrage Rebate

Pursuant to the Internal Revenue Code of 1986, Section 418 regarding excess earnings, an arbitrage rebate could be due to the United States Government. The rebate amount is the excess aggregate amount earned on unspent bond proceeds over the amount that would have been earned if the yield on such unspent proceeds had been equal to the bond yields.

The Arbitrage Rebate Liability to the Internal Revenue Service for the affected Bond Issues of the Authority is calculated annually. No accrual was required as of November 30, 2010.

8. Amounts Required by Bond Resolution

The following fund balances are required by the June 2010 bond resolution for long term debt as described in Note 7. The Board of Commissioners have agreed to continue with the renewal and replacement fund for emergency repairs and maintenance:

	2010	2009
Bond Service Fund:		
Required	\$ 50,300	\$ --
Actual, November 30	119,045	--
Excess	<u>\$ 68,745</u>	<u>\$ --</u>
Bond Service Reserve Fund:		
Required	\$ 305,675	\$ --
Actual, November 30	305,675	--
Excess	<u>\$ --</u>	<u>\$ --</u>
Renewal and Replacement Fund:		
Required (per board resolution)	\$ 90,956	\$ 89,966
Actual, November 30	90,956	89,966
Excess	<u>\$ --</u>	<u>\$ --</u>
Totals:		
Required (per board resolution)	\$ 446,931	\$ 89,966
Required	--	--
Actual, November 30	515,676	89,966
Excess	<u>\$ 68,745</u>	<u>\$ --</u>

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2010 and 2009

9. Pension Contribution

The Authority participates in the Public Employees' Retirement System of New Jersey ("PERS"), which is a part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The plan, which covers public employees throughout the State, does not maintain separate records for each reporting unit and, accordingly, the actuarial data for the employees of the Authority who are members of the plan is not available. Employees of the Authority contribute to the plan. The Authority was required to make a contribution of \$135,332 in 2010 and \$65,203 in 2009.

10. Risk Management and Concentrations

Risks of losses from worker's compensation, property, automobile, liability, and public officials liability are covered by commercial insurance, including excess liability insurance.

At November 30, 2010 and 2009, the Authority was owed \$1,200,478 and \$639,039 by one customer. This balance has increased and aged due to ongoing negotiations of the contract between the Authority and the customer and does not include accrued interest on late balances. No allowance for bad debt was deemed necessary by management with regard to this or any other receivable.

11. Contingencies and Commitments

There is the possibility that the NJDEP will require the permit level of the main plant effluent level of phosphorous to be approximately equal to 0.6 mg/l. The cost of modifications to the main plant to meet these limits would be significant but is unknown at this time.

The RTMUA is currently operating under a Capacity Assurance Program with the NJDEP that could limit the amount of new sewer connections allowed. Should the unlikely situation arise wherein the plant is deemed to be over capacity by the NJDEP, a ban on new sewer hookups could be imposed.

During the year ended November 30, 2010, the Authority entered into several contracts related to the expansion of the sewage plant and/or related sewerage lines and pumping stations. These contracts commit the Authority for a period of up to approximately two to three years, and amount to approximately \$1,300,000. As of November 30, 2010, the Authority has either paid budgeted or borrowed for these projects. As such, the Authority has restricted sufficient funds, in restricted cash and cash equivalents and restricted investments, to meet these obligations.

12. Subsequent Events

The Company has evaluated subsequent events occurring after the balance sheet date through March 14, 2011, the date the financial statements were available for release. Subsequent to the balance sheet date, the Authority has entered into contracts related to the rehabilitation of the sewer plant and/or related sewer lines and pumping stations that were previously approved under the bond resolution for funding these projects.

Supplementary Information

Raritan Township Municipal Utilities Authority
Schedule of Revenues
Year Ended November 30, 2010

	Adopted Budget	Realized
Unrestricted net assets appropriated	\$ 1,758,523	\$ -
User charges and fees	4,062,222	4,112,349
Interest on investments and deposits	250,000	27,220
Other revenues	559,048	446,397
	<u>\$ 6,629,793</u>	<u>\$ 4,585,966</u>
Analysis of other revenues		
Interest on delinquent accounts	\$ 10,000	\$ 29,618
Septage and GreyWater income	260,000	339,140
Hook-up fees	280,000	65,877
Other	9,048	11,762
	<u>\$ 559,048</u>	<u>\$ 446,397</u>

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2010

		Adopted 2009 - 2010 Budget	Expended Paid or Charged
Operating appropriations			
	Personnel services		
	Salaries and wages		
5001	Administration	\$ 280,913	\$ 276,305
5002	Operations	1,634,147	1,456,543
5003	Commissioners	10,500	9,423
5012	Operations overtime	95,000	113,030
5013	Administration overtime	1,500	1,338
5014	Sick/vacation time purchased	25,000	36,098
	Sub-total personnel services	<u>2,047,060</u>	<u>1,892,737</u>
	Employee benefits		
6010	P/R benefits - PERS pension and insurance	117,423	135,332
6030	P/R benefits - medical plan	428,184	412,807
6040	P/R taxes	156,600	148,804
	Sub-total employee benefits	<u>702,207</u>	<u>696,943</u>
	Administrative expenses		
6050	Professional services - legal	45,000	39,826
6060	Professional services - auditor	30,000	24,000
6065	Professional services - accounting	2,000	11,454
6070	Professional services - engineering	45,000	58,690
6080	Professional services - medical	2,000	15
6090	Trustee fee	2,000	-
6095	Professional services - independent contractor	35,000	24,885
6101	Insurance	200,000	155,582
6110	Education	15,000	9,777
6120	Travel expenses	17,000	11,313
6130	Dues and memberships	5,000	4,519
6140	Conferences and seminars	10,000	7,216
6155	Office expense	31,000	21,650
6160	Public advertisements	3,000	4,411
6165	Postage	8,500	9,741
6180	Permits, licenses, easement fees	25,000	20,224
6201	Administrative housing - maintenance	5,000	-
6301	Retirement benefits	47,281	59,794
6401	Computer maintenance and upgrade	35,000	31,767
6501	Appropriation to municipality	313,245	313,245
	Sub-total administrative expenses	<u>876,026</u>	<u>808,109</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2010

		Adopted 2009 - 2010 Budget	Expended Paid or Charged
	Operations and maintenance expenses		
7010	Chemical costs - chlorine	50,000	32,434
7011	Chemical costs - polymer	26,000	29,205
7015	Chemical costs - other	31,000	23,271
7110	Utility costs - electric	600,000	510,116
7112	Utility costs - natural gas and propane	35,000	9,838
7114	Utility costs - telephone	14,500	15,619
7211	Supplies and services - sludge disposal	430,000	440,819
7212	Tools	7,000	2,310
7213	Janitorial supplies	4,000	2,565
7214	Supplies and services - gasoline	30,000	14,476
7216	Supplies and services - lab expense	18,000	9,971
7217	Supplies and services - independent lab	15,000	8,397
7218	Safety equipment	10,000	7,141
7309	Maintenance - collection system	50,000	32,671
7310	Maintenance - treatment plant	130,000	53,752
7311	Maintenance - buildings and grounds	210,000	16,917
7312	Maintenance - painting	2,000	615
7314	Maintenance - instr. and meter calib	20,000	6,338
7315	Maintenance - vehicle	6,500	7,120
7316	Maintenance - plant lab	3,000	2,694
7501	Miscellaneous contingencies	20,000	2,317
7317	Maintenance - septage	25,000	14,492
7701	Leasing - vehicle	4,500	1,675
	Sub-total operations and maintenance expenses	<u>1,741,500</u>	<u>1,244,753</u>
	Flemington Storm Water Facility:		
5005	Salaries and wages	15,000	14,044
5006	Salaries and wages - overtime	25,000	28,070
8010	Legal	42,000	7,872
8013	Accounting	5,000	-
8015	Engineering	10,000	32,370
8020	Insurance	1,000	-
8030	Permits	7,000	5,635
8101	Chemicals	9,000	12,055

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2010

		Adopted 2009 - 2010 Budget	Expended Paid or Charged
8110	Utilities	40,000	24,594
8201	Services and supplies - lab	10,000	6,100
8210	Safety supplies and equipment	1,000	811
8301	Maintenance - operations	10,000	1,041
8310	Maintenance - buildings and grounds	10,000	3,548
8320	Maintenance - instrumentation and metering	3,000	1,848
	Sub-total Flemington facility	<u>188,000</u>	<u>137,988</u>
	Sub-total operating	<u>5,554,793</u>	<u>4,780,530</u>
	Capital outlays		
7411	Capital acquisition - plant upgrades	<u>1,050,000</u>	<u>404,259</u>
	Sub-total capital	<u>1,050,000</u>	<u>404,259</u>
	Sub-total operating and capital	<u>6,604,793</u>	<u>5,184,789</u>
	Debt service		
	Bond principal and interest	25,000	-
	Section 612 requirement	<u>25,000</u>	<u>-</u>
	Total operating appropriations	<u>\$ 6,629,793</u>	<u>\$ 5,184,789</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Findings and Recommendations
November 30, 2010

Findings related to the financial statement which are required to be reported in accordance with GAGAS:

Finding #2010-1

During the course of our audit we noted that the accounts receivable subsidiary ledger had not been reconciled to the Authority's general ledger and that the general ledger was misstated by a significant amount. We consider this to be a material weakness in the Authority's controls as defined in our 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 found in these financial statements.

Criteria

Management is responsible for developing a system of internal controls that allow management or employees to identify misstatements in the financial reporting in a timely manner. This would include proper reconciliations of subsidiary ledgers to the general ledger.

Effect

The accounts receivable balance reported in the financial reports submitted for audit was materially understated.

Cause

We have concluded that this condition resulted from a lack of understanding or training with respect to certain aspects of the Authority's billing software system and its interface with the general ledger system and the lack of a defined process to reconcile the month end reports.

Recommendation

We recommend that individuals responsible for financial reporting in this area obtain training on the software system, employing the assistance of the software provider if necessary. We further recommend the implementation of a month end reconciliation checklist to ensure proper month end verifications of the accounts receivable balances that would include a management level review of the reconciliation upon completion.

Response

The Authority will attempt to contact the software provider to obtain additional training on relevant aspects of the billing software system and work quickly to develop a month end reconciliation process to ensure proper reporting of the accounts receivable balances.