

**RARITAN TOWNSHIP MUNICIPAL UTILITIES
AUTHORITY**

Financial Statements

November 30, 2011 and 2010

With Independent Auditors' Report

Raritan Township Municipal Utilities Authority
Table of Contents
November 30, 2011 and 2010

	Page(s)
Roster of Officials.....	1
Management's Discussion and Analysis.....	2-4
Independent Auditors' Report on the Audit of the Financial Statements	5-6
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 <i>Government Auditing Standards</i>	7-8
Financial Statements	
Statements of Net Assets	9-10
Statements of Revenue, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12
Notes to Financial Statements	13-22
Supplementary Information	
Schedule of Revenues.....	23
Schedule of Expenditures	24-26
Findings and Recommendations	27
Prior Year Findings and Recommendations.....	28

Raritan Township Municipal Utilities Authority
Roster of Officials
November 30, 2011

Authority Commissioners

Michael DeVecchio

Edward Dougherty

Peter L. Kinsella

John Kendzulak

John Tully

Position

Chairperson

Vice Chairperson

Secretary

Treasurer

Asst. Treas./Asst. Sec.

Officials

Hatch Mott MacDonald

Watts, Tice & Skowronek

Wastewater Engineer

Attorney

Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2011 and 2010

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, 2011 and 2010. 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 2011 and 2010.

	2011	2010
Assets		
Unrestricted current assets	\$ 3,255,664	\$ 4,291,125
Restricted current assets	2,473,783	3,024,786
Unamortized bond premiums	96,626	101,873
Property, plant and equipment – net	27,529,412	26,639,517
Other receivable	<u>829,010</u>	<u>--</u>
	<u>\$ 34,184,495</u>	<u>\$ 34,057,301</u>
Liabilities and Net Assets		
Unrestricted current liabilities	\$ 780,926	\$ 417,074
Restricted current liabilities	1,239,508	1,215,279
Long-term debt	3,979,117	4,148,836
Deferred income, net of current portion	829,010	-
Net assets-invested in capital assets, net	23,410,295	22,490,681
Net assets-restricted	1,234,152	1,809,507
Net assets-unrestricted	<u>2,711,487</u>	<u>3,975,924</u>
	<u>\$ 34,184,495</u>	<u>\$ 34,057,301</u>
Revenue and Expenses		
Operating revenue:		
User charges	\$ 4,204,817	\$ 4,112,349
Other	<u>523,386</u>	<u>473,617</u>
	4,728,203	4,585,966
Operating expenses	<u>5,274,882</u>	<u>4,970,873</u>
Operating loss	(546,679)	(384,907)
Non-operating expense, net	<u>(291,143)</u>	<u>(355,043)</u>
Decrease in net assets	<u>\$ (837,822)</u>	<u>\$ (739,950)</u>

Raritan Township Municipal Utilities Authority

Management's Discussion and Analysis

November 30, 2011 and 2010

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 \$4,728,203 for the year ended November 30, 2011, an increase of \$142,237, or 3.10% higher than total operating revenues of \$4,585,966 for the year ended November 30, 2010. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Revenues were \$4,728,203 for the year ended November 30, 2011 which was 93.83% of the adopted budget of \$5,039,204 (excluding the unrestricted net assets appropriated of \$344,226 for operations and for capital projects). Details can be found in the Schedule of Revenues for the year ended November 30, 2011 in the supplementary information section of this report.

Total Operating Expenditures were \$5,274,882, for the year ended November 30, 2011, an increase of \$304,009, or 6.12% higher than the total operating expenditures of \$4,970,873 for the year ended November 30, 2010. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Expenditures were \$4,698,628 (excluding depreciation of \$576,254) for the year ended November 30, 2011 which was 93.4% of the operating expenditures of the adopted budget of \$5,029,721 (excluding \$150,000, which was the special assessment to Raritan Township). Details will be found in the Schedule of Expenditures for the year ended November 30, 2011 in the supplementary information section of this report.

Included in non-operating revenue (expense) is an amount of \$150,000 and \$313,245 for the years ended November 30, 2011 and 2010, 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, \$2,293,500 was budgeted for the year ended November 30, 2011 of which \$1,638,744 has been spent and capitalized as additions to 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.

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2011 and 2010**

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. This matter is still in negotiation.

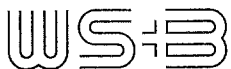
The effect on lost revenues and probable legal action should these rules be adopted as proposed will be significant but is unknown at this time.

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 the past several years, significant work was done by both RTMUA and the Borough 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.



WithumSmith+Brown, PC
Certified Public Accountants and Consultants

3040 Route 22 West, Suite 110
Somerville, New Jersey 08876 USA
908 526 6363 . fax 908 526 9944
www.withum.com

Additional Offices in New Jersey,
New York, Pennsylvania, Maryland,
Florida, and Colorado

Independent Auditors' Report

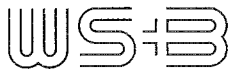
Honorable Chairman and Commissioners of the
Raritan Township Municipal Utilities Authority
Flemington, New Jersey

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, 2011 and 2010, 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, 2011 and 2010 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 May 17, 2012 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.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 22 through 25 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 and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, who consider 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Withum Smith + Brown, PC

May 17, 2012



WithSmith+Brown, PC
Certified Public Accountants and Consultants

3040 Route 22 West, Suite 110
Somerville, New Jersey 08876 USA
908 526 6363 . fax 908 526 9944
www.withum.com

Additional Offices in New Jersey,
New York, Pennsylvania, Maryland,
Florida, and Colorado

**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**

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

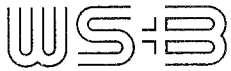
We have audited the financial statements of the Raritan Township Municipal Utilities Authority ("the Authority") as of and for the years ended November 30, 2011 and 2010, and have issued our report thereon dated May 17, 2012. We conducted our audit in accordance with auditing standards generally accepted 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

Management of the Authority is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.



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 Authority, 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.

William Smith + Brown, PC

May 17, 2012

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	\$ 1,199,398	\$ 1,487,867
Investments	1,250,000	1,250,000
Accrued interest	1,823	3,906
Sewer fees receivable	772,819	1,549,352
Current portion of other receivable	31,624	-
Total unrestricted assets	<u>3,255,664</u>	<u>4,291,125</u>
Restricted assets		
Cash and cash equivalents	1,717,988	2,269,970
Investments	755,491	754,487
Accrued interest	304	329
Total restricted assets	<u>2,473,783</u>	<u>3,024,786</u>
Total current assets	5,729,447	7,315,911
Noncurrent assets		
Unamortized bond issue costs, net of amortization of \$6,996 and \$1,749 at November 30, 2011 and 2010	96,626	101,873
Property, plant and equipment		
Land, building, machinery, equipment	42,223,700	38,113,973
Construction in progress	955,107	3,516,330
	<u>43,178,807</u>	<u>41,630,303</u>
Less: accumulated depreciation	(15,649,395)	(14,990,786)
Property, plant and equipment - net	<u>27,529,412</u>	<u>26,639,517</u>
Other receivable	<u>829,010</u>	<u>-</u>
Total noncurrent assets	<u>28,455,048</u>	<u>26,741,390</u>
	<u>\$ 34,184,495</u>	<u>\$ 34,057,301</u>

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

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current liabilities		
Unrestricted		
Accounts payable	\$ 452,872	\$ 230,237
Accrued salaries	38,677	87,069
Accrued vacation and sick pay	117,753	99,768
Current maturities of long-term debt	140,000	-
Deferred revenue - current portion	31,624	-
Total unrestricted liabilities	<u>780,926</u>	<u>417,074</u>
Restricted		
Accrued interest payable	13,309	50,811
Funds held in trust	1,226,199	1,164,468
Total restricted liabilities	<u>1,239,508</u>	<u>1,215,279</u>
Total current liabilities	2,020,434	1,632,353
Long-term debt, plus unamortized premium of \$309,119 and \$338,836 at November 30, 2011 and 2010	3,979,117	4,148,836
Deferred revenue, net of current portion	<u>829,010</u>	<u>-</u>
Total liabilities	6,828,561	5,781,189
Net assets		
Invested in capital assets, net of related debt	23,410,295	22,490,681
Restricted for debt service	470,293	373,909
Restricted for renewal and replacement	91,515	90,956
Restricted for capital projects	672,467	1,344,642
Unrestricted	2,711,364	3,975,924
Total net assets	<u>27,355,934</u>	<u>28,276,112</u>
	<u>\$ 34,184,495</u>	<u>\$ 34,057,301</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, 2011 and 2010

	2011	2010
Operating revenues		
User charges	\$ 4,204,817	\$ 4,112,349
Other income	513,381	446,397
Interest income	10,005	27,220
Total operating revenues	<u>4,728,203</u>	<u>4,585,966</u>
Operating expenses		
Cost of providing services	3,045,883	2,952,313
Administrative and general	1,652,745	1,514,973
	<u>4,698,628</u>	<u>4,467,286</u>
Depreciation	576,254	503,587
Total operating expenses	<u>5,274,882</u>	<u>4,970,873</u>
Operating loss	(546,679)	(384,907)
Non-operating revenue (expenses)		
Special appropriation to Raritan Township	(150,000)	(313,245)
Interest income	592	998
Interest expense	(141,735)	(42,796)
Non-operating expenses - net	<u>(291,143)</u>	<u>(355,043)</u>
Decrease in net assets, before contributed capital	(837,822)	(739,950)
Transfer of depreciation from operations to contributed capital	(82,356)	(82,356)
Net assets, December 1	<u>28,276,112</u>	<u>29,098,418</u>
Net assets, November 30	<u>\$ 27,355,934</u>	<u>\$ 28,276,112</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, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Operating revenue collected	\$ 5,568,549	\$ 3,856,772
Cash payments to vendors for goods or services	(2,540,093)	(2,693,311)
Cash payments to employees for services	(2,090,361)	(1,935,087)
Net cash provided by (used in) operating activities	938,095	(771,626)
Cash flows from capital and related financing activities		
Advances of long-term debt	-	3,810,000
Premium on bond issuance	-	348,600
Costs of bond issuance	-	(103,622)
Interest paid	(203,707)	-
Net cash (used in) provided by capital and related financing activities	(203,707)	4,054,978
Cash flows from investing activities		
Increase in investments	(1,004)	(3,508)
Restricted interest income	617	2,852
Special appropriation to Raritan Township	(150,000)	(313,245)
Investment in property, plant and equipment	(1,424,452)	(2,808,964)
Net cash used in investing activities	(1,574,839)	(3,122,865)
Net (decrease) increase in cash and cash equivalents	(840,451)	160,487
Cash and cash equivalents		
Beginning of the year	3,757,837	3,597,350
End of year *	\$ 2,917,386	\$ 3,757,837
 * Balance at end of year consists of		
Unrestricted	\$ 1,199,398	1,487,867
Restricted	1,717,988	2,269,970
	\$ 2,917,386	\$ 3,757,837
Reconciliation of decrease in net assets, before contributed capital to net cash provided by (used in) operating activities		
Operating loss	\$ (546,679)	\$ (384,907)
Adjustments to reconcile (decrease) increase in net assets, before contributed capital to net cash provided by (used in) operating activities		
Depreciation	576,254	503,587
Decrease in accrued interest receivable	2,083	6,511
Decrease (increase) in sewer fees receivable	776,533	(734,525)
Increase (decrease) in accounts payable and accrued expenses	68,173	(161,113)
Increase (decrease) in funds held in trust	61,731	(1,179)
Net cash provided by (used in) operating activities	\$ 938,095	\$ (771,626)

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

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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. 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.

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 \$5,247 and \$1,749 for November 30, 2011 and 2010, 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, 2011 and 2010

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, Sewage 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.

3. Cash and Cash Equivalents

At November 30, 2011 and 2010, the carrying amount of the Authority's cash and cash equivalents was \$2,917,386 and \$3,757,837, respectively, which was comprised of:

	2011	2010
Bank checking and savings accounts (bank balances of \$2,135,094 and \$2,354,836 at November 30, 2011 and 2010, respectively)	\$ 2,123,489	\$ 2,413,186
First American Treasury Obligation Fund – Money Market	<u>793,897</u> <u>\$ 2,917,386</u>	<u>1,344,651</u> <u>\$ 3,757,837</u>
Unrestricted cash and cash equivalents	\$ 1,199,398	\$ 1,487,867
Restricted cash and cash equivalents	<u>1,717,988</u> <u>\$ 2,917,386</u>	<u>2,269,970</u> <u>\$ 3,757,837</u>

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).

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

4. Other Receivable and Deferred Revenue

There is an agreement between the Authority and one of its customers whereby the customer, having benefited entirely or in part from the capital projects of the Authority, is responsible for approximately 22% of the Authority's debt service. The Authority has recorded the receivable and the related deferred revenue on the balance sheet. The revenue will be recognized and the receivable and deferred revenue will be reduced as payments are received from the customer. The current and long term portions were determined in proportion to the Authority's regularly scheduled debt service payments.

For the year ended November 30, 2011, the current portion of the deferred revenue and related receivable amounted to approximately \$31,600 and the non-current portion of the deferred revenue and related receivable amounted to approximately \$829,000.

5. 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, 2011 and 2010, 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, 2011	\$ 2,005,491	\$ --	\$ 2,005,491	\$ --
Certificates of deposit at November 30, 2010	\$ 2,004,487	\$ --	\$ 2,004,487	\$ --

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.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

6. Investments and Accrued Interest

At November 30, 2011, 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.	.35%	12/8/11	\$ 1,250,000
Restricted - Reserved:				
Renewal and Replacement	Hopewell Valley Comm.	1.00%	2/8/12	91,211
Restricted - Trust:				
Reserve capacity	Team Capital	0.75%	10/31/12	630,180
Bond & coupon	Hopewell Valley Comm.	1.00%	5/22/12	<u>34,100</u>
Total restricted investments				<u>755,491</u>
Total investments				<u>\$ 2,005,491</u>

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

<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	<u>33,680</u>
Total restricted investments				<u>754,487</u>
Total investments				<u>\$ 2,004,487</u>

At November 30, 2011 and 2010, 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).

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

7. 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, 2011 and 2010, depreciation of \$82,356 was charged to net assets.

Contributed Capital	\$ 5,852,891
Less: Accumulated Depreciation	<u>2,446,870</u>
Contributed Capital, net	<u>\$ 3,406,021</u>

8. 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, 2011 are as follows:

	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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>\$ 1,952,225</u>	<u>\$ 5,762,225</u>
Plus: Unamortized bond premiums		<u>309,118</u>		
		<u>\$ 4,119,118</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.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

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 \$29,717 and \$9,764 for November 30, 2011 and 2010, respectively. At November 30, 2011 and 2010, accumulated amortization on the bond premium totaled \$39,481 and \$9,764, respectively.

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, 2011 and 2010.

9. 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:

	2011	2010
Bond Service Fund:		
Required	\$ 37,300	\$ 50,300
Actual, November 30	<u>177,927</u>	<u>119,045</u>
Excess	<u>\$ 140,627</u>	<u>\$ 68,745</u>
Bond Service Reserve Fund:		
Required	\$ 305,675	\$ 305,675
Actual, November 30	<u>305,675</u>	<u>305,675</u>
Excess	<u>\$ --</u>	<u>\$ --</u>
Renewal and Replacement Fund:		
Required (per board resolution)	\$ 91,211	\$ 90,956
Actual, November 30	<u>91,211</u>	<u>90,956</u>
Excess	<u>\$ --</u>	<u>\$ --</u>
Totals:		
Required (per board resolution)	\$ 91,211	\$ 90,956
Required	342,975	355,975
Actual, November 30	<u>574,813</u>	<u>515,676</u>
Excess	<u>\$ 140,627</u>	<u>\$ 68,745</u>

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

10. 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 \$175,980 in 2011 and \$135,332 in 2010.

11. Risk Management and Concentrations

Risk 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, 2011 and 2010, the Authority was owed \$471,891 and \$1,375,410, respectively 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. A portion of this receivable is attributable to deferred revenue (see Note 9). No allowance for bad debt was deemed necessary by management with regard to this or any other receivable.

12. Supplemental Disclosures of Cash Flow Statement

Noncash investing and financing transactions during the year ended November 30, 2011 are as follows:

Purchase of property and equipment:

Cost of property and equipment	\$ 1,548,505
Change in unpaid portion in accounts payable	(124,053)
Cash paid	<u>\$ 1,424,452</u>

Interest expense:

Interest expense	\$ 141,735
Change in accrued interest payable	37,502
Amortization of bond issue costs	(5,247)
Amortization of bond premiums	<u>29,717</u>
Cash paid for interest	<u>\$ 203,707</u>

13. 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 rehabilitation and upgrade of the sewage plant and/or related sewerage lines and rehabilitation of 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, 2011 and 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.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2011 and 2010

14. Subsequent Events

The Company has evaluated subsequent events occurring after the statement of net assets date through May 17, 2012, the date the financial statements were available for release. Subsequent to this date, the Authority has entered into additional commitments for two projects. One of these projects is the rehabilitation of an existing pump station and replacement of the existing force main, which is to be funded by a loan from the New Jersey Environmental Infrastructure Trust (NJEIT) which works in partnership with NJ Department of Environmental Protection. The project includes installation of approximately 700 linear feet of new 4-inch force main, a new building to house a new generator, and rehabilitation of the existing pump station with new pumps and new wet well. The total project costs are approximately \$1,100,000. The second project is for the replacement of blowers and their associated controllers at the main treatment plant. The notice of award for the project was issued January 26, 2012 in the approximate amount of \$1,000,000 and as of May 2012, the NJDEP loan was closed. With the exception of the aforementioned subsequent events, management has determined that there are no events requiring recognition or disclosure in these financial statements.

Supplementary Information

Raritan Township Municipal Utilities Authority
Schedule of Revenues
Year Ended November 30, 2011

	Adopted Budget	Realized
Unrestricted net assets appropriated	\$ 344,226	\$ -
User charges and fees	4,387,890	4,204,817
Interest on investments and deposits	90,000	10,005
Other revenues	561,314	513,381
	<u>\$ 5,383,430</u>	<u>\$ 4,728,203</u>
 Analysis of other revenues		
Interest on delinquent accounts	\$ 10,000	\$ 20,380
Septage and GreyWater income	250,000	352,531
Hook-up fees	282,164	121,144
Other	19,150	19,326
	<u>\$ 561,314</u>	<u>\$ 513,381</u>

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2011

		Adopted 2010 - 2011 Budget	Expended Paid or Charged
Operating expenditures			
	Personnel services		
	Salaries and wages		
5001	Administration	\$ 292,045	\$ 296,585
5002	Operations	1,526,656	1,521,920
5003	Commissioners	9,800	11,046
5012	Operations overtime	122,000	110,723
5013	Administration overtime	1,600	577
5014	Sick/vacation time purchased	30,000	26,753
	Sub-total personnel services	<u>1,982,101</u>	<u>1,967,604</u>
	Employee benefits		
6010	P/R benefits - PERS pension and insurance	142,100	175,980
6030	P/R benefits - medical plan	471,524	457,662
6040	P/R taxes	151,631	159,917
	Sub-total employee benefits	<u>765,255</u>	<u>793,559</u>
	Administrative expenses		
6050	Professional services - legal	32,000	21,059
6060	Professional services - auditor	20,000	31,710
6065	Professional services - accounting	18,000	21,135
6070	Professional services - engineering	35,000	51,033
6080	Professional services - medical	1,000	1,165
6090	Trustee fee	3,000	3,000
6095	Professional services - independent contractor	29,350	27,510
6101	Insurance	201,515	175,835
6110	Education	10,000	9,230
6120	Travel expenses	17,000	15,149
6130	Dues and memberships	5,000	4,279
6140	Conferences and seminars	10,000	7,838
6155	Office expense	31,000	20,661
6160	Public advertisements	5,000	5,015
6165	Postage	10,500	9,478
6180	Permits, licenses, easement fees	25,000	17,014
6201	Administrative housing - maintenance	2,500	19
6301	Retirement benefits	67,110	75,002
6401	Computer maintenance and upgrade	33,855	22,065
6501	Appropriation to municipality	150,000	150,000
	Sub-total administrative expenses	<u>706,830</u>	<u>668,197</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2011

		Adopted 2010 - 2011 Budget	Expended Paid or Charged
	Operations and maintenance expenses		
7010	Chemical costs - chlorine	52,000	33,986
7011	Chemical costs - polymer	26,000	25,484
7015	Chemical costs - other	32,000	19,197
7110	Utility costs - electric	600,000	573,860
7112	Utility costs - natural gas and propane	20,000	31,859
7114	Utility costs - telephone	14,500	16,235
7211	Supplies and services - sludge disposal	460,000	411,481
7212	Tools	7,000	3,974
7213	Janitorial supplies	3,500	2,028
7214	Supplies and services - gasoline	20,000	16,947
7216	Supplies and services - lab expense	14,000	7,165
7217	Supplies and services - independent lab	12,000	11,404
7218	Safety equipment	7,500	8,142
7309	Maintenance - collection system	40,000	35,710
7310	Maintenance - treatment plant	140,000	20,008
7311	Maintenance - buildings and grounds	25,000	15,363
7312	Maintenance - painting	1,500	53
7314	Maintenance - instr. and meter calib	20,000	14,268
7315	Maintenance - vehicle	10,000	2,818
7316	Maintenance - plant lab	3,000	2,083
7501	Miscellaneous contingencies	20,000	5,163
7317	Maintenance - septage	25,000	324
7701	Leasing - vehicle	4,500	1,870
	Sub-total operations and maintenance expenses	<u>1,557,500</u>	<u>1,259,422</u>
	Flemington Storm Water Facility:		
5005	Salaries and wages	15,600	24,224
5006	Salaries and wages - overtime	26,000	50,142
8010	Legal	7,500	2,378
8013	Accounting	5,000	6,023
8015	Engineering	17,300	9,258
8020	Insurance	2,735	2,735
8030	Permits	7,000	4,237
8101	Chemicals	12,000	10,284

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2011

		Adopted 2010 - 2011 Budget	Expended Paid or Charged
8110	Utilities	40,000	29,368
8201	Services and supplies - lab	15,900	10,502
8210	Safety supplies and equipment	1,000	-
8301	Maintenance - operations	5,000	4,002
8310	Maintenance - buildings and grounds	10,000	5,449
8320	Maintenance - instrumentation and metering	3,000	1,244
	Sub-total Flemington facility	<u>168,035</u>	<u>159,846</u>
	Sub-total operating expenditures	<u>5,179,721</u>	<u>4,848,628</u>
	Capital outlays		
7411	Capital acquisition - plant upgrades	<u>2,293,500</u>	<u>1,638,744</u>
	Sub-total capital	<u>2,293,500</u>	<u>1,638,744</u>
	Sub-total operating and capital	<u>7,473,221</u>	<u>6,487,372</u>
	Debt service		
	Bond principal and interest	<u>203,709</u>	<u>141,735</u>
	Total expenditures	<u>\$ 7,676,930</u>	<u>\$ 6,629,107</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Findings and Recommendations
November 30, 2011

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

Finding #2011-1

During the course of our audit we noted that the construction in progress and fixed asset book balances 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 fixed asset reports to the general ledger.

Effect

The property, plant and equipment 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 fixed asset software system and its interface with the general ledger system and the lack of a defined process of communication to reconcile the completed projects that need to be transferred from construction in progress status to completed status and begin depreciation of completed projects on the fixed asset system of the Authority.

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 system to be setup between the employees responsible for the construction in progress asset tracking and the employees responsible for inputting all completed assets into the fixed asset tracking system to begin depreciation once complete and to capture these expenses to record them correctly.

Response

The Authority will attempt to contact the software provider to obtain additional training on relevant aspects of the fixed assets software system and work quickly to develop a recurring meeting between the necessary employees to ensure proper reporting of the completed fixed assets.

Raritan Township Municipal Utilities Authority
Prior Year Findings and Recommendations
November 30, 2011

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

Finding #2010-1

During the course of our audit of the year ended November 30, 2010 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.

Recommendation

We recommended that the 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 recommended 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.

Current Status

The Authority worked with its software vendor throughout the year to identify programming misclassifications that were then corrected. The Authority has also implemented a monthly reconciliation process to ensure that the accounts receivable subsidiary ledger is accurately matched to the general ledger on a regular basis.