

**RARITAN TOWNSHIP MUNICIPAL UTILITIES
AUTHORITY**

Financial Statements

November 30, 2012 and 2011

With Independent Auditors' Report

Raritan Township Municipal Utilities Authority
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November 30, 2012 and 2011

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Raritan Township Municipal Utilities Authority
Roster of Officials
November 30, 2012

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, 2012 and 2011

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, 2012 and 2011. 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 2012 and 2011.

	2012	2011
Assets		
Unrestricted current assets	\$ 2,517,365	\$ 3,224,040
Restricted current assets	1,918,900	2,473,783
Unamortized bond premiums	141,270	96,626
Property, plant and equipment – net	28,404,761	27,529,412
Flemington receivable	1,099,186	860,634
Funds held in trust	<u>2,154,633</u>	<u>--</u>
	<u>\$ 36,236,115</u>	<u>\$ 34,184,495</u>
Liabilities and Net Assets		
Unrestricted current liabilities	\$ 1,126,134	\$ 749,302
Restricted current liabilities	1,280,218	1,271,132
Long-term debt	6,296,626	3,979,117
Deferred income, net of current portion	1,053,396	829,010
Net assets-invested in capital assets, net	23,750,374	23,410,295
Net assets-restricted	684,473	1,234,275
Net assets-unrestricted	<u>2,044,894</u>	<u>2,711,364</u>
	<u>\$ 36,236,115</u>	<u>\$ 34,184,495</u>
Revenue and Expenses		
Operating revenue:		
User charges	\$ 4,422,634	\$ 4,204,817
Other	<u>563,390</u>	<u>523,386</u>
	4,986,024	4,728,203
Operating expenses	<u>5,551,324</u>	<u>5,274,882</u>
Operating loss	(565,300)	(546,679)
Non-operating expense, net	<u>(228,537)</u>	<u>(291,143)</u>
Decrease in net assets before contributed capital	<u>\$ (793,837)</u>	<u>\$ (837,822)</u>

Raritan Township Municipal Utilities Authority

Management's Discussion and Analysis

November 30, 2012 and 2011

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. Operating income (loss) 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 \$4,986,024 for the year ended November 30, 2012, an increase of \$257,821, or 5.45% higher than total operating revenues of \$4,728,203 for the year ended November 30, 2011. Details can be found in the Statements of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Revenues were \$4,986,024 for the year ended November 30, 2012 which was 93.70% of the adopted budget of \$5,320,984 (excluding the unrestricted net assets appropriated of \$428,014 for operations and for capital projects). Details can be found in the Schedule of Revenues for the year ended November 30, 2012 in the supplementary information section of this report.

Total Operating Expenditures were \$5,551,324, for the year ended November 30, 2012, an increase of \$276,442, or 5.24% higher than the total operating expenditures of \$5,274,882 for the year ended November 30, 2011. Details can be found in the Statements of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Expenditures were \$4,883,396 (excluding depreciation of \$667,928) for the year ended November 30, 2012 which was 90.87% of the operating expenditures of the adopted budget of \$5,374,049 (excluding \$70,000, which was the special assessment to Raritan Township). Details will be found in the Schedule of Expenditures for the year ended November 30, 2012 in the supplementary information section of this report.

Included in non-operating revenue (expense) is an amount of \$70,000 and \$150,000 for the years ended November 30, 2012 and 2011, 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, \$454,500 was budgeted for the year ended November 30, 2012 of which \$1,625,632 has been spent and capitalized as additions to fixed assets.

During 2012 RTMUA financed two projects through the New Jersey Environmental Infrastructure Trust (NJEIT) and is in the final stages of construction of both: The Robin Hill Pump Station rehabilitation for \$1,071,357 (with 20% principal forgiveness) and SCADA Phase II for \$1,501,120. Preliminary work has begun on NJEIT applications for bonding for two additional projects: Woodside Farms Pump Station Rehabilitation for an amount not to exceed \$1,446,000, and The Main Treatment Plant Motor Control Center Replacement, not to exceed \$2,374,000.

The user fee for one EDU (Equivalent Dwelling Unit or 300 gallons per day) was increased from \$420 to \$462 per year and the base user fee portion increased to \$96 from \$54. The connection fee, set by statute, remained the same at \$3,929.

Raritan Township Municipal Utilities Authority Management's Discussion and Analysis November 30, 2012 and 2011

A description of currently known facts, decisions, or conditions expected to have significant effects 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 updated 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.

The RTMUA is operating the Flemington Wet Weather Facility under a NJDEP NJPDES permit effective May 1, 2010 that contains "report only" parameters for various components of effluent. It appears that our effluent will be required to meet certain levels of the various components in the new permit, effective April 1, 2015. As technology does not exist to meet these parameters in an intermittent facility such as Flemington, a permit with these requirements will create a major financial impact. The matter is under appeal and is before an Administrative Law Judge.

The RTMUA is operating the Main Plant at 365 Old York Road Flemington under a NJDEP NJPDES permit that expires May 30, 2013. The new permit contains enhanced levels of ammonia removal, the cost of which is unknown at this time.

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2012 and 2011**

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.

Request for Information

The financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Authority at 365 Old York Road, Flemington, NJ 08822 or by telephone at 908-782-7453.



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,
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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"), which comprise the statements of net assets as of November 30, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 2-5 and 27-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Withum Smith + Brown, P.C.

March 18, 2013



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,
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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**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Raritan Township Municipal Utilities Authority (the "Authority"), as of and for the year ended November 30, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 18, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified a deficiency in internal control 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 recommendations to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Withum Smith + Brown, P.C.".

March 18, 2013

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	\$ 1,528,016	\$ 1,199,398
Investments	750,000	1,250,000
Accrued interest	1,250	1,823
Sewer fees receivable	238,098	772,819
Total unrestricted assets	<u>2,517,364</u>	<u>3,224,040</u>
Restricted assets		
Cash and cash equivalents	1,092,098	1,717,988
Investments	826,572	755,491
Accrued interest receivable	230	304
Current portion of other receivable	45,791	31,624
Funds held by trustee	2,154,633	-
Total restricted assets	<u>4,119,324</u>	<u>2,505,407</u>
Total current assets	6,636,688	5,729,447
Noncurrent assets		
Property, plant and equipment		
Land, building, machinery, equipment	43,614,340	42,223,700
Construction in progress	1,190,100	955,107
	44,804,440	43,178,807
Less: accumulated depreciation	(16,399,679)	(15,649,395)
Property, plant and equipment - net	<u>28,404,761</u>	<u>27,529,412</u>
Other assets		
Unamortized bond issue costs, net of amortization	141,270	96,626
Other receivable	1,053,396	829,010
	<u>1,194,666</u>	<u>925,636</u>
Total noncurrent assets	<u>29,599,427</u>	<u>28,455,048</u>
	<u>\$ 36,236,115</u>	<u>\$ 34,184,495</u>

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

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current liabilities		
Unrestricted		
Accounts payable	\$ 723,261	\$ 452,872
Accrued salaries	53,894	38,677
Accrued vacation and sick pay	104,382	117,753
Current maturities of long-term bonds payable	244,597	140,000
Total unrestricted liabilities	<u>1,126,134</u>	<u>749,302</u>
Restricted		
Accrued interest payable	23,535	13,309
Deferred revenue - current portion	45,791	31,624
Funds held in trust	1,210,892	1,226,199
Total restricted liabilities	<u>1,280,218</u>	<u>1,271,132</u>
Total current liabilities	2,406,352	2,020,434
Long-term bonds payable, plus unamortized premium	6,296,626	3,979,117
Deferred revenue, net of current portion	<u>1,053,396</u>	<u>829,010</u>
Total liabilities	9,756,374	6,828,561
Net assets		
Invested in capital assets, net of related bonds payable	23,750,374	23,410,295
Restricted for debt service	495,674	470,293
Restricted for renewal and replacement	92,358	91,515
Restricted for capital projects	96,441	672,467
Unrestricted	2,044,894	2,711,364
Total net assets	<u>26,479,741</u>	<u>27,355,934</u>
	<u>\$ 36,236,115</u>	<u>\$ 34,184,495</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, 2012 and 2011

	2012	2011
Operating revenues		
User charges	\$ 4,422,634	\$ 4,204,817
Other income	517,464	513,381
Interest income	45,926	10,005
Total operating revenues	<u>4,986,024</u>	<u>4,728,203</u>
Operating expenses		
Cost of providing services	2,988,231	3,045,883
Administrative and general	1,895,165	1,652,745
	<u>4,883,396</u>	<u>4,698,628</u>
Depreciation	667,928	576,254
Total operating expenses	<u>5,551,324</u>	<u>5,274,882</u>
Operating loss	(565,300)	(546,679)
Non-operating revenue (expenses)		
Special appropriation to Raritan Township	(70,000)	(150,000)
Interest income	877	592
Interest expense	(159,414)	(141,735)
Non-operating expenses - net	<u>(228,537)</u>	<u>(291,143)</u>
Decrease in net assets, before contributed capital	(793,837)	(837,822)
Transfer of depreciation from operations to contributed capital	(82,356)	(82,356)
Net assets, December 1	<u>27,355,934</u>	<u>28,276,112</u>
Net assets, November 30	<u>\$ 26,479,741</u>	<u>\$ 27,355,934</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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Operating revenue collected	\$ 5,506,009	\$ 5,568,549
Cash payments to vendors for goods or services	(2,478,525)	(2,540,093)
Cash payments to employees for services	(2,000,923)	(2,090,361)
Net cash provided by operating activities	1,026,561	938,095
Cash flows from capital and related financing activities		
Advances of long-term debt	381,805	-
Repayment of long-term debt	(143,216)	-
Interest paid	(164,950)	(203,707)
Net cash provided by (used in) capital and related financing activities	73,639	(203,707)
Cash flows from investing activities		
Purchases of investments	(71,081)	(1,004)
Proceeds from redemption of investments	500,000	-
Restricted interest income	951	617
Special appropriation to Raritan Township	(70,000)	(150,000)
Investment in property, plant and equipment	(1,757,342)	(1,424,452)
Net cash used in investing activities	(1,397,472)	(1,574,839)
Net (decrease) in cash and cash equivalents	(297,272)	(840,451)
Cash and cash equivalents		
Beginning of the year	2,917,386	3,757,837
End of year *	\$ 2,620,114	\$ 2,917,386
 * Balance at end of year consists of		
Unrestricted	\$ 1,528,016	1,199,398
Restricted	1,092,098	1,717,988
	\$ 2,620,114	\$ 2,917,386
Reconciliation of decrease in net assets, before contributed capital to net cash provided by (used in) operating activities		
Operating loss	\$ (565,300)	\$ (546,679)
Adjustments to reconcile decrease in net assets, before contributed capital to net cash provided by operating activities		
Depreciation	667,928	576,254
Decrease in accrued interest receivable	573	2,083
Decrease in sewer fees receivable	534,721	776,533
Increase in other receivable	(238,553)	-
Increase in accounts payable and accrued expenses	403,946	68,173
Increase in deferred revenue	238,553	
Increase (decrease) in funds held in trust	(15,307)	61,731
Net cash provided by operating activities	\$ 1,026,561	\$ 938,095

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

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2012 and 2011

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 accompanying financial statements of the Authority are prepared 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 financial statements of the Authority have been prepared on the accrual basis of accounting and 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.

The Authority has implemented GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments and related standards. With the implementation of GASB Statement 34, the Authority has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements. In addition, certain other GASB statements are required to be implemented in conjunction with GASB Statement 34 which the Authority has done accordingly.

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 bonds payable;" "restricted for capital projects, for future debt service, for renewal and replacement;" and "unrestricted" net assets.

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.

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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 investment 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.

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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.

Sewer Receivable

Customer receivables represent user fees earned but not yet collected.

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.

Restricted Assets

Restricted assets represent cash and cash equivalents, investments and interest receivable maintained in accordance with bond resolutions, loan agreements and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the utility systems.

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.

Funds Held by Trustee

The Authority closed on the series 2012 New Jersey Environmental Infrastructure Trust bonds on May 3, 2012. The net proceeds were placed with TD Bank National Association (the trustee). These funds are being held by the trustee and are being released to the Authority upon requisitions for the payment of expenditures and capitalized interest on the projects for which the loans were authorized.

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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 \$6,806 and \$5,247 for November 30, 2012 and 2011, respectively. At November 30, 2012 and 2011, accumulated amortization on the bond issue costs totaled \$13,802 and \$6,996, respectively.

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 and straight line methods. The current period amortization is a component of interest expense on the statements of revenues and expenses.

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.

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 of 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 accounting principles generally accepted in the United States of America require 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.

Reclassification

Certain items previously reported in the financial statement captions have been reclassified to conform to the current financial statement presentation. Such reclassifications did not affect the net assets of the Authority.

3. Cash and Cash Equivalents

At November 30, 2012 and 2011, the carrying amount of the Authority's cash and cash equivalents was \$2,620,114 and \$2,917,386, respectively, which was comprised of:

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	2012	2011
Bank checking and savings accounts (bank balances of \$2,139,946 and \$2,354,836 at November 30, 2012 and 2011, respectively)	\$ 2,397,364	\$ 2,123,489
First American Treasury Obligation Fund – Money Market	<u>222,750</u> <u>\$ 2,620,114</u>	<u>793,897</u> <u>\$ 2,917,386</u>
Unrestricted cash and cash equivalents	\$ 1,528,016	\$ 1,199,398
Restricted cash and cash equivalents	<u>1,092,098</u> <u>\$ 2,620,114</u>	<u>1,717,988</u> <u>\$ 2,917,386</u>

All of the bank balances have been deposited in public depositories. Interest bearing accounts 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). Non-interest bearing accounts are fully insured by the FDIC.

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 bonds payable. 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 bond service payments.

For the years ended November 30, 2012 and 2011, the current portion of the deferred revenue and related receivable amounted to approximately \$45,800 and \$31,600 respectively, and the non-current portion of the deferred revenue and related receivable amounted to approximately \$1,053,000 and \$829,000 at November 30, 2012 and 2011, respectively.

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, 2012 and 2011, along with the basis for the determination of fair value:

		Basis for Valuation		
	Total	Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit at November 30, 2012 (included in current and noncurrent investments on the statements of net assets)	\$ 1,576,572	\$ --	\$ 1,576,572	\$ --
Certificates of deposit at November 30, 2011 (included in current and noncurrent investments on the statements of net assets)	\$ 2,005,491	\$ --	\$ 2,005,491	\$ --

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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.

Given the short term nature of certificates of deposits it is assumed that the face amounts of these investments approximate fair market value, any valuation effects would be negligible.

6. Investments and Accrued Interest

At November 30, 2012, 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.	.40%	12/8/12	<u>\$ 750,000</u>
Restricted - Reserved:				
Renewal and Replacement	Hopewell Valley Comm.	0.75%	2/7/13	92,127
Restricted - Trust:				
Reserve capacity	Team Capital	0.40%	10/31/13	700,000
Bond & coupon	Hopewell Valley Comm.	0.75%	5/24/13	<u>34,445</u>
Total restricted investments				<u>826,572</u>
Total investments				<u>\$ 1,576,572</u>

At November 30, 2011, 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.	.35%	12/8/11	<u>\$ 1,250,000</u>
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>

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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).

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 as an expense but rather is charged directly against net assets on the statement of revenue, expenses and changes in net assets. In the years ended November 30, 2012 and 2011, depreciation of \$82,356 was charged to net assets.

	2012	2011
Contributed Capital	\$ 5,852,891	\$ 5,852,891
Less: Accumulated Depreciation	<u>2,529,226</u>	<u>2,446,870</u>
Contributed Capital, net	<u>\$ 3,323,665</u>	<u>\$ 3,406,021</u>

8. Bonds Payable

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 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.

	2012	2011
	\$3,670,000	\$3,810,000
The original issue bond premiums (\$348,600) on the Series 2010 bond issuance, net of amortization.	277,413	309,117

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	2012	2011
New Jersey Environmental Infrastructure Trust ("NJEIT") Bonds		
Series 2012 Subordinated Revenue Bonds - On May 3, 2012 loan agreements were executed between the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and the New Jersey Environmental Infrastructure Trust whereby commitments were made for the Authority to have loans not to exceed \$3,500,000. The Bonds are secured under the provisions of the Resolution pledging the revenues and all funds established by the Resolution to secure the payment of principal 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. The loan agreements contain provisions for repayment during the years 2013 through 2031. The interest rates for the New Jersey Environmental Trust portion of the loans (\$405,000 and \$360,000) range between 2.0% and 5.0%, no interest is paid on the Fund portion of the loans (\$428,543 and \$1,125,840). As part of the agreement, \$214,271 of the Fund portion of one of the loans is scheduled to be forgiven over the loan amortization period.		
	2,533,654	--
The original issue bond premiums (\$38,823) on the 2012 NJEIT bond issuance, net of amortization.	37,647	--
Financed portion of the origination fee (\$25,725) for the 2012 NJEIT bond issuance, net of amortization.	<u>22,509</u>	<u>--</u>
	6,541,223	4,119,117
Less: current portion	<u>244,597</u>	<u>140,000</u>
Long term bonds payable	<u>\$ 6,296,626</u>	<u>\$ 3,979,117</u>

A summary of maximum annual debt service for principal and interest for bonds issued and outstanding at November 30, 2012, is provided below:

<u>Year Ending</u>	<u>Principal – with out forgiveness</u>	<u>Expected Debt forgiveness</u>	<u>Principal after forgiveness</u>	<u>Interest</u>	<u>Total expected debt service</u>
November 30, 2013	\$ 244,597	\$ 7,653	\$ 236,945	\$ 192,141	\$ 429,086
November 30, 2014	276,181	11,479	264,702	187,191	451,893
November 30, 2015	281,181	11,479	269,702	181,866	451,568
November 30, 2016	282,965	11,479	271,486	176,091	447,577
November 30, 2017	284,476	11,479	273,271	169,066	442,337
November 30, 2018-2022	1,563,747	57,394	1,506,353	715,831	2,222,184
November 30, 2023-2027	1,853,747	57,394	1,796,353	424,706	2,221,059
November 30, 2028-2031	<u>1,438,997</u>	<u>45,915</u>	<u>1,393,082</u>	<u>81,993</u>	<u>1,475,075</u>
	\$ 6,225,891	\$ 214,272	\$ 6,011,894	\$ 2,128,885	\$8,140,779
Series 2010 premium	277,413				
NJEIT premium	<u>37,647</u>				
	<u>\$ 6,540,951</u>				

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A summary of the activity in the Authority's principal portion of its bonds payable is as follows:

	<u>Balance at November 30, 2011</u>	<u>Bonds Issued</u>	<u>Principal Payments</u>	<u>Balance at November 30, 2012</u>
Series 2010 Revenue bonds	\$ 3,810,000	\$ --	\$ 140,000	\$ 3,670,000
NJEIT 2012 bonds	--	2,533,654	--	2,533,654
DEP Fee	--	25,725	3,216	22,509
	<u>\$ 3,810,000</u>	<u>\$ 2,559,379</u>	<u>\$ 143,216</u>	<u>\$ 6,226,163</u>

	<u>Balance at November 30, 2010</u>	<u>Bonds Issued</u>	<u>Principal Payments</u>	<u>Balance at November 30, 2011</u>
Series 2010 Revenue bonds	<u>\$ 3,810,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,810,000</u>

Guaranteed Sewer System Revenue Bonds

The maturities of the Guaranteed Sewer System revenue bonds are included in the maximum annual debt service schedule presented above. The detail schedule below shows the maturities of just the guaranteed sewer system revenue bonds with additional information relative to those bonds and their terms.

Scheduled future principal and interest maturities with respect to the 2010 Series bonds from debt service accounts at November 30, 2012 are as follows:

	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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>3,670,000</u>	<u>\$ 1,787,275</u>	<u>\$ 5,457,275</u>
Plus: Unamortized bond premiums		<u>277,413</u>		
		<u>\$ 3,947,413</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.

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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 the series 2010 bond issuance 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 \$31,704 and \$29,717 for the years ended November 30, 2012 and 2011, respectively. At November 30, 2012 and 2011, accumulated amortization on the bond premium totaled \$71,187 and \$39,483, respectively.

The original issue bond premiums of the NJEIT 2012 bond issuance of \$38,823 are being amortized over the life of the bonds using the straight line method which approximates the effective interest rate method. The bond premium amortization as a component of interest expense totaled \$1,176 and \$0 for the years ended November 30, 2012 and 2011, respectively. At November 30, 2012 and 2011, accumulated amortization on the bond premium totaled \$1,176 and \$-0-, 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, 2012 and 2011.

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9. Amounts Required by Bond Resolution

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

	2012	2011
Bond Service Fund:		
Required	\$ 37,700	\$ 37,300
Actual, November 30	<u>213,534</u>	<u>177,927</u>
Excess	<u>\$ 175,834</u>	<u>\$ 140,627</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)	\$ 92,127	\$ 91,211
Actual, November 30	<u>92,127</u>	<u>91,211</u>
Excess	<u>\$ --</u>	<u>\$ --</u>
 Totals:		
Required (per board resolution)	\$ 92,127	\$ 91,211
Required (per bond agreement)	<u>343,375</u>	<u>342,975</u>
	435,502	434,186
Actual, November 30	<u>611,336</u>	<u>574,813</u>
Excess	<u>\$ 175,834</u>	<u>\$ 140,627</u>

10. Pension Contribution

All eligible employees of the Authority are covered by the Public Employees' Retirement System (the "Plan") which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (the "Division"). The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees' Retirement System. The Plan is a cost-sharing multiple-employer defined benefit plan. The Public Employees' Retirement System ("PERS") was established by Chapter 84, P.L. 1954, to provide coverage, to substantially all full time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State administered retirement system. Under the terms of Chapter 71, P.L. 1966, most public employees in New Jersey not required to become members of another contributory retirement program are required to enroll. All benefits vest after eight to ten years of service.

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. Pursuant to Chapter 78, P.L. 2011, Pensions and Health Benefit Reform, employee contribution rates increased from 6.50% to 6.64% of salary with the first paycheck on or after July 1, 2012. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of living adjustments, and non-contributory death benefits. The Authority was required to make a contribution of \$188,390 in 2012 and \$175,980 in 2011.

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.

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12. Supplemental Disclosures of Cash Flow Statement

Noncash investing and financing transactions during the year ended November 30, 2012 are as follows:

Purchase of property and equipment:

	2012	2011
Cost of property and equipment	\$ 1,625,632	\$ 1,548,505
Change in unpaid portion in accounts payable	<u>131,710</u>	<u>(124,053)</u>
Cash paid	<u>\$ 1,757,342</u>	<u>\$ 1,424,452</u>

Interest expense:

	2012	2011
Interest expense	\$ 159,414	\$ 141,735
Loan proceeds used for interest	(10,314)	--
Change in accrued interest payable	(10,226)	37,502
Amortization of bond issue costs	(6,806)	(5,247)
Amortization of bond premiums	<u>32,882</u>	<u>29,717</u>
Cash paid for interest	<u>\$ 164,950</u>	<u>\$ 203,707</u>

Bond issue costs

Costs of bond issuances NJEIT	\$ 49,890
Portion of issuance paid from bond proceeds	(24,945)
Portion of issuance financed	<u>(24,945)</u>
Cash paid for bond issue costs	<u>\$ --</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. Additionally, the authority is operating the Main Plant under a NJDEP NJPDES permit that expires May 30, 2013. The new permit contains enhanced levels of ammonia removal, the cost of which 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.

The Authority is operating the Flemington Wet Weather Facility under a NJDEP NJPDES permit effective May 1, 2010 that contains "report only" parameters for various components of effluent. It appears that our effluent will be required to meet certain levels of the various components in the new permit, effective April 1, 2015. As technology does not exist to meet these parameters in an intermittent facility such as Flemington, a permit with these requirements will create a major financial impact, the amount of which cannot be estimated at this time. The matter is under appeal and is before an Administrative Law Judge.

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 being 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 projected costs are approximately \$1,100,000 and as of November 30, 2012 the project is approximately 77% complete. The second project is to install Supervisory Control Data Acquisition (SCADA) units at the Wastewater Treatment Plant and for the replacement of blowers and their associated controllers at the main treatment plant. The total project projected costs are approximately \$1,500,000 and as of November 30, 2012 the project is approximately 78% complete.

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November 30, 2012 and 2011

14. Subsequent Events

Preliminary work has begun on NJEIT applications for bonding for two additional projects: Woodside Farms Pump Station Rehabilitation for an amount not to exceed \$1,446,000, and The Main Treatment Plant Motor Control Center Replacement, not to exceed \$2,374,000. The Authority has evaluated subsequent events occurring after the statement of net assets date through March 18, 2013, the date the financial statements were available for release. Management has determined that there are no other events requiring recognition or disclosure in these financial statements.

Supplementary Information

Raritan Township Municipal Utilities Authority
Schedule of Revenues
Year Ended November 30, 2012

	Adopted Budget	Realized
Unrestricted net assets appropriated	\$ 428,014	\$ -
User charges and fees	4,581,712	4,422,634
Interest on investments and deposits	28,000	45,926
Other revenues	711,272	517,464
	<u>\$ 5,748,998</u>	<u>\$ 4,986,024</u>
 Analysis of other revenues		
Interest on delinquent accounts	\$ 25,000	\$ 27,150
Septage and GreyWater income	300,000	376,678
Hook-up fees	375,272	73,478
Other	11,000	40,158
	<u>\$ 711,272</u>	<u>\$ 517,464</u>

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2012

		Adopted 2011 - 2012 Budget	Expended Paid or Charged
<hr/>			
Operating expenditures			
	Personnel services		
	Salaries and wages		
5001	Administration	\$ 304,848	\$ 302,339
5002	Operations	1,582,506	1,553,391
5003	Commissioners	9,100	9,170
5012	Operations overtime	126,880	84,580
5013	Administration overtime	1,000	324
5014	Sick/vacation time purchased	35,000	37,533
	Sub-total personnel services	<u>2,059,334</u>	<u>1,987,337</u>
	Employee benefits		
6010	P/R benefits - PERS pension and insurance	190,000	188,390
6030	P/R benefits - medical plan	514,915	501,929
6040	P/R taxes	<u>157,539</u>	<u>153,992</u>
	Sub-total employee benefits	<u>862,454</u>	<u>844,311</u>
	Administrative expenses		
6050	Professional services - legal	32,000	34,079
6060	Professional services - auditor	35,000	36,823
6065	Professional services - accounting	18,000	31,261
6070	Professional services - engineering	80,000	118,658
6080	Professional services - medical	2,000	-
6090	Trustee fee	3,000	6,000
6091	NJEIT fee	-	1,148
6095	Professional services - independent contractor	31,150	29,435
6101	Insurance	200,000	195,408
6110	Education	10,000	11,646
6120	Travel expenses	17,000	12,827
6130	Dues and memberships	5,000	4,550
6140	Conferences and seminars	10,000	5,478
6155	Office expense	31,000	24,429
6160	Public advertisements	5,000	2,384
6165	Postage	10,500	9,702
6180	Permits, licenses, easement fees	22,000	22,220
6201	Administrative housing - maintenance	2,500	4,494
6301	Retirement benefits	105,282	91,451
6401	Computer maintenance and upgrade	37,095	22,331
6501	Appropriation to municipality	<u>70,000</u>	<u>70,000</u>
	Sub-total administrative expenses	<u>726,527</u>	<u>734,324</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2012

		Adopted 2011 - 2012 Budget	Expended Paid or Charged
	Operations and maintenance expenses		
7010	Chemical costs - chlorine	52,000	27,613
7011	Chemical costs - polymer	26,000	28,911
7015	Chemical costs - other	32,000	17,672
7110	Utility costs - electric	600,000	529,035
7112	Utility costs - natural gas and propane	47,000	39,944
7114	Utility costs - telephone	18,000	18,026
7211	Supplies and services - sludge disposal	490,000	404,170
7212	Tools	7,000	5,852
7213	Janitorial supplies	3,500	2,643
7214	Supplies and services - gasoline	20,000	18,174
7216	Supplies and services - lab expense	14,000	11,303
7217	Supplies and services - independent lab	15,000	10,738
7218	Safety equipment	7,500	9,859
7309	Maintenance - collection system	40,000	37,501
7310	Maintenance - treatment plant	140,000	32,199
7311	Maintenance - buildings and grounds	25,000	10,426
7312	Maintenance - painting	1,500	1,149
7314	Maintenance - instr. and meter calib	25,000	13,512
7315	Maintenance - vehicle	10,000	2,098
7316	Maintenance - plant lab	3,000	3,493
7501	Miscellaneous contingencies	25,000	4,978
7317	Maintenance - septage	20,000	-
7701	Leasing - vehicle	4,500	1,224
	Sub-total operations and maintenance expenses	<u>1,626,000</u>	<u>1,230,520</u>
	Flemington Storm Water Facility:		
5005	Salaries and wages	16,750	13,610
5006	Salaries and wages - overtime	30,000	15,191
8010	Legal	7,500	8,303
8013	Accounting	7,000	37,160
8015	Engineering	16,000	35,715
8020	Insurance	3,484	3,484
8030	Permits	6,000	6,128
8101	Chemicals	12,000	1,961

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2012

		Adopted 2011 - 2012 Budget	Expended Paid or Charged
8110	Utilities	40,000	23,131
8201	Services and supplies - lab	12,000	4,667
8210	Safety supplies and equipment	1,000	-
8301	Maintenance - operations	5,000	1,216
8310	Maintenance - buildings and grounds	10,000	3,041
8320	Maintenance - instrumentation and metering	3,000	3,297
	Sub-total Flemington facility	<u>169,734</u>	<u>156,904</u>
	Sub-total operating expenditures	<u>5,444,049</u>	<u>4,953,396</u>
	Capital outlays		
7411	Capital acquisition - plant upgrades	<u>454,500</u>	<u>1,625,632</u>
	Sub-total capital	<u>454,500</u>	<u>1,625,632</u>
	Sub-total operating and capital	<u>5,898,549</u>	<u>6,579,028</u>
	Debt service		
	Bond principal and interest	<u>304,950</u>	<u>302,630</u>
	Total expenditures	<u>\$ 6,203,499</u>	<u>\$ 6,881,658</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Findings and Recommendations
November 30, 2012

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

Finding #2012-1

During the course of our audit we noted that various accounts, involving more complex calculations or a high level of understanding of accounting standards, required adjustment for proper presentation in accordance with Governmental Accounting Standards. Adjustments were proposed for accounts payable, accrued expense and the recognition of the NJEIT bond issuance. Such adjustments were proposed and accepted by management and recorded for proper presentation in these financial statements. We concluded that the Authority's expertise and infrastructure for properly capturing and recording financial transactions in the financial statements and related footnote disclosures could be improved. We consider this to be a material weakness in the Company's controls as defined in our Independent Auditors' Report on Internal Control found in these financial statements.

Criteria

Professional standards specify that individuals at the Authority in charge of overseeing the financial reporting process should have sufficient expertise in selecting and applying generally accepted accounting principles in the Company's financial statements. Further, 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 capturing and reporting of all financial transactions in accordance with Governmental Accounting Standards and reconciliations of all subsidiary ledgers to the general ledger.

Effect

Year-end adjustments were proposed by the auditor, accepted by management and recorded in the financial statements to properly reflect certain financial transactions.

Cause

We have concluded that this condition resulted from a lack of training with respect to certain aspects of the accounting standards applicable to the Authority and the need for greater oversight over the monthly or year-end closing process.

Recommendation

We recommend that the individuals responsible for governance obtain training as deemed appropriate on relevant accounting principles to better select and apply such principles in the Company's financial statements. We further recommend that oversight roles be defined to more clearly identify an individual responsible for ensuring all transactions are captured, proper accrual basis accounting is reflected and that all sub-ledgers are reconciled to the general ledger in a timely manner. The implementation of a period-end closing checklist might be helpful in ensuring the above findings are properly addressed and recorded.

Response

Recognizing that the Authority's expertise for properly capturing and recording financial transactions in the financial statements and related footnote disclosures could be improved, an individual who is a Registered Municipal Accountant (RMA) and Certified Public Accountant (CPA) with an in-depth knowledge of RTMUA's accounting systems was hired (August, 2012) to advise and assist with these journal entries. This is an ongoing relationship that is materially improving the quality of the financial statements.

It should be noted that once the proper treatment of entries is determined, the tasks become one of repetition, rather than determination of proper treatment of new accounting entries. Assistance is also being given in developing an accounting functions checklist for monthly, quarterly and yearly tasks.

Appropriate training in municipal accounting is being actively pursued and appropriate coursework at local universities has been identified.

**Raritan Township Municipal Utilities Authority
Prior Year Findings and Recommendations
November 30, 2012**

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.

Recommendation

We recommended 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 recommended 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.

Current Status

The Authority has employed an individual with suitable skills and experience to properly set up and track fixed assets. We recommend that procedures be developed as part of an overall monthly closing process to ensure that this individual is provided all the necessary information to update fixed assets and that the subsidiary ledger is properly reconciled to the general ledger on a regular basis. See recommendation #2012-1.