

**RARITAN TOWNSHIP MUNICIPAL UTILITIES
AUTHORITY**

Financial Statements

November 30, 2009 and 2008

With Independent Auditors' Report

Raritan Township Municipal Utilities Authority
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November 30, 2009 and 2008

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**Raritan Township Municipal Utilities Authority
Roster of Officials
November 30, 2009**

Authority Commissioners

Edward Dougherty

Michael DelVecchio

John Kendzulak

Patricia Stover

Peter L. Kinsella

Position

Chairperson

Vice Chairperson

Secretary

Treasurer

Asst. Treas./Asst. Sec.

Officials

Hatch Mott MacDonald

Watts, Tice & Skowronek

WithumSmith+Brown, PC

Wastewater Engineer

Attorney

Auditor

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2009 and 2008**

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, 2009 and 2008. 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 2009 and 2008.

	2009	2008
Assets		
Unrestricted current assets	\$ 3,051,689	\$ 5,073,567
Restricted current assets	3,374,067	2,766,761
Property, plant and equipment – net	<u>24,418,975</u>	<u>23,223,599</u>
	<u>\$30,844,731</u>	<u>\$31,063,927</u>
Liabilities and Net Assets		
Unrestricted current liabilities	\$ 580,666	\$ 557,300
Restricted current liabilities	1,165,647	1,220,980
Contributed capital-net	3,570,734	3,653,090
Net assets-restricted	2,208,420	1,545,781
Net assets-unrestricted	<u>23,319,264</u>	<u>24,086,776</u>
	<u>\$30,844,731</u>	<u>\$31,063,927</u>
Revenue and Expenses		
Operating revenue:		
User charges	\$ 4,485,121	\$ 4,281,106
Other	<u>658,290</u>	<u>811,540</u>
	5,143,411	5,092,646
Operating expenses	<u>4,937,923</u>	<u>4,664,343</u>
Operating income	205,488	428,303
Non-operating revenue (expense), net	<u>(310,361)</u>	<u>170,646</u>
Increase (decrease) in net assets, before contributed capital	<u>\$ (104,873)</u>	<u>\$ 598,949</u>

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2009 and 2008**

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 \$5,143,411 for the year ended November 30, 2009, an increase of \$50,765, or 1% higher than total operating revenues of \$5,092,646 for the year ended November 30, 2008. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Revenues were \$5,143,411 for the year ended November 30, 2009 which was 106.4% of the adopted budget of \$4,831,977 (excluding the retained earnings appropriated of \$646,711 for operations and \$3,024,904 for capital projects). Details can be found in the Schedule of Revenues for the year ended November 30, 2009 in the supplementary information section of this report.

Total Operating Expenditures were \$4,937,923, for the year ended November 30, 2009, an increase of 273,580, or 5.8% higher than the total operating expenditures of 4,664,343 for the year ended November 30, 2008. Details can be found in the Statement of Revenue, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Expenditures were \$4,350,723 (excluding depreciation) for the year ended November 30, 2009 which was 89.9% of the adopted budget of \$4,835,475 (excluding 3,024,904 for capital projects and \$403,615 of non-operating expense to Raritan Township). Details will be found in the Schedule of Expenditures for the year ended November 30, 2008 in the supplementary information section of this report.

Included in other non-operating revenue (expense) is an amount of \$403,615 for the year ended November 30, 2009 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:5A012.1

In regard to capital projects, \$3,024,904 was budgeted for the year ended November 30, 2009 of which \$1,782,577 has been spent and capitalized as additional fixed assets. As of November 30, 2009 a reserve for additional capital projects of \$2,118,454 has been included in restricted net assets for capital projects not completed during the year as described in Note 9.

The user fee for one EDU (Equivalent Dwelling Unit or 300 gallons per day) remained at \$420.00 per year and the base user fee portion also remained the same at \$54. The connection fee, set by statute, increased from \$3,767 to \$3,812.

**Raritan Township Municipal Utilities Authority
Management's Discussion and Analysis
November 30, 2009 and 2008**

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 update schedule contained in the rules (statewide there are 193 non-complying plans (including RTMUA) and 12 that are in compliance).
- A requirement that municipalities pass an ordinance designed to assure septic system maintenance.
- A requirement that updated WMPs address septic density in a manner that demonstrates compliance with a 2 mg/L (ppm) nitrate-planning standard.

The first and second proposed amendments can be viewed as detrimental to RTMUA in that our involvement in the WMP process will be greatly reduced. We will no longer be able to lead the WMP process, instead, we will be relegated to the role of a source of data for the Plan. This process began in late 2008 with a required completion date of August 31, 2009 which date has been extended several times at the request of The Hunterdon County Planning Office and is now May 31, 2010. Pending legislation proposes to extend this date to April 7, 2011.

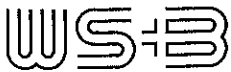
The effect on lost revenues and probable legal action should these rules be adopted as proposed will be significant but is unknown at this time.

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

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

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

In this difficult economic period, the Governor and Legislature are attempting to bring about financial relief and a balanced budget by many means including Executive Orders. While the current Executive Orders – specifically EO-15 - affect only State Authorities, should the trend continue, and County and Municipal Authorities become affected, the financial impact could be significant, but is unknown at this time.



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Independent Auditors' Report on Audit of the Financial Statements

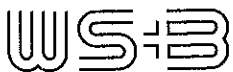
Raritan Township Municipal Utilities Authority
Flemington, New Jersey

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, 2009 and 2008, 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

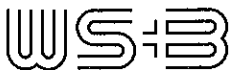


The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally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

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

Withum Smith + Brown, PC

March 12, 2010



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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

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, 2009 and 2008, and have issued our report thereon dated March 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

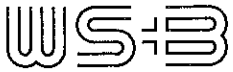
Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, and contracts, 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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 12, 2010.

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

Withum Smith + Brown, PC

March 12, 2010

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 2,226,445	\$ 1,200,295
Investments	-	3,489,899
Accrued interest	10,417	92,650
Sewer fees receivable	814,827	290,723
Total unrestricted assets	<u>3,051,689</u>	<u>5,073,567</u>
Restricted assets:		
Cash and cash equivalents	1,370,905	559,806
Investments	2,000,979	2,203,055
Accrued interest	2,183	3,900
Total restricted assets	<u>3,374,067</u>	<u>2,766,761</u>
Total current assets	<u>6,425,756</u>	<u>7,840,328</u>
Property, plant and equipment:		
Land, building, machinery, equipment	37,987,146	35,889,164
Construction in progress	836,672	1,152,078
	<u>38,823,818</u>	<u>37,041,242</u>
Less: accumulated depreciation	<u>(14,404,843)</u>	<u>(13,817,643)</u>
Property, plant and equipment - net	<u>24,418,975</u>	<u>23,223,599</u>
	<u>\$ 30,844,731</u>	<u>\$ 31,063,927</u>

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

Raritan Township Municipal Utilities Authority
Statements of Net Assets
November 30, 2009 and 2008

	2009	2008
Liabilities and Net Assets		
Current liabilities:		
Unrestricted:		
Current portion of long-term debt	\$ -	\$ 217,257
Accounts payable	381,578	158,943
Accrued salaries	86,438	79,691
Accrued vacation and sick pay	112,650	101,409
Total unrestricted liabilities	<u>580,666</u>	<u>557,300</u>
Restricted:		
Funds held in trust	<u>1,165,647</u>	<u>1,220,980</u>
Total current liabilities	1,746,313	1,778,280
Net assets:		
Contributed capital	5,852,891	5,852,891
Less: accumulated depreciation	(2,282,157)	(2,199,801)
Contributed capital-net	<u>3,570,734</u>	<u>3,653,090</u>
Restricted:		
Bond service	-	1,015
Bond service reserve	-	947,358
Renewal and replacement	89,966	87,307
Capital projects	2,118,454	510,101
Unrestricted	<u>23,319,264</u>	<u>24,086,776</u>
	<u>25,527,684</u>	<u>25,632,557</u>
Total net assets	<u>29,098,418</u>	<u>29,285,647</u>
	<u>\$ 30,844,731</u>	<u>\$ 31,063,927</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, 2009 and 2008

	2009	2008
Operating revenue		
User charges	\$ 4,485,121	\$ 4,281,106
Other income	598,028	579,796
Interest income	60,262	231,744
Total operating revenue	<u>5,143,411</u>	<u>5,092,646</u>
Operating expenses		
Cost of providing services	2,928,703	2,797,246
Administrative and general	1,422,020	1,344,655
	<u>4,350,723</u>	<u>4,141,901</u>
Depreciation	587,200	522,442
Total operating expenses	<u>4,937,923</u>	<u>4,664,343</u>
Operating income	<u>205,488</u>	<u>428,303</u>
Non-operating revenue (expenses)		
Special appropriation to Raritan Township	(403,615)	-
Interest income	6,707	49,894
Interest savings (expense)	4,191	38,396
Depreciation on assets purchased with contributed capital	82,356	82,356
Non-operating revenue (expenses) - net	<u>(310,361)</u>	<u>170,646</u>
(Decrease) increase in net assets, before contributed capital	(104,873)	598,949
Contributed capital, net December 1	3,653,090	3,735,446
Transfer of depreciation from operations to contributed capital	(82,356)	(82,356)
Contributed capital - net, November 30	<u>3,570,734</u>	<u>3,653,090</u>
Net assets, December 1	<u>25,632,557</u>	<u>25,033,608</u>
Net assets, November 30	<u>\$ 29,098,418</u>	<u>\$ 29,285,647</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, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Operating revenue collected	\$ 4,646,207	\$ 4,989,888
Operating expenses paid	(4,110,101)	(4,173,872)
Special appropriation to Raritan Township	(403,615)	-
Non-operating revenue collected	8,425	54,736
Interest savings (expense paid)	4,191	38,396
Net cash provided by operating activities	<u>145,107</u>	<u>909,148</u>
Cash flows from investing activities		
Decrease in investments	3,691,975	457,178
Investment in property, plant and equipment	<u>(1,782,576)</u>	<u>(725,399)</u>
Net cash provided by (used in) investing activities	<u>1,909,399</u>	<u>(268,221)</u>
Cash flows used in financing activities		
Repayment of long-term debt	(217,257)	(913,230)
Net increase (decrease) in cash and cash equivalents	<u>1,837,249</u>	<u>(272,303)</u>
Cash and Cash Equivalents		
Beginning of the year	<u>1,760,101</u>	<u>2,032,404</u>
End of year *	<u>\$ 3,597,350</u>	<u>\$ 1,760,101</u>
* Balance at end of year consists of		
Unrestricted	\$ 2,226,445	\$ 1,200,295
Restricted	<u>1,370,905</u>	<u>559,806</u>
	<u>\$ 3,597,350</u>	<u>\$ 1,760,101</u>
Reconciliation of (decrease) increase in net assets, before contributed capital to net cash provided by operating activities		
(Decrease) increase in net assets, before contributed capital	\$ (104,873)	\$ 598,949
Adjustments to reconcile (decrease) increase in net assets, before contributed capital to net cash provided by operating activities		
Depreciation	587,200	522,442
Depreciation on assets purchased with contributed capital	(82,356)	(82,356)
(Increase) decrease in accrued interest	83,950	15,392
(Increase) decrease in sewer fees receivable	(524,104)	(82,742)
Increase (decrease) in accounts payable and accrued expenses	240,623	(31,971)
Increase (decrease) in funds held in trust	(55,333)	(30,566)
Net cash provided by operating activities	<u>145,107</u>	<u>\$ 909,148</u>

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

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

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 August 18, 1977, the purpose of which was to refund an earlier issue. 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. This bond was paid in full during the year ended November 30, 2009 and is no longer required to follow the covenants of the bond resolution.

Classification of Users:

Section 617 of the 1977 Bond Resolution requires the annual audit to contain "the numbers, amount and classification of users and services of the system and annual charges, service charges and revenues collected in each classification." The number of users as of November 30, 2009 and 2008 and the revenue recognized for the years then ended are listed as follows:

	2009		2008	
	Number	Revenue	Number	Revenue
Residential	3,893	\$ 1,586,037	3,882	\$1,513,882
Commercial	229	881,459	214	827,225
Industrial	16	833,463	16	661,391
Special Users:				
Borough of Flemington	1	1,023,386	1	1,130,151
Township of Readington	1	160,776	1	148,457
	<u>4,140</u>	<u>\$4,485,121</u>	<u>4,114</u>	<u>\$4,281,106</u>

2. Summary of Significant Accounting Policies

The accounting policies of the Authority conform to generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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.

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.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

Fair Value of Financial Instruments

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

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

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

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

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.

Property, Plant, and Equipment

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

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

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

Restricted Accounts and Restrictions on Net Assets

In accordance with the 1977 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:

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

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.
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest two months prior to due date.	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.
Capital Projects	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 accounts:

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

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.

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.

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.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

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.

3. Cash and Cash Equivalents

At November 30, 2009 and 2008, the carrying amount of the Authority's cash and cash equivalents was \$3,597,350 and \$1,760,101, respectively, which was comprised of:

	2009	2008
Bank checking and savings accounts (bank balances of \$3,593,692 and \$799,293 at December 31, 2009 and 2008, respectively)	\$ 3,597,350	\$ 786,459
First American Treasury Obligation Fund – Money Market	—	973,642
	<u>\$ 3,597,350</u>	<u>\$ 1,760,101</u>
Unrestricted cash and cash equivalents	\$ 2,226,445	\$ 1,200,295
Restricted cash and cash equivalents	<u>1,370,905</u>	<u>559,806</u>
	<u>\$ 3,597,350</u>	<u>\$ 1,760,101</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).

4. Fair Value Accounting

Recurring Fair Value Measurements

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

	Total	Basis for Valuation		
		Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit	\$ 2,000,979	\$ —	\$ 2,000,979	\$ —

For applicable assets and liabilities subject to this pronouncement, the Group 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 Group 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 Group 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, 2009 and 2008

5. Investments and Accrued Interest

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

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

At November 30, 2008, 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>
General (unrestricted)	Skylands	2.96%	12/4/08	\$ 1,489,899
	TD	2.55	12/4/08	1,000,000
	Sun Nat'l	2.77	12/4/08	<u>1,000,000</u>
Total unrestricted investments				<u>3,489,899</u>
Bond Reserve	Sun Natl.	3.20%	4/23/09	944,359
Renewal and Replacement	Skylands	3.15%	2/07/09	86,407
General (Reserved)	Skylands	2.96%	12/04/08	510,101
Trust: Reserve capacity	Sun Natl.	3.75%	10/30/09	630,179
Bond & coupon	Skylands	3.10	5/22/09	<u>32,009</u>
Total restricted investments				<u>2,203,055</u>
Total investments				<u>\$ 5,692,954</u>

At November 30, 2009 and 2008, investments at face amount approximate fair market value.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

All of the certificates of deposit have been deposited in public depositories, which are fully insured up to \$100,000 per institution by the Federal Deposit Insurance Corporation (FDIC) and in excess of \$100,000 are fully collateralized by the bank through the Government Unit Deposit Protection Act (GUDPA).

6. 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 \$65,203 in 2009 and \$85,746 in 2008.

7. Risk Management

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

8. Long Term Debt

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

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

The DEP loans are interest free.

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

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

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

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2008 and 2007

9. Amounts Required by Bond Resolution

The following fund balances are required by the bond resolution for long term debt as described in Note 7. These bonds were paid in full during the year ended November 30, 2009. The Board of Commissioners have agreed to continue with the renewal and replacement fund for emergency repairs and maintenance.

	2009	2008
Bond Service Fund:		
Required	\$ --	\$ 108,908
Actual, November 30	<u> --</u>	<u> 1,015</u>
Deficit	<u><u>\$ --</u></u>	<u><u>\$ (107,893)</u></u>
 Bond Service Reserve Fund:		
Required	\$ --	\$ 217,816
Actual, November 30	<u> --</u>	<u> 947,358</u>
Excess	<u><u>\$ --</u></u>	<u><u>\$ 729,542</u></u>
 Renewal and Replacement Fund:		
Required (per board resolution)	\$ 89,966	\$ --
Required	<u> --</u>	<u> 84,320</u>
Actual, November 30	<u> 89,966</u>	<u> 87,307</u>
Excess	<u><u>\$ --</u></u>	<u><u>\$ 2,987</u></u>
 Totals:		
Required (per board resolution)	\$ 89,966	\$ --
Required	<u> --</u>	<u> 411,044</u>
Actual, November 30	<u> 89,966</u>	<u> 1,035,680</u>
Excess	<u><u>\$ --</u></u>	<u><u>\$ 624,636</u></u>

10. Analysis and Planned Use of The Authority's Net Assets

The Authority's net assets, net of contributed capital, are comprised of the following components:

Restricted	\$ 2,208,420
Unrestricted	<u>23,319,264</u>
Total net assets	<u><u>\$ 25,527,684</u></u>

Restricted:

Of the \$2,208,420 of restricted net assets, \$2,118,454 is reserved for capital projects which were budgeted and not completed as of November 30, 2009.

Unrestricted:

Unrestricted net assets at November 30, 2009

	\$ 23,319,264
--	---------------

Fixed assets, net of contributed capital	32,134,255
Accumulated depreciation on fixed assets	<u>(12,122,686)</u>
	20,011,569

Accounts payable and accrued expenses	<u>580,666</u>
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Unrestricted net assets available	<u><u>\$ 2,727,029</u></u>
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In addition, capital projects for future years (after 2009) total \$4,240,000. These projects will require funding from unrestricted cash or additional borrowings.

Raritan Township Municipal Utilities Authority
Notes to Financial Statements
November 30, 2009 and 2008

11. Contingencies and Commitments

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

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

During the year ended November 30, 2009, the Authority entered into several contracts related to the expansion of the sewage plant and/or related sewerage lines and pumping stations. These contracts commit the Authority for a period of up to approximately five years, and amount to approximately \$1,300,000. As of November 30, 2009, the Authority has either paid for or budgeted for these projects. As such, the Authority has restricted sufficient funds, in restricted cash and cash equivalents and restricted investments, to meet these obligations.

12. Subsequent Events

The Company has evaluated subsequent events occurring after the balance sheet date through March 12, 2010, the date the financial statement were available for release. Subsequent to the balance sheet date, the Authority has entered into a contract related to the rehabilitation of an interceptor. The amount of the project is expected to be approximately \$920,000. As such, the Authority has restricted sufficient funds, in restricted cash and cash equivalents and restricted investments, to meet this obligation.

Supplementary Information

Raritan Township Municipal Utilities Authority
Schedule of Revenues
Year Ended November 30, 2009

	<u>Adopted Budget</u>	<u>Realized</u>
Unrestricted net assets appropriated	\$ 3,671,615	\$ -
User charges and fees	4,011,364	4,485,121
Interest on investments and deposits	300,000	60,262
Other revenues	<u>520,613</u>	<u>598,028</u>
	<u>\$ 8,503,592</u>	<u>\$ 5,143,411</u>
 Analysis of other revenues		
Interest on delinquent accounts	\$ 10,000	\$ 3,164
Septage and GreyWater income	250,000	244,986
Hook-up fees	250,000	341,791
Other	<u>10,613</u>	<u>8,087</u>
	<u>\$ 520,613</u>	<u>\$ 598,028</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2009

	Adopted 2008-2009 Budget	Expended Paid or Charged
Operating appropriations		
	Personnel services	
	Salaries and wages	
5001	\$ 269,518	288,273
5002	1,575,350	1,423,586
5003	10,500	9,671
5012	90,000	109,185
5013	4,000	1,194
5014	25,000	21,945
	<u>1,974,368</u>	<u>1,853,854</u>
	Employee benefits	
6010	117,423	65,203
6030	384,176	357,828
6040	151,039	144,902
	<u>652,638</u>	<u>567,933</u>
	Administrative expenses	
6050	30,000	27,362
6060	25,000	20,000
6065	2,000	15,680
6070	87,000	96,119
6080	2,000	-
6090	2,000	539
6095	44,140	25,417
6101	200,000	174,897
6110	15,000	9,597
6120	17,000	16,425
6130	4,000	4,216
6140	7,000	8,467
6155	30,500	22,154
6160	3,000	4,844
6165	7,100	10,346
6180	25,000	21,251
6201	5,000	-
6301	47,680	41,801
6401	21,950	33,890
6501	403,615	403,615
	<u>978,985</u>	<u>936,620</u>

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
 Schedule of Expenditures
 Year Ended November 30, 2009

		Adopted 2008-2009 Budget	Expended Paid or Charged
	Operations and maintenance expenses		
7010	Chemical costs - chlorine	71,000	47,723
7011	Chemical costs - polymer	32,000	28,999
7015	Chemical costs - other	35,000	28,522
7110	Utility costs - electric	500,000	586,364
7112	Utility costs - natural gas and propane	52,599	28,947
7114	Utility costs - telephone	13,500	13,867
7211	Supplies and services - sludge disposal	407,000	394,437
7212	Tools	6,500	4,288
7213	Janitorial supplies	3,500	2,966
7214	Supplies and services - gasoline	35,000	10,786
7216	Supplies and services - lab expense	26,500	14,585
7217	Supplies and services - independent lab	15,000	14,886
7218	Safety equipment	10,000	8,865
7309	Maintenance - collection system	50,000	24,516
7310	Maintenance - treatment plant	130,000	50,093
7311	Maintenance - buildings and grounds	25,000	18,047
7312	Maintenance - painting	2,000	1,465
7314	Maintenance - instr. and meter calib	8,500	5,073
7315	Maintenance - vehicle	6,500	6,970
7316	Maintenance lab plan	3,000	1,390
7501	Miscellaneous contingencies	20,000	-
7317	Maintenance - septage	25,000	-
7701	Leasing - vehicle	4,500	3,700
	Sub-total operations and maintenance expenses	<u>1,482,099</u>	<u>1,296,489</u>
	Flemington Storm Water Facility:		
5005	Salaries and wages	15,000	12,455
5006	Salaries and wages - overtime	25,000	23,770
8010	Legal	10,000	1,914
8013	Accounting	1,000	-
8015	Engineering	10,000	889
8020	Insurance	1,000	-
8030	Permits	6,500	6,177
8101	Chemicals	10,000	6,428

See Independent Auditors' Report.

Raritan Township Municipal Utilities Authority
Schedule of Expenditures
Year Ended November 30, 2009

		<u>Adopted 2007-2008 Budget</u>	<u>Expended Paid or Charged</u>
8110	Utilities	40,000	38,389
8201	Services and supplies - lab	10,000	3,057
8210	Safety supplies and equipment	1,000	296
8301	Maintenance - operations	10,000	1,202
8310	Maintenance - buildings and grounds	10,000	3,814
8320	Maintenance - instrumentation and metering	1,500	1,050
	Sub-total Flemington facility	<u>151,000</u>	<u>99,441</u>
	Sub-total operating	<u>5,239,090</u>	<u>4,754,337</u>
	Capital outlays		
7411	Capital acquisition - plant equip (Over 5 years)	1,413,000	1,312,844
	Capital acquisition - Flemington Wet Water Facility	1,250,000	85,527
7412	Capital acquisition - vehicle	361,904	366,050
7414	Capital acquisition - lab equipment		6,048
7415	Capital acquisition - office equipment		12,108
	Sub-total capital	<u>3,024,904</u>	<u>1,782,577</u>
	Sub-total operating and capital	<u>8,263,994</u>	<u>6,536,914</u>
	Debt service		
	Bond principal and interest	239,598	217,257
	Section 612 requirement		
		<u>239,598</u>	<u>217,257</u>
		<u>\$ 8,503,592</u>	<u>\$ 6,754,171</u>

* Capital projects budgeted but not paid or charged as of November 30, 2009 and 2008, was \$2,118,454 and \$510,101, respectively, and has been included in restricted net assets for capital projects, as described in Note 9.

Raritan Township Municipal Utilities Authority
Comments and Recommendations
November 30, 2009

Comments -

None

Recommendations -

None