

**THE BORDENTOWN SEWERAGE AUTHORITY**  
**REPORT OF AUDIT**  
**FOR THE FISCAL YEAR ENDED**  
**NOVEMBER 30, 2011**

BORDENTOWN SEWERAGE AUTHORITY

NOVEMBER 30, 2011

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MEMBER  
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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the  
Bordentown Sewerage Authority  
954 Farnsworth Avenue  
Bordentown, New Jersey 08505

I have audited the accompanying statement of net assets of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey, as of November 30, 2011 and 2010 and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Bordentown Sewerage Authority. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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; and in compliance with audit requirements as prescribed by the Local Finance Board, Department of Community Affairs, State of New Jersey. Those standards require that I 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 significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

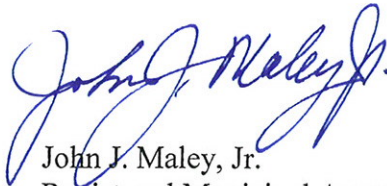
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bordentown Sewerage Authority as of November 30, 2011 and 2010, and the results of its operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated March 8, 2012 on my consideration of the Bordentown Sewerage Authority's internal control structure over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. 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 my audit.

The Management Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I 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.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in blue ink, reading "John J. Maley, Jr.", written in a cursive style.

John J. Maley, Jr.  
Registered Municipal Accountant  
Certified Public Accountant

February 27, 2012

**JOHN J. MALEY, JR.**

*Certified Public Accountant*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLAINTS AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Chairman and Members of the  
Bordentown Sewerage Authority  
954 Farnsworth Avenue  
Bordentown, New Jersey 08505

I have audited the financial statements of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey, as of and for the year ended November 30, 2011, and have issued my report thereon dated February 27, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Local Finance Board, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

My Consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Findings and Recommendations section as 2011-2 and 2011-3 that I consider to be significant deficiencies in internal control over financial

reporting. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. 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.

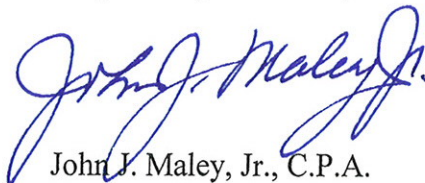
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bordentown Sewerage Authority's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Local Finance Board, Department of Community Affairs, State of New Jersey.

I noted certain matters that are reported to the management of the Bordentown Sewerage Authority in the Findings and Recommendations section of this reporting package.

This report is intended solely for the information of the management and the Chairman and Board members of the Bordentown Sewerage Authority, the New Jersey State Department of Community Affairs, and other federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



John J. Maley, Jr., C.P.A.  
Registered Municipal Accountant  
Certified Public Accountant

February 27, 2012

# The Bordentown Sewerage Authority

## Management Discussion and Analysis For The Fiscal Year Ending November 30, 2011

The Bordentown Sewerage Authority (the "Authority") is a public body corporate and politic, created pursuant to N.J.S.A. 40:14A-1 *et seq.* to provide wastewater collection, treatment and disposal services within the City of Bordentown and the Township of Bordentown in the County of Burlington, New Jersey. This section of the Authority's annual financial report provides management's discussion and analysis of the financial performance for fiscal year 2011, ending November 30, 2011. The entire annual financial report consists of five parts: the Independent Auditor's Report, the Management Discussion and Analysis, the Financial Statements, the Supplemental Information, and the Single Audit Section when applicable.

### FINANCIAL HIGHLIGHTS

During FY11 there were few changes in the financial operations of the Authority. Selected operating information follows.

*Total Operating Revenue:* Total operating revenues for FY11 were \$3,873,438, which is an increase of \$42,388 over FY10, resulting primarily from a decrease in connection fee revenue and miscellaneous income.

*Total Operating Expenses:* Total operating expenses for FY11 were \$3,986,688, which is an increase of \$65,029 over FY10.

*Connection Fees:* Connection fee revenues for FY11 were \$248,597, which is an increase of \$104,607 over FY10.

*Debt Service:* Principal paid in FY11 was \$14,063,470 compared to \$925,000 for FY10, this was due mainly to a refunding of Series E bonds of \$12,955,000. Interest paid for FY11 was \$954,147 compared to FY10 of \$1,064,605.

*Total Assets:* Total assets at the end of FY11 were \$35,154,586. After deducting liabilities, net assets totaled \$13,332,428. At the end of FY10, total assets were \$37,205,450 and net assets were \$14,258,561.

## OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements contain information about the Authority as a whole using accounting methods similar to those used by private-sector companies. Since the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The comparative statement of net assets includes all of the Authority's assets and liabilities. Net assets, the difference between the Authority's assets and liabilities, are a measure of the Authority's financial health or position.

The statement of revenues, expenses and changes in fund net assets provides a breakdown of the various areas of revenues and expenses encountered during the current year.

The statement of cash flows provides a breakdown of the various sources of cash, categorized into four areas: cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

## SUMMARY OF FINANCIAL STATEMENTS

Total assets, total liabilities and total net assets of the Authority, as of November 30, are summarized below:

	2011	2010
<b>Assets:</b>		
Current Assets	3,404,694	4,187,092
Restricted Assets	7,147,316	7,587,624
Capital Assets - Net	24,139,308	25,131,068
Unamortized Bond Issuance Costs	463,268	299,666
<b>Total Assets:</b>	<u>35,154,586</u>	<u>37,205,450</u>
<b>Liabilities:</b>		
Current Liabilities	1,760,910	2,127,996
Long-Term Liabilities - Net	20,061,248	20,818,893
<b>Total Liabilities:</b>	<u>21,822,158</u>	<u>22,946,889</u>
<b>Net Assets:</b>		
Capital Assets (Net of Related Debt)	4,781,239	4,954,084
Restricted Accounts	5,553,765	5,638,780
Unrestricted Accounts - Designated	945,000	2,745,000
Unrestricted Accounts - Undesignated	2,052,424	920,697
<b>Total Net Assets:</b>	<u>13,332,428</u>	<u>14,258,561</u>



The Authority had a net operating loss (total operating income less operating expenses) of \$(113,250) in FY11. Combined with the net non-operating loss (total non-operating income less non-operating expenses) of \$(812,883), net assets decreased by \$926,133. The revenues, expenses and change in net assets of the Authority are summarized below:

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
<b>Operating Revenues:</b>			
Service Charges	3,536,401	3,594,693	(58,292)
Connection Fees	248,597	143,990	104,607
Miscellaneous Revenue	88,440	92,367	(3,927)
<b>Total Operating Revenue:</b>	<u>3,873,438</u>	<u>3,831,050</u>	<u>42,388</u>
<b>Operating Expenses:</b>			
Operating Expenses	2,517,606	2,494,657	22,949
Depreciation Expense	1,469,082	1,427,002	42,080
<b>Total Operating Expenses:</b>	<u>3,986,688</u>	<u>3,921,659</u>	<u>65,029</u>
<b>Operating Income (Loss):</b>	<u>(113,250)</u>	<u>(90,609)</u>	<u>(22,641)</u>
<b>Non-Operating Revenues (Expenses):</b>			
Investment Income	192,505	253,607	(61,102)
Gain / (Loss) on Sale of Assets	11,284	-	11,284
Capital Grant - ARRA Forgiveness	-	768,010	(768,010)
Bond Interest	(955,977)	(1,127,637)	171,660
Amortization of Bond Issue Cost	(60,695)	(47,269)	(13,426)
<b>Total Non-Operating Income (Loss):</b>	<u>(812,883)</u>	<u>(153,289)</u>	<u>(659,594)</u>
<b>Income/(Loss)</b>	<u>(926,133)</u>	<u>(243,898)</u>	<u>(682,235)</u>
<b>Net Assets, December 1</b>	<u>14,258,561</u>	<u>14,502,459</u>	<u>(243,898)</u>
<b>Net Assets, November 30</b>	<u>13,332,428</u>	<u>14,258,561</u>	<u>(926,133)</u>

**ANALYSIS OF FINANCIAL CONDITION**

Overall, the Authority is in sound financial condition, due in part, to its policies of prudent planning, preventative maintenance, fiscal responsibility and avoiding an undue reliance on connection fees to meet the Authority's financial obligations. The Authority believes that it must be financially able to afford operating expenses, debt service and capital expenditures without a substantial reliance on connection fee revenue.

## OPERATING ACTIVITIES

The condensed statement of revenues, expenses, and changes in net assets provides information as to the nature and source of changes in financial position. The statement shows that operating revenues in 2011 increased by \$42,388 (1.11%) and operating expenses increased by \$65,029 (1.66%) over 2010.

The items, which were responsible for the major changes in net assets for the year ended November 30, 2011, include a \$104,607 increase in connection fee revenue along with a decrease of \$58,292 in service revenue.

While certain expense items had large increases and decreases the net effect was an increase of \$65,029.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

The following table summarizes the changes in capital assets at November 30, 2011 and 2010:

<u>Capital Assets, Net of Depreciation</u>			
<u>Year Ended November 30</u>	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
Land and Buildings	19,214,548	19,201,035	13,513
Tanks, Pump Stations and Mains	27,437,535	27,306,172	131,363
Other	4,427,682	4,280,114	147,568
	<u>51,079,765</u>	<u>50,787,321</u>	292,444
Less: Accumulated Depreciation	<u>27,040,205</u>	<u>25,672,258</u>	<u>1,367,947</u>
<b>Total Capital Assets, Net of Depreciation</b>	<u><u>24,039,560</u></u>	<u><u>25,115,063</u></u>	<u><u>(1,075,503)</u></u>

At November 30, 2011, the Authority's investment in capital assets was \$24,039,560 (net of accumulated depreciation) which represents an decrease of \$1,075,503 when compared to November 30, 2010.

The Authority's capital expenditures are expected to increase based on the five-year capital program adopted along with the annual budget for the fiscal year ending November 30, 2011 shown below.

During the fiscal year, the Authority expended \$477,501 for capital projects.

The proposed Capital Budget for FY12 is \$2,419,300. The major items constituting the capital budget are as follows.

Plant and System Repairs	550,000
Collection System Upgrades	370,000
Armcon Collection System	145,436
Solar Power Review	10,000
BPU Energy Audit Improvements	2,242,800
Other	<u>15,000</u>
	<u>\$ 3,333,236</u>

The proposed 2013 to 2017 Capital Budget is \$890,000. Future major capital projects, which are essential to the continuing efficient operation of its system by the Authority, include:

Collection System Upgrade	\$ 250,000
Plant and System Repairs	500,000
Vehicle Replacement	90,000
Laboratory Equipment	<u>50,000</u>
	<u>\$ 890,000</u>

## **DEBT ADMINISTRATION**

On December 2, 2010 the Authority issued Series H revenue bonds of \$13,500,000 to refund all of Series E bonds resulting in an economic gain of \$1,014,782.

The Authority's outstanding bonds and loans payable is \$21,913,479 at November 30, 2011, a decrease of \$563,470 when compared to the \$22,476,949 at November 30, 2010. Interest on these bonds and loans is paid semi-annually with interest rates ranging from 0% to 5.50%.

## **CONTACTING THE AUTHORITY**

This financial report is designed to provide the State of New Jersey, residents and customers within the City of Bordentown and Township of Bordentown and holders of Authority bonds, with a general overview of the Authority's finances. Any additional information may be obtained by contacting:

The Bordentown Sewerage Authority  
954 Farnsworth Ave  
P.O. Box 396  
Bordentown, N.J. 08505  
(609) 291-9105

## BASIC FINANCIAL STATEMENTS

THE BORDENTOWN SEWERAGE AUTHORITY  
STATEMENT OF NET ASSETS  
NOVEMBER 30, 2011 AND 2010

ASSETS	2011	2010
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,779,235	\$ 2,101,508
Investments	1,520,697	1,900,745
Accounts Receivable:		
Consumer Accounts Receivable	96,328	122,633
Other	50	53,890
Prepaid Expenses	8,384	8,316
<b>Total Current Assets</b>	<b>3,404,694</b>	<b>4,187,092</b>
<b>Restricted Assets:</b>		
Revenue Account		
Cash and Cash Equivalents	6,678	7,329
Operating Account		
Cash and Cash Equivalents	570,524	906,504
Investments	355,122	17,157
Debt Service Account		
Cash and Cash Equivalents	1,426,445	1,645,802
Debt Service Reserve Account		
Cash and Cash Equivalents	390,908	453,494
Investments	1,824,074	1,769,736
Debt Service Reduction Account		
Cash and Cash Equivalents	981,268	972,564
Investments	18,780	25,736
Renewal and Replacement Account		
Cash and Cash Equivalents	400,000	400,000
Unexpended Bond Proceeds		
Cash Held by NJEIT	1,169,217	1,384,591
Accrued Interest Receivable	4,300	4,711
<b>Total Restricted Assets</b>	<b>7,147,316</b>	<b>7,587,624</b>
<b>Capital Assets</b>		
Land	2,264,000	2,264,000
Buildings, Plant and Equipment (Net of Accumulated Depreciation)	21,775,437	22,851,063
Construction in Progress	99,871	16,005
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<b>24,139,308</b>	<b>25,131,068</b>
<b>Other Assets</b>		
Unamortized Bond Issue Costs	463,268	299,666
<b>Total Assets</b>	<b>\$ 35,154,586</b>	<b>\$ 37,205,450</b>

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY  
STATEMENT OF NET ASSETS  
NOVEMBER 30, 2011 AND 2010

<b>LIABILITIES</b>	<u>2011</u>	<u>2010</u>
<b>Current Liabilities:</b>		
Accounts Payable	\$ 23,695	\$ 28,397
Payroll Deductions Payable	3,062	4,228
Retainage	-	1,715
Deposits for Future Claims		
Deposits for Connection Fees	195,185	348,769
Developers' Escrow Deposits	94,028	81,999
State Unemployment Compensation	23,290	21,882
	<u>339,260</u>	<u>486,990</u>
<b>Current Liabilities Payable From Restricted Assets:</b>		
Revenue Bonds Payable - Current Portion	999,082	1,108,470
Bond Interest Payable	422,568	532,536
	<u>1,421,650</u>	<u>1,641,006</u>
<b>Total Current Liabilities Payable From Restricted Assets</b>	<u>1,421,650</u>	<u>1,641,006</u>
<b>Noncurrent Liabilities</b>		
Revenue Bonds Payable - Net of Unamortized Costs	19,991,472	20,752,771
Compensated Absences	69,776	66,122
	<u>20,061,248</u>	<u>20,818,893</u>
<b>Total Long-Term Liabilities</b>	<u>20,061,248</u>	<u>20,818,893</u>
<b>Total Liabilities</b>	<u>21,822,158</u>	<u>22,946,889</u>
<b>NET ASSETS</b>		
<b>Net Assets:</b>		
Investment in Capital Assets, Net of Related Debt	4,781,239	4,954,084
Restricted:		
Reserved for Debt Service	4,218,907	4,334,796
Reserved for Operating Costs	934,858	903,984
Reserved for Renewal and Replacement	400,000	400,000
Unrestricted:		
Designated for Capital Projects	945,000	2,745,000
Undesignated	2,052,424	920,697
	<u>13,332,428</u>	<u>14,258,561</u>
<b>Total Net Assets</b>	<u>\$ 13,332,428</u>	<u>\$ 14,258,561</u>

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED NOVEMBER 30, 2011 AND 2010

	2011	2010
<b>Operating Revenues</b>		
User Charges and Fees	\$ 3,536,401	\$ 3,594,693
Delinquent Penalties	13,983	13,900
Connection Fees	248,597	143,990
Miscellaneous	74,457	78,467
Total Operating Revenues	3,873,438	3,831,050
<b>Operating Expenses:</b>		
Personnel Services	883,968	954,877
Employee Benefits	490,941	439,375
Administrative Expenses	322,593	289,796
Operations and Maintenance	820,104	810,609
Depreciation	1,469,082	1,427,002
Total Operating Expenses	3,986,688	3,921,659
<b>Operating Income</b>	(113,250)	(90,609)
<b>Non-Operating Revenues (Expenses):</b>		
Investment Income	192,505	253,607
Gain / (Loss) on Sale of Assets	11,284	
Capital Grant - ARRA Principal Forgiveness	-	768,010
Interest on Bonds	(955,977)	(1,127,637)
Amortization of Bond Issuance Costs	(60,695)	(47,269)
Total Non-Operating Revenues (Expenses)	(812,883)	(153,289)
Income (Loss)	(926,133)	(243,898)
<b>Net Assets, December 1</b>	14,258,561	14,502,459
<b>Net Assets, November 30</b>	\$ 13,332,428	\$ 14,258,561

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED NOVEMBER 30, 2011 AND 2010

	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers and Users	\$ 3,953,583	\$ 3,822,461
Cash Payments for Goods and Supplies	(1,290,495)	(1,046,842)
Cash Payments for Employee Expenses	(1,371,255)	(1,402,532)
Net Cash Provided by Operating Activities	1,291,833	1,373,087
<b>Cash Flows From Capital and Related Financing Activities:</b>		
General and Construction Outlays	(477,501)	(1,597,928)
Proceeds of Refunding Bonds	13,500,000	-
Proceeds of Bonds	-	2,181,949
Capital Grant	-	768,010
Bond Premium / (Discount)	(212,206)	52,831
Cost of Issuance	(362,668)	(93,726)
Deposit to Refunding Escrow	(13,023,439)	-
Proceeds from Sale of Assets	11,464	-
Debt Service:		
Principal	(1,108,470)	(925,000)
Interest	(954,147)	(1,064,605)
Net Cash (Used) or Provided by Capital and Related Financing Activities	(2,626,967)	(678,469)
<b>Cash Flows From Investing Activities:</b>		
Investment Income	192,916	254,447
Net Change in Investments	(5,299)	427,361
Net Cash (Used) Or Provided by Investing Activities	187,617	681,808
Net Cash Increase (Decrease) for the Year	(1,147,517)	1,376,426
<b>Cash at Beginning of Year</b>	7,871,792	6,495,366
<b>Cash at End of Year</b>	\$ 6,724,275	\$ 7,871,792
Noncash Investing, Capital and Financing Activities		
Capital Assets Acquired through Contribution	\$ -	\$ -

See Notes to Financial Statements.



THE BORDENTOWN SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED NOVEMBER 30, 2011 AND 2010

<b>Reconciliation of Operating Income to Net Cash Used by Operating Activities:</b>	2011	2010
Operating Income	\$ (113,250)	\$ (90,609)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation	1,469,082	1,427,002
(Increase) Decrease in:		
Accounts Receivable	80,145	(62,479)
Prepaid Expenses	(68)	424
(Decrease) Increase in:		
Accounts Payable	(4,702)	(7,143)
Payroll Deductions Payable	(1,166)	1,409
Retainage Payable	(1,715)	1,715
Deposits for Connection Fees	(153,584)	109,589
Developers' Escrow Deposits	12,029	(80)
Reserve for Unemployment Insurance	1,408	1,539
Compensated Absences	3,654	(8,280)
Total Adjustments	1,405,083	1,463,696
Net Cash Provided by Operating Activities	<u>\$ 1,291,833</u>	<u>\$ 1,373,087</u>
 <u>Reconciliation of Cash to the Statement of Net Assets</u>		
Current Assets:		
Cash	\$ 1,779,235	\$ 2,101,508
Restricted Assets:		
Cash	4,945,040	5,770,284
	<u>\$ 6,724,275</u>	<u>\$ 7,871,792</u>

See Notes to Financial Statements.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity

The Bordentown Sewerage Authority, a public body corporate and politic of the State of New Jersey, was created by virtue of an ordinance duly adopted on June 10, 1986 by the Township Committee of the Township of Bordentown and an ordinance duly adopted on June 9, 1986 by the Board of Commissioners of the City of Bordentown.

The Authority was created in order to provide an agency for the collection, treatment and disposal of all sewage generated within the City and the Township of Bordentown. The Authority is a legally separate entity and does not satisfy the criteria established by GASB 14 defining a component unit.

Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, all assets and liabilities, both current and long-term are presented in the statement of net assets.

GASB Statement No. 34

The Authority adopted the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management's Discussion and Analysis section, a Balance Sheet, a Statement of Revenues, Expenses and Change in Net Assets and a Statement of Cash Flows. It requires the classification of Net Assets into three components - Invested in Capital Assets, net of related debt; Restricted ; and Unrestricted.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Basis of Accounting

The financial statements are accounted for using the accrual basis of accounting. Sewer charges are recognized as revenue when services are provided and are billable. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the Authority determines that the services are being provided to the properties. Expenditures are recognized when incurred.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

The Authority uses the same measurement focus as commercial enterprises, the flow of economic resources. The flow of economic resources refers to all the assets available to the Authority for the purpose of providing goods and services.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Required Accounts

The Authority is subject to the provisions and restrictions of the Bond Resolution adopted July 24, 1986 and supplemental resolutions thereto. A summary of the activities of each fund (account) created by the Bond Resolution is covered below.

**Operating Fund:** The amount of the Operating Requirement as of any particular date of computation, is equal to the amount required for payment of operating expenses for the period of four months next following the date of computation as shown by the annual budget then in effect. The Authority shall make payment from time to time out of the Operating Fund of all amounts required for the operation, maintenance or repair of the System and for reasonable and necessary operating expenses.

**Bond Service Fund:** The balance on deposit must be sufficient to enable the Trustee to withdraw amounts equal to interest due on bonds, principal amounts of bonds maturing and sinking fund installments when such payments are required.

**Bond Reserve Fund:** The amount of funds on deposit must be maintained at a level equal to the Maximum Debt Service to insure funds are available for payment of Debt Service.

**Renewal and Replacement Fund:** These funds are maintained for reasonable and necessary expenses with respect to the system for major repairs, renewals, replacements or maintenance items of a type not recurring annually. The minimum system reserve requirement is \$150,000. By resolution of the governing body effective December 1, 1999 the minimum is increased to \$400,000.

**General Fund:** All excess funds of the Authority are recorded in the General Account. If the Authority is not in default in the payment of the principal of, or interest on, or redemption price of bonds and all fund requirements are satisfied, funds in excess of the amounts reasonably required to be reserved for payment of bonds or necessary reconstruction of the system may be withdrawn by the Authority for any lawful purpose.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Required Accounts (Continued)

Construction Fund: This fund was established in accordance with Section 401 of the Bond Resolution and is inactive.

In addition to the accounts required by the Bond Resolution a Debt Service Reduction Account was established at \$750,000 by resolution of the Authority dated March 20, 2000 to be applied to the reduction of debt service obligations at the discretion of the Authority. Interest earned remains in the account.

Governmental Accounting Standards Board - Statement No. 20

The Authority is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement NO. 20 was issued to give guidance in determining Generally Accepted Accounting Principles (GAAP) for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements issued after that date.

The Bordentown Sewerage Authority has elected not to follow any FASB pronouncements issued after November 30, 1989.

Budgets and Budgetary Accounting

The Bordentown Sewerage Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. N.J.A.C. 5:31-2 requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt not later than the beginning of the Authority's fiscal year. The budget is adopted on the accrual basis of accounting. Depreciation, amortization, and certain deferred amounts related to debt defeasance are not budgeted. The governing body may amend the budget at any point during the year. The budget was amended during the fiscal year.

The Authority records encumbrances outstanding during the year in order to more effectively control costs. At year-end, the accounting records are adjusted to record expenses in accordance with Generally Accepted Accounting Principles.

Cash, Cash Equivalents and Investments

The Authority considers all highly liquid investments purchased with an initial maturity of three months or less as cash equivalents.

Investments are stated at market value. Investment income includes interest and dividend income, realized gains and losses on the sale of investments, and changes in the fair value of investment held by the Authority.

New Jersey local units are required by N.J.S. 40A:5-14 to adopt a cash management plan and shall deposit its funds pursuant to that plan. The cash management plan includes a designation of a depository or depositories as defined in section 1 of P.L. 1970, c.236 (C. 17.9-41). In lieu of designating a depository, the cash management plan may provide that the local unit makes deposits with the State of New Jersey Cash Management Fund.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments (Continued)

N.J.S. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey municipal units. This list includes bonds or other obligations of the United States of America or obligations guaranteed by the United States of America; government money market mutual funds; obligations of any federal agency or federal instrumentality with restrictions; bonds or other obligations of the local unit or school district of which the local unit is a part or within which the school district is located; bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investments of the Department of Treasury for investment by local units; Local government investment pools; deposits with the State of New Jersey Cash Management Fund; agreement for the repurchase of fully collateralized securities.

Property, Plant and Equipment

Furniture, fixtures, machinery, equipment and vehicles are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally five, seven or fifteen years.

The infrastructure and buildings are carried at cost; no interest costs were capitalized during the construction of the facility. Depreciation is computed using the straight-line method over forty years. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized. Construction in progress represents costs incurred and accumulated until the project is complete.

Contributed Capital

Contributed capital includes developer and customer-financed construction and grants awarded to the Authority, which are externally restricted for construction purposes. Such amounts are amortized on a straight-line method over periods consistent with the estimated useful lives of the related assets.

Net Assets

Net Assets are classified into three components; Invested in Capital Assets, net of related debt; Restricted; and Unrestricted.

Income Taxes

The Authority operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Bond Discounts/Bond Premium/Debt Issuance Costs

Bond discounts, bond premiums and issuance costs are deferred and amortized over the term of the bonds. Bond discounts are presented as a reduction of the face amount of the revenue bonds payable whereas issuance costs are recorded as other assets. Bond premium is presented as an addition to bonds payable.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

Public funds are defined as the funds of any governmental unit. Public depositories include savings and loan institutions, banks (both State and National Banks) and savings banks, the deposits of which are federally insured. The Authority's cash and cash equivalents are insured by Federal depository insurance up to \$250,000.00.

The law required New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from loss of funds on deposit with a failed banking institution in the State of New Jersey. All public depositories must pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

The balance of cash and investments in the General Account was reclassified from restricted assets to unrestricted assets.

Deposits

Custodial Credit Risk Related to Deposits -- Custodial credit risk is the risk that, in the event of bank failure, the District's deposits might not be recovered. The District does not have a deposit policy for custodial credit risk.

Bank deposits and investments as of the balance sheet date are insured or collateralized by a collateral pool maintained by public depositories as required by the Governmental Unit Deposit Protection Act. At November 30, 2011, the Authority's deposits are classified as to credit risk as follows:

	<u>Bank Balance</u>
Insured	\$ 250,000
Uninsured and collateralized with securities held by the pledging bank's trust department but not in the Authority's name.	\$ 5,323,997
Held by NJEIT	\$ 1,169,217

The carrying amount of cash and cash equivalents is \$6,724,525 and due to its short-term nature, the carrying amount of cash and cash equivalents approximates fair value.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments - The Authority invests in direct obligations of the U. S. Government and U. S. Government Agency obligations. Market value is based on year-end market quotations. The estimated market value of the Authority's financial instruments are as follows:

	<u>Cost Value</u>	<u>Market Value</u>
U.S. Government Securities	\$3,640,747	\$3,718,674

Investments totaling \$3,718,674 are categorized as uninsured and unregistered, held by TD Bank Trust Department in the Authority's name.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure; however, investments are matched with anticipated cash flows to minimize interest rate risk

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's limits its credit risk by investing in direct obligations of the United States government, its agencies or instrumentalities secured by the full faith and credit of the government of the United States. The Authority has no policy on credit risk; however, investments are limited to securities guaranteed by the U.S. Government.

Concentration of Credit Risk: The Authority places no limit on the amount that may be invested in any one issuer. 100% of the Authority's investments are in obligations of the United States or its agencies or instrumentalities.

Note 3: PENSION PLAN

Description of System and Vesting

All eligible authority employees participate in the contributory defined benefit public employee retirement system established by state statute. The Public Employees Retirement System (PERS) is sponsored and administered by the State of New Jersey and considered a cost-sharing multiple employer plan.

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care 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. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service and 25 years for health care coverage.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 3: PENSION PLAN (Continued)

Description of System and Vesting

Members are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 60 with 25 or more years of credited service. Anyone who retires early and is under age 55 receives retirement benefits as calculated in the above-mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age 55).

The State of New Jersey, Department of Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Contribution Requirements

The contribution policy is set by N.J.S.A 43:15A, Chapter 62, P.L. if 1994 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey Legislation. PERS provides for employee contributions of 5.5% of employees' annual compensation, as defined, for the first 3 quarters of 2011 and 6.5% for the fourth quarter. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for cost-of-living adjustments, non-contributory death benefits, and post-retirement medical premiums. The Authority made contributions equal to their required amounts for the years ended November 30, 2011 totaling \$101,451 and November 30, 2010 totaling \$79,129.

The amount of the Authority's current year covered payroll was \$818,345 and the total payroll for all employees was \$880,576. Employee's contributions to the pension totaled \$46,997 or 5.74% of covered payroll.

Note 4: POST-EMPLOYMENT RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required PERS, to fund post-retirement medical benefits for those State employees who retire after reaching age 60 and accumulating 25 years of credited service. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the PERS system. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees. As of June 30, 2010, there were 87,288 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.



BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 4: POST-EMPLOYMENT RETIREMENT BENEFITS (Continued)

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS and TPAF. The State paid \$126.3 million toward Chapter 126 benefits for 14,050 eligible retired members in Fiscal Year 2010.

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

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 1986, The Bordentown Sewerage Authority authorized participation in the SHBP's post-retirement benefit program through resolution number 1986-32. The Authority adopted the provisions of Chapter 88, Public Laws of 1974 as amended by Chapter 436, P.L.1981 to permit local public employers to pay the premium charges for certain eligible pensioners and their dependents and to pay medicare charges for such retirees and their spouses covered by the New Jersey Health Benefits Program.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at [www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf](http://www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf)

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

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to The Bordentown Sewerage Authority on a monthly basis. As a participating employer the Authority will pay and remit to the State Treasury contributions to cover the full cost of premiums for eligible pensioners on a basis comparable to the reimbursement made by the State to its eligible pensioners and their spouses in accordance with provisions of Chapter 75, Public Laws of 1972.

The Bordentown Sewerage Authority contributions to SHBP for the years ended December 31, 2011, 2010, and 2009, were \$59,062, \$36,047, and \$23,700 respectively, which equaled the required contributions for each year. There were 3 retired participants eligible at November 30, 2011, 3 retired participants at 2010, and 2 retired participants at 2009.

**BORDENTOWN SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

Note 5: COMPENSATED ABSENCES

The employees of the Authority are entitled to thirteen paid sick leave days per year. Unused sick leave may be accumulated and carried forward to the subsequent year. Accumulated sick leave is not vested until retirement. Upon retirement the employee may receive payment for all accumulated sick leave at one-half (1/2) the employees' present daily rate up to a maximum of \$15,000. The accrued liability for accumulated sick leave at November 30, 2011 is estimated at \$69,776.

Vacation and personal days accrue at a varying amount depending on the employee's length of service. Vacation and personal days not used during the year may be accumulated and carried forward as sick days.

Note 6: USER CHARGES AND FEES

Service Charges

The following is a comparison of sewer service billings and collections:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Billings</u>	<u>Total Collections</u>	<u>Percentage of Collections</u>
2011	135,454.30	3,585,419.70	3,610,400.04	97.03%
2010	115,374.83	3,662,496.80	3,642,417.33	96.41%
2009	105,222.42	3,705,048.25	3,694,895.84	96.97%
2008	96,358.35	3,811,672.56	3,802,808.49	97.31%
2007	89,029.50	3,896,470.45	3,889,141.58	97.58%
2006	64,537.08	3,747,044.70	3,722,552.28	97.66%
2005	55,121.76	3,603,123.28	3,592,820.41	98.21%
2004	53,515.61	3,493,193.39	3,491,587.24	98.45%
2003	96,376.25	3,664,223.04	3,707,083.68	98.58%
2002	78,646.14	3,409,857.15	3,392,127.05	97.24%

Note 7: BOND ISSUANCE COSTS

Bond issuance costs incurred with the **Series E, F, G, and H** Bonds are being amortized over the life of the issue using the outstanding principal method.

	<u>2011</u>	<u>2010</u>
Bond Issue Costs	\$ 730,733	\$ 641,126
Accumulated Amortization	267,466	341,460
Unamortized Balance	<u>463,267</u>	<u>299,666</u>
Amortization Expense	<u>\$ 60,695</u>	<u>\$ 47,269</u>

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 8: REVENUE BONDS PAYABLE

The Revenue Bonds - **Series F, G, and H** dated September 1, 2003, March 10, 2010, and December 2, 2010 are direct obligations of the Authority. The Bonds are secured by a pledge of all revenues derived by the Authority from its operations, including payments, if any, made by the Township and City of Bordentown pursuant to the 1986 service contract.

The proceeds of **Series F** Bonds were used to refund \$11,475,000 of the then outstanding Revenue Bonds, Series D along with interest due December 1, 2003 and pay for costs of issuance. Series F Bonds were issued originally for \$11,870,000 and carry interest rates ranging from 2.50% to 5.25% with a final maturity in 2020. Series F Bonds maturing on or after December 1, 2014 are subject to redemption prior to maturity at the option of the Authority at any time on and after December 1, 2013 at the Redemption Price of par.

The proceeds of **Series G-ARRA and Series G-Traditional** Bonds were used to fund various capital projects. The **Series G-ARRA** funding totaled \$1,527,015 to finance the cost of new screw pumps. Of that amount ARRA principal forgiveness amounted to \$768,010. The balance of \$759,005 was funded through the New Jersey Environmental Infrastructure Financing Program (NJEIT), the Trust Loan portion and carries interest on \$375,000 with rates ranging from 3.00% to 5.00%. The remaining \$384,005 is the ARRA Fund Loan portion through NJEIT, and is interest free. Final principal payments are due in fiscal year 2029.

The **Series G-Traditional** Bonds were issued for \$1,422,944 for various capital projects. Of that amount \$350,000 is funded through NJEIT, the Trust Loan portion and carries interest rates ranging from 3.00% to 5.00%. The remaining \$1,072,944 is the NJEIT Fund Loan portion, and is interest free. Final principal payments are due in fiscal year 2029.

The proceeds of **Series H** Bonds were used to refund \$12,955,000 of the then outstanding Revenue Bonds, Series E and pay for costs of issuance. Series H Bonds were issued originally for \$13,500,000 and carry interest rates ranging from 2.375% to 4.375% with a final maturity in 2025. Series H Bonds maturing on or after December 1, 2014 are subject to redemption prior to maturity at the option of the Authority at any time on and after December 1, 2013 at the Redemption Price of par.

**Bond Discount and Bond Premium :**

Bond discount includes original issue discounts paid at the time on Series H. Series F and G Bonds were issued at a premium. Bond discount is being amortized over the life of the bonds using the outstanding principal method. Bond premium is being amortized using the effective interest method. The unamortized balances of bond premium and bond discounts are presented net with long-term debt.

**BORDENTOWN SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

Note 8: **REVENUE BONDS PAYABLE (Continued)**

Outstanding Debt:

The following is a summary of long-term debt at November 30, 2011.

Issue	Interest Rate Range	Dated	Balance Nov. 30, 2010	Issued / (Retired)	Balance Nov. 30, 2011
Series E	4.40 to 5.50	09/15/00	13,050,000	(13,050,000)	-
Series F	2.50 to 5.25	09/01/03	7,245,000	(865,000)	6,380,000
Series G - Screw Pumps					
NJEIT-Trust	3.00 to 5.00	03/10/10	375,000	(15,000)	360,000
NJEIT-Fund-ARRA	0.00 to 0.00	03/10/10	384,005	(32,543)	351,462
Series G - Various Projects					
NJEIT-Trust	3.00 to 5.00	03/10/10	350,000	(10,000)	340,000
NJEIT-Fund	0.00 to 0.00	03/10/10	1,072,944	(90,927)	982,017
Series H	2.37 to 4.37	12/02/10	-	13,500,000	13,500,000
			<u>\$ 22,476,949</u>	<u>\$ (14,063,470)</u>	<u>\$ 21,913,479</u>

Bond Year Ending December 1	Principal	Interest	Total
2011	999,082.13	844,178.85	1,843,260.98
2012	1,039,082.13	809,635.00	1,848,717.13
2013	1,074,082.13	770,860.00	1,844,942.13
2014	1,124,082.13	729,590.00	1,853,672.13
2015	1,439,082.13	674,527.50	2,113,609.63
2016	1,499,082.13	610,665.00	2,109,747.13
2017	1,549,082.13	569,133.76	2,118,215.89
2018	1,599,082.13	520,033.76	2,119,115.89
2019	1,654,082.13	467,527.50	2,121,609.63
2020	1,724,082.13	400,977.50	2,125,059.63 *
2021	1,439,082.13	332,337.50	1,771,419.63
2022-2026	6,525,410.65	714,031.26	7,239,441.91
2027-2029	248,164.61	9,000.00	257,164.61
	<u>21,913,478.69</u>		

Less:	
Current Portion	(999,082.13)
Unamortized Balance of:	
Bond Discount	(192,371.36)
Charge on Early Retirement	(909,440.19)
Bond Premium	<u>178,886.89</u>
Carrying Amount	<u>\$ 19,991,471.90</u>

\* - Debt Service Reserve requirement

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 9: USER CHARGES AND FEES  
Major Customers

The Bordentown Sewerage Authority derives a substantial portion of its total user charges from Ocean Spray Cranberry.

Since the charges are based on the flow into the system, the Authority's revenues are subject to large fluctuations from one customer. A comparison of billings is shown below:

	Ocean Spray <u>Billing</u>	Total <u>Billings</u>	<u>Percentage</u>
2011	514,053.30	3,585,419.25	14.34%
2010	498,267.90	3,662,496.80	13.60%
2009	572,857.91	3,705,048.25	15.46%
2008	642,370.80	3,811,672.56	16.85%
2007	711,114.52	3,896,470.45	18.25%
2006	609,759.90	3,747,044.70	16.27%
2005	555,103.20	3,548,930.28	15.64%
2004	481,701.88	3,493,193.39	13.79%
2003	567,271.24	3,664,223.04	15.48%
2002	497,228.70	3,409,857.15	14.58%

Note 10: DEBT SERVICE COVERAGE

Section 612 of the 1986 Bond Resolution requires certain ratios of Net Revenues to Debt Service. Compliance with the covenant is calculated as follows:

	<u>2011</u>	<u>2010</u>
Net Revenue:		
Operating Income (Exhibit B)	(113,250)	(90,609)
Add: Depreciation Expense	1,469,082	1,427,002
Investment Income	192,505	253,607
Gain / (Loss) on Sale of Assets	11,284	-
General Fund - Fund Balance	<u>467,966 *</u>	<u>800,048 *</u>
Net Revenues	<u>2,027,587</u>	<u>2,390,048</u>
Debt Service:		
Interest Charges (Schedule 1)	844,179	1,064,301
Add: Bond Principal (Due 12/1) Ensuing	<u>999,082</u>	<u>1,108,470</u>
Debt Service	<u>1,843,261</u>	<u>2,172,771</u>
Net Revenues	<u>2,027,587</u>	<u>2,390,048</u>
Debt Service	<u>1,843,261</u> = 1.10	<u>2,172,771</u> = 1.10

- This ratio meets the required coverage of 110% of debt service.
- \* This represents the portion of the General Fund balance at November 30, 2011 to meet the required coverage.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 11: DEFEASANCE OF DEBT

On January 15, 1991, the Authority advance refunded a portion of the **Series A and B** Bonds by placing a portion of the **Series C** Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on a portion of the Series A and B Bonds. Accordingly, those portions of the Revenue Bonds are considered defeased and the remaining liability of \$12,250,000 for those bonds was removed from the financial statements.

Also in 1991, the Authority placed \$1,196,256.31 of excess construction and general account funds in an irrevocable trust with an escrow agent to provide for the principal and interest payments for the Series A and B Revenue Bonds through December 1, 1994. Consequently, those portions of the Bonds were defeased and the remaining liability of \$820,000 was removed from the financial statements.

On July 1, 1993 the Authority advance refunded the remaining portion of the **Series A** Bonds and a portion of the **Series B** Bonds by placing the **Series D** Bond proceeds in an irrevocable trust with an escrow agent to provide for debt service payments on the designated maturities of the Series A and B Bonds. Accordingly, those portions of the Series A and B Bonds, were considered defeased and the liability of \$13,280,000 for those bonds was removed from the financial statements.

On September 15, 2000, the Authority issued **Series E** Revenue Bonds of \$13,645,000 with interest rates ranging from 4.4% to 5.5% to refund a portion of **Series C** Bonds with interest rates ranging from 6.40% to 6.8% by placing a portion of the **Series E** Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of **Series C** Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of \$13,565,000 of the Series C Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The deferred loss totaled \$936,141. As a result of the refunding, the Authority reduced its total debt service requirements by \$3,277,199, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,084,764.

On September 1, 2003, the Authority issued **Series F** Revenue Bonds of \$11,870,000 with interest rates ranging from 2.50% to 5.25% to refund a portion of **Series D** Bonds with interest rates ranging from 5.0% to 5.4% by placing a portion of the Series F Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of Series D Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of \$11,475,000 of the Series D Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The deferred loss totaled \$758,419. As a result of the refunding, the Authority reduced its total debt service requirements by \$561,791, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$413,791. The unamortized balance of \$91,088.47 is reported net with the book value of the new debt. Amortization for the fiscal year ended November 30, 2011 and 2010 was \$41,249.59 and \$50,000.58.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 11: DEFEASANCE OF DEBT (Continued)

On December 2, 2010, the Authority issued **Series H** Revenue Bonds of \$13,500,000 with interest rates ranging from 2.375% to 4.375% to refund all of **Series E** Bonds with interest rates ranging from 4.95% to 5.50% by placing a portion of the Series H Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of Series E Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of \$12,955,000 of the Series E Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The deferred loss totaled \$332,679. As a result of the refunding, the Authority reduced its total debt service requirements by \$1,037,491, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,014,782. The deferred loss of \$332,679 is added to the unamortized balance of the deferred loss of Series C refunded by Series E of \$566,052. This total is amortized over the life of Series H Revenue Bonds. The unamortized balance of \$818,349.74 is reported net with the book value of the new debt. Amortization for the fiscal year ended November 30, 2011 was \$80,379.39.

Note 12: 1986 SERVICE CONTRACT

Under the 1986 Service Contract, should certain items of expense exceed certain items of receipts during any fiscal year, then upon certification by the Authority to the City and Township of Bordentown not later than January 15, next succeeding the completion of such fiscal year of the amount of such excess, each municipality is obligated to pay to the Authority its proportionate share of such excess in an amount to be computed in accordance with the 1986 Service Contract.

At any time after five years from the date of the 1986 Service Contract, and after the payment in full of all obligations of the Authority, including all outstanding bonds, the 1986 Service Contract, upon two years notice to the Authority and to each of the municipalities, may be terminated by the Authority or either municipality.

Note 13: PUBLIC ENTITY RISK POOL

The Bordentown Sewerage Authority is a member of the New Jersey Utility Authority Joint Insurance Fund (JIF), along with 56 other authorities. The following risks are insured by the JIF:

- Property
- Boiler and Machinery
- Automobile Physical Damage and Liability
- General Liability
- Workers Compensation
- Employees Liability

Payments to the JIF are calculated by the JIF governing body based on actuarial and budgetary needs. Each participant is jointly and severally obligated for any deficiency in amounts available to pay all JIF claims. The Bordentown Sewerage Authority has paid its JIF obligations. No deficiency payments have been assessed by the JIF.

Audited financial statements for the New Jersey Utility Authority Joint Insurance Fund are filed with the State of New Jersey and are public records.

BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 14: PROPERTY, PLANT AND EQUIPMENT

	Balance Dec. 1, 2010	Activity	Balance Nov. 30, 2011
Land	\$ 2,264,000.00		\$ 2,264,000.00
Buildings	16,937,035.28	13,513.00	16,950,548.28
Tanks	12,421,971.07		12,421,971.07
Pumping Stations	10,918,214.72		10,918,214.72
Force Mains	2,104,516.46	21,436.67	2,125,953.13
Gravity Mains	1,861,469.66	109,926.44	1,971,396.10
Computer Hardware and Software	128,187.70	(1,810.00)	126,377.70
Machinery and Equipment	4,123,413.80	149,377.81	4,272,791.61
Furniture and Fixtures	28,512.63		28,512.63
	50,787,321.32	292,443.92	51,079,765.24
Less: Accumulated Depreciation	(25,672,258.21)	(1,367,946.66)	(27,040,204.87)
	<u>\$ 25,115,063.11</u>	<u>\$ (1,075,502.74)</u>	<u>\$ 24,039,560.37</u>

Note 15: RISK MANAGEMENT

The Bordentown Sewerage Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

New Jersey Unemployment Compensation Insurance - The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

The following is a summary of Authority contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's unemployment trust fund for the current and two previous years:

<u>Fiscal Year</u> <u>Ending</u>	<u>Authority</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Amount</u> <u>Reimbursed</u>	<u>Balance</u>
2011	\$ 0	\$ 1,409	\$ 0	\$ 23,291
2010	0	1,539	0	21,882
2009	0	1,483	0	20,353



BORDENTOWN SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

Note 16: AMOUNTS REQUIRED BY BOND RESOLUTIONS

The Bond Resolution adopted July 24, 1986 and supplemental resolutions thereto require the establishment and funding of certain funds (accounts) as follows.

	<u>Amount Required</u>	<u>Balance at Year End</u>	<u>Excess or (Deficiency)</u>
Bond Resolution Reserves:			
Operating Reserve Fund	\$ 934,860	\$ 925,646	\$ (9,214)
Bond Service Fund	1,421,650	1,426,445	4,795
Bond Reserve Fund	2,125,060	2,214,982	89,922
Renewal and Replacement Fund	150,000	150,000	0
Local Reserves:			
Renewal and Replacement Fund	250,000	250,000	0
Debt Service Reduction	1,000,048	1,000,048	0

Note 17: UNRESTRICTED NET ASSETS APPROPRIATED

Of the \$2,052,424 unrestricted and undesignated net assets at November 30, 2011, \$760,075 was appropriated and anticipated as revenue in the 2011-12 budget as adopted.

Note 18: OPERATING LEASE

The Authority has two commitments to lease copier equipment under operating leases, which expire on October 2013, and April 2012. Operating lease payments made during the year ended November 30, 2011 totaled \$4,520.40. Future minimum lease payments are as follows:

<u>Year Ended Nov. 30</u>	<u>Total</u>
2012	3,518.00
2013	2,568.50

Note 19: SUBSEQUENT EVENTS

On March 19, 2012 the Authority authorized the issuance of Series I bonds in the aggregate amount not to exceed \$2,650,000 to be funded through the New Jersey Environmental Infrastructure Financing Program (NJEIT). The proceeds of the bonds will be used to pay the costs of various energy improvements. The bonds are expected to close in two phases with the Fund Loan of \$1,345,580 expected to close March 23, 2012 and the Trust Loan expected to close May 3, 2012.

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SUPPLEMENTARY INFORMATION

THE BORDENTOWN SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
<b>Operating Revenues:</b>					
User Charges and Fees	\$ 3,673,357	\$ 3,673,357	\$ 3,537,725	\$ (135,632)	\$ 3,606,183
Unbilled Water	-	-	(1,324)	(1,324)	(11,490)
Delinquent Penalties	10,000	10,000	13,983	3,983	13,900
Connection Fees	353,100	353,100	248,597	(104,503)	143,990
Miscellaneous	50,000	50,000	74,457	24,457	78,467
<b>Total Operating Revenues</b>	<b>4,086,457</b>	<b>4,086,457</b>	<b>3,873,438</b>	<b>(213,019)</b>	<b>3,831,050</b>
<b>Operating Expenses:</b>					
<b>Personnel Services:</b>					
Board Salaries	3,000	3,000	2,500	500	2,500
Administrative Salaries	305,000	290,700	273,695	17,005	312,492
Plant Salaries	665,000	667,000	607,773	59,227	612,193
Legal Salaries	-	-	-	-	27,692
Compensated Absences Liability - Non Budgeted	-	-	-	-	-
	973,000	960,700	883,968	76,732	954,877
<b>Employee Benefits:</b>					
Public Employees Retirement System	83,000	101,000	100,902	98	80,095
Social Security	72,000	72,000	66,407	5,593	72,268
Unemployment/Disability	1,000	1,000	674	326	439
Health Benefits	190,500	192,500	197,106	(4,606)	184,606
Health Benefits - Retirees	46,400	55,400	59,061	(3,661)	36,047
Other Employee Benefits	73,800	73,800	66,791	7,009	65,920
	466,700	495,700	490,941	4,759	439,375
<b>Administrative Expenses:</b>					
Office Expense	65,500	67,000	61,164	5,836	73,206
Insurance	125,000	105,000	104,211	789	103,488
Legal	57,000	67,000	66,557	443	26,648
Engineering	8,000	8,000	3,921	4,079	10,106
Auditing	31,000	31,300	31,215	85	34,578
Miscellaneous Administrative Expenses	39,000	30,500	37,480	(6,980)	28,414
Telephone	10,000	10,000	9,745	255	10,356
Trustee Expense	12,000	12,000	8,300	3,700	3,000
	347,500	330,800	322,593	8,207	289,796
<b>Operations and Maintenance:</b>					
Utilities	452,500	407,100	359,153	47,947	386,442
Repairs to Plants & Collection System	28,000	28,000	23,687	4,313	25,378
Fuel for Heating and Generators	500	500	-	500	-
Alarms	8,500	12,500	11,355	1,145	10,395
Chemicals	85,000	100,000	97,565	2,435	95,782
Plant and Lab Supplies	18,500	21,500	14,654	6,846	8,306
Other Repairs and Maintenance	8,000	9,500	9,004	496	11,207
Vehicle Expense	32,250	48,550	42,262	6,288	27,902
Permits	35,500	36,100	21,013	15,087	17,791
Sludge Removal	190,000	192,000	191,772	228	175,192
Laboratory Analysis	24,500	28,100	22,832	5,268	14,253
Uniform Expense	5,000	5,000	4,221	779	3,410
Radio Equipment	1,500	1,500	-	1,500	-
Miscellaneous Other Expenses	10,000	10,000	3,166	6,834	7,723
NJDEP Stream Study	10,000	9,400	125	9,275	23,533
NJDEP Local Limits	15,000	15,000	-	15,000	-
BSA Wastewater Management	-	-	-	-	3,295
Capital Outlay	-	-	19,295	(19,295)	-
	924,750	924,750	820,104	104,647	810,609
Bond Principal in Lieu of Depreciation	1,094,082	1,094,082	1,108,470	(14,388)	925,000
<b>Total Operating Expenses</b>	<b>3,806,032</b>	<b>3,806,032</b>	<b>3,626,076</b>	<b>179,957</b>	<b>3,419,657</b>

THE BORDENTOWN SEWERAGE AUTHORITY  
SCHEDULE OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Actual
<b>Other Sources and (Uses):</b>					
Investment Income:					
Unrestricted Accounts	-	-	3,615	3,615	2,409
Restricted Accounts	175,000	175,000	188,890	13,890	251,198
Gain / (Loss) on Sale of Assets	-	-	11,284	11,284	-
Capital Grant - ARRA Forgiveness	-	-	-	-	768,010
Interest on Bonds	(1,025,366)	(1,025,366)	(844,179)	181,187	(1,064,301)
<b>Total Other Sources and (Uses)</b>	<b>(850,366)</b>	<b>(850,366)</b>	<b>(640,390)</b>	<b>209,976</b>	<b>(42,684)</b>
<b>Budgetary Revenues Over Expenses</b>	<b>\$ (569,941)</b>	<b>\$ (569,941)</b>	<b>\$ (393,028)</b>	<b>\$ 176,914</b>	<b>\$ 368,709</b>

Reconciliation of Budgetary Basis to GAAP Basis:

Excess from Above - Budgetary Basis			(393,028)		368,709
Budgeted Debt Principal			1,108,470		925,000
Depreciation			(1,469,082)		(1,427,002)
Amortization of Bond Discount, Premium and Early Retirement of Debt			(111,799)		(63,336)
Amortization of Bond Issuance Costs			(60,695)		(47,269)
<b>Changes in Net Assets</b>			<b>\$ (926,134)</b>		<b>\$ (243,898)</b>

**Capital Funding**

<b>Funding Source:</b>				
Retained Earnings	1,200,000	1,200,000	1,200,000	-
<b>Total Capital Sources</b>	<b>1,200,000</b>	<b>1,200,000</b>	<b>1,200,000</b>	<b>-</b>
<b>Costs:</b>				
<b>Capital Outlay:</b>				
PCB & Nutrient Removal	650,000	600,000	-	600,000
GIS Mapping				-
Plant and System Repairs	300,000	300,000	137,733	162,267
Screw Pumps	100,000	100,000	13,751	86,249
Amcon/Collection Systems	1,119,300	1,119,300	215,543	903,757
Fuel Containment				-
Collection System / Pump Station	70,000	120,000	92,073	27,927
Mile Hollow Control Renovations				-
Solar Power Review	15,000	15,000		15,000
Vehicle Replacement	45,000	35,000		35,000
Outlay - Administrative	20,000	30,000		30,000
Outlay - Operations	100,000	100,000	18,401	81,599
<b>Total Capital Outlay</b>	<b>2,419,300</b>	<b>2,419,300</b>	<b>477,501</b>	<b>1,941,799</b>
<b>Excess (Deficit) of Capital Funding Sources over (Under) Capital Costs</b>	<b>(1,219,300)</b>	<b>(1,219,300)</b>	<b>722,499</b>	<b>1,941,799</b>

THE BORDENTOWN SEWERAGE AUTHORITY  
 STATEMENT OF MISCELLANEOUS REVENUE EARNED  
 FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Insurance Reimbursement - JIF	\$ 18,869.48	\$ 17,141.80
Waste Water Treatment Tipping Fees	20,249.64	30,687.97
Enerwise Curtailment (Energy Rebate)	10,245.49	13,170.44
Application Fees	3,804.00	165.00
Georgetown Bypass	848.45	-
Inspection Fees	3,900.00	5,850.00
New Customer and Turn-On/Off Fees	9,770.00	10,115.00
Miscellaneous	6,770.06	1,337.17
	<u>\$ 74,457.12</u>	<u>\$ 78,467.38</u>

Schedule 3

THE BORDENTOWN SEWERAGE AUTHORITY  
ANALYSIS OF CONSUMER ACCOUNTS RECEIVABLE  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

Balance - December 1, 2010		\$ 135,454.30
Increased By:		
Billings:		
Rents	3,537,725.16	
Penalties	16,424.25	
Sludge	20,249.64	
Other	11,020.20	
		<u>3,585,419.25</u>
		3,720,873.55
Decreased By:		
Collections		<u>3,610,400.07</u>
Balance - November 30, 2011		\$ <u>110,473.48</u>
<u>Aging</u>		
Current		90,268.60
30 Days		436.20
60 Days		18.12
90 Days		19,750.56
		<u>\$ 110,473.48</u>
Consumer Accounts Receivable		\$ 110,473.48
Unbilled Revenue		
		<u>\$ 110,473.48</u>

THE BORDENTOWN SEWERAGE AUTHORITY  
ANALYSIS OF INTEREST RECEIVABLE  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	Balance Dec. 1, 2010	Interest Earned	Received	Balance Nov. 30, 2011
<b>Unrestricted Assets:</b>				
Revenue Account - Local	\$ -	\$ 673.11	\$ 673.11	\$ -
Operating Account - Local	-	1,707.60	1,707.60	-
General Account	2,397.37	78,116.25	78,753.26	1,760.36
Connection Fees	-	919.09	919.09	-
Escrow	-	315.29	315.29	-
	<u>2,397.37</u>	<u>81,731.34</u>	<u>82,368.35</u>	<u>1,760.36</u>
<b>Restricted Assets:</b>				
Unemployment	-	63.74	63.74	-
Revenue Account	-	1,376.93	1,376.93	-
Operating Account	23.35	1,073.79	690.27	406.87
Bond Service Account	-	46.62	46.62	-
Bond Reserve Account	2,255.09	80,523.30	80,670.27	2,108.12
Renewal and Replacement Account	-	28.41	28.41	-
Debt Service Reduction Account	35.03	1,002.77	1,013.45	24.35
	<u>2,313.47</u>	<u>84,115.56</u>	<u>83,889.69</u>	<u>2,539.34</u>
	<u>\$ 4,710.84</u>	<u>\$ 165,846.90</u>	<u>\$ 166,258.04</u>	<u>\$ 4,299.70</u>
Realized / Unrealized Gain / (Loss)		<u>26,658.12</u>		
Investment Income		<u>192,505.02</u>		

BORDENTOWN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2011

MEMBERS

Ronald L. Marino  
Zigmont F. Targonski  
James E. Lynch, Jr.  
Nancy Liberman  
Joseph R. Malone, III  
Stephen Monson

POSITION

Chairman  
Vice-Chairman  
Treasurer  
Secretary  
Assistant Secretary  
Assistant Secretary

OTHER OFFICIALS

Richard D. Eustace  
Judith W. Klim  
W. Craig Dansbury  
Richard Czekanski of  
Remington & Vernick  
Edward A. Kondracki  
TD Wealth Management

Executive Director  
Administrative Manager  
Operations Manager  
  
Consulting Engineer  
Solicitor  
Trustee



**JOHN J. MALEY, JR.**

*Certified Public Accountant*

Registered Municipal Accountant

P.O. Box 614

BORDENTOWN, NEW JERSEY 08505

PHONE: (609) 298-8838

FAX: (609) 298-1198

MEMBER  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

BORDENTOWN SEWERAGE AUTHORITY  
NOVEMBER 30, 2011  
FINDINGS AND RECOMMENDATIONS

Insurance

The Bordentown Sewerage Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (JIF). The following excess coverage amounts are provided by the JIF:

Property	\$ 150,000,000
Boiler and Machinery	150,000,000
Automobile Liability	10,000,000
General Liability	10,000,000
Workers Compensation	Statutory Limits
Employees Dishonesty	1,000,000
Public Officials and Employment Liability	3,000,000
Storage Tank System	1,000,000

Contracts and Agreements Required to be Advertised

N.J.S. 40A:11-4 states in part, "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law".

N.J.S. 40A:11-3a. states in part, "When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations.

BORDENTOWN SEWERAGE AUTHORITY  
NOVEMBER 30, 2011  
FINDINGS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised (Continued)

Subsection c. of N.J.S. 40A:11-3 directs the Governor, in consultation with the Department of the Treasury to adjust the threshold amounts every fifth year after enactment of P.L. 1999 c.440. Effective July 1, 2010 and thereafter the bid threshold is \$26,000 or, if the Authority has a qualified purchasing agent, an amount not to exceed \$36,000. The Authority set the bid threshold at \$26,000 through January 1, 2011. Beginning January 1, 2011 after enactment of P.L. 2009 c.166 any contracting unit without a qualified purchasing agent will have its bid threshold fixed at \$17,500. The Authority does not have a qualified purchasing agent and the bid threshold was reduced from \$26,000 to \$17,500.

N.J.S. 40A:11-6.1 establishes, with exceptions, 15% of the bid threshold as the level requiring solicitation of at least two competitive quotations, if practicable. The award shall be made to a vendor whose response is most advantage, price and other factors considered.

**Finding 2011-1**

- Criteria:** Sound internal controls associated with hiring procedures require appropriate salary authorization.
- Condition:** There was one new hired during 2010-11 who was compensated based on an amount determined by the Executive Director in consultation with Board members. There was no indication in the minute record that the amount of compensation was approved.
- Recommendation:** Employee compensation should be approved by the Board and indicated in the minute record.

**Finding 2011-2**

- Criteria:** All computer systems should have established back-up procedures in place.
- Condition:** During the year, the capital asset system failed and a back-up file was not available.
- Recommendation:** Controls over access to hardware, software and data along with system and data back-up should be reviewed.

**Finding 2010-3**

- Criteria:** It is the policy of the Authority to review the budget semiannually and make budget transfers to avoid budgetary overexpenditures.
- Condition:** Four budget line items were overexpended at year end.
- Recommendation:** Budget line items should not be overexpended.

BORDENTOWN SEWERAGE AUTHORITY  
NOVEMBER 30, 2011  
FINDINGS AND RECOMMENDATIONS

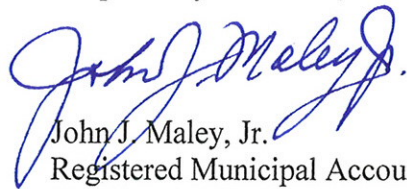
**View of Responsible Officials**

The Executive Director is in agreement with the above finding and indicates that a corrective action plan will be prepared to address the above findings where applicable.

**Status of Prior Years Audit Findings/Recommendations**

A review was performed on the 2010 finding and a corrective action plan was adopted and implemented.

Respectfully submitted,



John J. Maley, Jr.  
Registered Municipal Accountant  
Certified Public Accountant

February 27, 2012