

THE BORDENTOWN SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2012

BORDENTOWN SEWERAGE AUTHORITY

NOVEMBER 30, 2012

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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, which collectively comprise the Authority's basic financial statements as listed in the table of contents. 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.

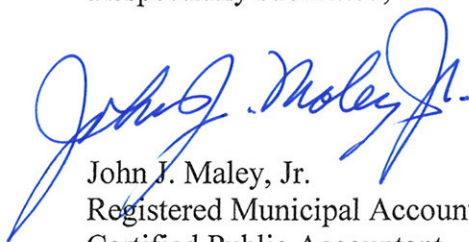
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bordentown Sewerage Authority as of November 30, 2012 and 2011, and the results of its operations and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated February 11, 2013 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.

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

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "John J. Maley, Jr.", is written over the typed name and title.

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

February 11, 2013

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, 2012, and have issued my report thereon dated February 11, 2013. 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

Management of Bordentown Sewerage Authority is responsible for establishing and maintaining effective 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 2012-1

and 2012-2 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.

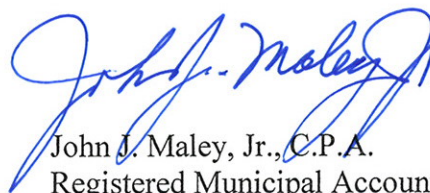
Compliance and Other Matters

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.

The Bordentown Sewerage Authority's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit the Bordentown Sewerage Authority's responses and, accordingly, I express no opinion on them.

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 11, 2013

The Bordentown Sewerage Authority

Management Discussion and Analysis For The Fiscal Year Ending November 30, 2012

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 2012, ending November 30, 2012. 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

The following selected operating information is presented for the year ended November 30, 2012 (FY12).

Total Operating Revenue: Total operating revenues for FY12 were \$3,813,230, which is an decrease of \$60,208 from FY11, resulting primarily from a decrease in connection fee revenue. While connection fee revenue was down \$221,727, user charges and fees increased \$159,061 as a result of a rate increase effective June 19, 2012.

Total Operating Expenses: Total operating expenses for FY12 were \$4,016,060, which is an increase of \$29,372 over FY11.

Connection Fees: Connection fee revenues for FY12 were \$26,870, which is a decrease of \$221,727 from FY11.

Debt Service: Principal paid in FY12 was \$999,082. Interest paid for FY12 was \$839,569 compared to FY11 of \$954,147. Total debt service payments will increase slightly over the next three years. In 2015 total debt service payments will increase by \$259,000 over the previous year and will remain somewhat level thereafter.

Total Assets: Total assets at the end of FY12 were \$36,244,272. After deducting liabilities, net assets totaled \$13,193,507. At the end of FY11, total assets were \$35,154,586 and net assets were \$13,332,428.

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 net assets of the Authority, as of November 30, are summarized below:

	2012	2011
Assets:		
Current Assets	3,030,978	3,404,694
Restricted Assets	8,765,663	7,147,316
Capital Assets - Net	23,969,969	24,139,308
Unamortized Bond Issuance Costs	477,662	463,268
Total Assets	<u>36,244,272</u>	<u>35,154,586</u>
Liabilities:		
Current Liabilities	2,078,224	1,760,910
Long-Term Liabilities - Net	20,972,541	20,061,248
Total Liabilities	<u>23,050,765</u>	<u>21,822,158</u>
Net Assets:		
Capital Assets (Net of Related Debt)	5,060,282	4,781,239
Restricted Accounts	5,735,321	5,553,765
Unrestricted Accounts - Designated	1,170,144	945,000
Unrestricted Accounts - Undesignated	1,227,760	2,052,424
Total Net Assets	<u>13,193,507</u>	<u>13,332,428</u>

The Authority had a net operating loss (total operating income less operating expenses) of \$(202,830) in FY12. Combined with the net non-operating loss (total non-operating income less non-operating expenses) of \$(891,651), net assets decreased by \$1,094,481. The revenues, expenses and change in net assets of the Authority are summarized below:

Condensed Statement of Revenues, Expenses and Changes in Net

	<u>Assets</u>		<u>Increase/ (Decrease)</u>
	<u>2012</u>	<u>2011</u>	
Operating Revenues:			
Service Charges	3,695,462	3,536,401	159,061
Connection Fees	26,870	248,597	(221,727)
Miscellaneous Revenue	90,898	88,440	2,458
Total Operating Revenue:	3,813,230	3,873,438	(60,208)
Operating Expenses:			
Operating Expenses	2,479,655	2,517,606	(37,951)
Depreciation Expense	1,536,405	1,469,082	67,323
Total Operating Expenses:	4,016,060	3,986,688	29,372
Operating Income (Loss):	(202,830)	(113,250)	(89,580)
Non-Operating Revenues (Expenses):			
Investment Income	132,685	192,505	(59,820)
Gain / (Loss) on Sale of Assets	-	11,284	(11,284)
Refund of Prior Year Revenue	(31,212)	-	(31,212)
Bond Interest	(927,719)	(955,977)	28,258
Amortization of Bond Issue Cost	(65,405)	(60,695)	(4,710)
Total Non-Operating Income (Loss):	(891,651)	(812,883)	(78,768)
Income/(Loss)	(1,094,481)	(926,133)	(168,348)
Capital Contribution and ARRA Grant	955,560	-	955,560
Net Assets, December 1	13,332,428	14,258,561	(926,133)
Net Assets, November 30	13,193,507	13,332,428	(138,921)

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 2012 decreased by \$60,208 (1.55%) and operating expenses increased by \$29,372 (0.74%) over 2011.

The items, which were responsible for the major changes in net assets for the year ended November 30, 2012, include a \$221,727 decrease in connection fee revenue, an increase of \$159,061 in service revenue, a capital contribution of \$507,000, and a capital grant-ARRA principal forgiveness of \$448,560.

While certain expense items had large increases and decreases the net effect was an increase of \$29,372.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The following table summarizes the changes in capital assets at November 30, 2012 and 2011:

	<u>Capital Assets, Net of Depreciation</u>		
<u>Year Ended November 30</u>	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>
Land and Buildings	19,214,548	19,214,548	-
Tanks, Pump Stations and Mains	27,968,583	27,437,535	531,048
Other	5,100,081	4,427,682	672,399
	<u>52,283,212</u>	<u>51,079,765</u>	<u>1,203,447</u>
Less: Accumulated Depreciation	<u>28,528,223</u>	<u>27,040,205</u>	<u>1,488,018</u>
Total Capital Assets, Net of Depreciation	<u><u>23,754,989</u></u>	<u><u>24,039,560</u></u>	<u><u>(284,571)</u></u>

At November 30, 2012, the Authority's investment in capital assets was \$23,754,989 (net of accumulated depreciation) which represents a decrease of \$284,571 when compared to November 30, 2011.

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, 2013 shown below.

During the fiscal year, the Authority expended \$860,066 for capital projects. Retained earnings provided funding for \$191,547 of those project costs.

The proposed Capital Budget for FY13 is \$2,757,283. The major items constituting the capital budget are as follows.

Plant and System Repairs	300,000
Collection System Upgrades	70,000
Armcon Collection System (NJEIT Funded)	100,000
Lab Equipment	10,000
BPU Energy Audit Improvements (NJEIT Funded)	2,242,283
Vehicle Replacement	25,000
Other	10,000
	<u>\$ 2,757,283</u>

The proposed 2014 to 2018 Capital Budget is \$845,000. 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	45,000
Laboratory Equipment	50,000
	<u>\$ 845,000</u>

DEBT ADMINISTRATION

On May 3, 2012 the Authority issued Series I traditional bonds of \$2,205,680 to fund Energy Audit Improvements. As a result of the American Recovery and Reinvestment Act (ARRA) Forgiveness Program \$448,560 of this debt issued does not have to be repaid.

The Authority's outstanding bonds and loans payable is \$22,671,516 at November 30, 2012, an increase of \$758,037 when compared to the \$21,913,479 at November 30, 2011. 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, 2012 AND 2011

ASSETS	2012	2011
Current Assets:		
Cash and Cash Equivalents	\$ 2,492,803	\$ 1,779,235
Investments	425,082	1,520,697
Accounts Receivable:		
Consumer Accounts Receivable	104,701	96,328
Other	175	50
Prepaid Expenses	8,217	8,384
Total Current Assets	3,030,978	3,404,694
Restricted Assets:		
Revenue Account		
Cash and Cash Equivalents	5,607	6,678
Operating Account		
Cash and Cash Equivalents	675,222	570,524
Investments	291,861	355,122
Debt Service Account		
Cash and Cash Equivalents	1,461,696	1,426,445
Debt Service Reserve Account		
Cash and Cash Equivalents	691,692	390,908
Investments	1,639,105	1,824,074
Debt Service Reduction Account		
Cash and Cash Equivalents	989,339	981,268
Investments	10,630	18,780
Renewal and Replacement Account		
Cash and Cash Equivalents	400,000	400,000
Unexpended Bond Proceeds		
Cash Held by NJEIT	2,597,917	1,169,217
Accrued Interest Receivable	2,594	4,300
Total Restricted Assets	8,765,663	7,147,316
Capital Assets		
Land	2,264,000	2,264,000
Buildings, Plant and Equipment (Net of Accumulated Depreciation)	21,490,989	21,775,437
Construction in Progress	214,980	99,871
Total Capital Assets (Net of Accumulated Depreciation)	23,969,969	24,139,308
Other Assets		
Unamortized Bond Issue Costs	477,662	463,268
Total Assets	\$ 36,244,272	\$ 35,154,586

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
STATEMENT OF NET ASSETS
NOVEMBER 30, 2012 AND 2011

	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 36,398	\$ 23,695
Payroll Deductions Payable	4,080	3,062
Deposits for Future Claims		
Deposits for Connection Fees	460,337	195,185
Developers' Escrow Deposits	91,671	94,028
State Unemployment Compensation	24,042	23,290
	616,528	339,260
Current Liabilities Payable From Restricted Assets:		
Revenue Bonds Payable - Current Portion	1,039,082	999,082
Bond Interest Payable	422,614	422,568
	1,461,696	1,421,650
Noncurrent Liabilities		
Revenue Bonds Payable - Net of Unamortized Costs	20,910,072	19,991,472
Compensated Absences	62,469	69,776
	20,972,541	20,061,248
	23,050,765	21,822,158
NET ASSETS		
Net Assets:		
Investment in Capital Assets, Net of Related Debt	5,096,394	4,781,239
Restricted Net Assets:		
Reserved for Debt Service	4,369,848	4,218,907
Reserved for Operating Costs	965,473	934,858
Reserved for Renewal and Replacement	400,000	400,000
Unrestricted Net Assets	2,361,792	2,997,424
	\$ 13,193,507	\$ 13,332,428

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, 2012 AND 2011

	2012	2011
Operating Revenues		
User Charges and Fees	\$ 3,695,462	\$ 3,536,401
Delinquent Penalties	15,859	13,983
Connection Fees	26,870	248,597
Miscellaneous	75,039	74,457
Total Operating Revenues	3,813,230	3,873,438
Operating Expenses:		
Personnel Services	867,748	883,968
Employee Benefits	522,806	490,941
Administrative Expenses	358,696	322,593
Operations and Maintenance	730,405	820,104
Depreciation	1,536,405	1,469,082
Total Operating Expenses	4,016,060	3,986,688
Operating Income	(202,830)	(113,250)
Non-Operating Revenues (Expenses):		
Investment Income	132,685	192,505
Gain / (Loss) on Sale of Assets	-	11,284
Refund of Prior Year Revenue	(31,212)	-
Interest on Bonds	(927,719)	(955,977)
Amortization of Bond Issuance Costs	(65,405)	(60,695)
Total Non-Operating Revenues (Expenses)	(891,651)	(812,883)
Income (Loss)	(1,094,481)	(926,133)
Capital Contributions:		
Capital Assets Acquired through Contribution	507,000	-
Capital Grant - ARRA Principal Forgiveness	448,560	-
Decrease in Net Assets	(138,921)	(926,133)
Net Assets, December 1	13,332,428	14,258,561
Net Assets, November 30	\$ 13,193,507	\$ 13,332,428

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash Received from Customers and Users	\$ 4,069,884	\$ 3,799,999
Cash Payments for Goods and Supplies	(1,108,029)	(1,136,911)
Cash Payments for Employee Expenses	(1,397,861)	(1,371,255)
	1,563,994	1,291,833
Cash Flows From Capital and Related Financing Activities:		
General and Construction Outlays	(860,066)	(477,501)
Proceeds of Refunding Bonds	-	13,500,000
Proceeds of Bonds	1,757,120	-
Capital Grant	448,560	-
Bond Premium / (Discount)	112,458	(212,206)
Cost of Issuance	(79,800)	(362,668)
Deposit to Refunding Escrow	-	(13,023,439)
Proceeds from Sale of Assets	-	11,464
Debt Service:		
Principal	(999,082)	(1,108,470)
Interest	(839,569)	(954,147)
	(460,379)	(2,626,967)
Net Cash (Used) or Provided by Capital and Related Financing Activities		
Cash Flows From Investing Activities:		
Investment Income	134,391	192,916
Net Change in Investments	1,351,995	(5,299)
	1,486,386	187,617
Net Cash (Used) Or Provided by Investing Activities		
Net Cash Increase (Decrease) for the Year	2,590,001	(1,147,517)
Cash at Beginning of Year	6,724,275	7,871,792
Cash at End of Year	\$ 9,314,276	\$ 6,724,275
Noncash Investing, Capital and Financing Activities		
Capital Assets Acquired through Contribution	\$ 507,000	\$ -

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

Reconciliation of Operating Income to Net Cash Used by Operating Activities:	2012	2011
Operating Income	\$ (202,830)	\$ (113,250)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation	1,536,405	1,469,082
Other Nonoperating Expenses	(31,211)	
(Increase) Decrease in:		
Accounts Receivable	(8,498)	80,145
Prepaid Expenses	167	(68)
(Decrease) Increase in:		
Accounts Payable	12,703	(4,702)
Payroll Deductions Payable	1,018	(1,166)
Retainage Payable	-	(1,715)
Deposits for Connection Fees	265,152	(153,584)
Developers' Escrow Deposits	(2,357)	12,029
Reserve for Unemployment Insurance	752	1,408
Compensated Absences	(7,307)	3,654
Total Adjustments	1,766,824	1,405,083
Net Cash Provided by Operating Activities	\$ 1,563,994	\$ 1,291,833
 <u>Reconciliation of Cash to the Statement of Net Assets</u>		
Current Assets:		
Cash	\$ 2,492,803	\$ 1,779,235
Restricted Assets:		
Cash	6,821,473	4,945,040
	\$ 9,314,276	\$ 6,724,275

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.

Nonoperating Revenues and Expenses

Revenues and expenses not qualifying as operating items, which typically include interest revenue and expense, taxes, and grants that are not equivalent to contracts for services, are reported in the nonoperating section of the statement of net 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, 2012, 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.	\$ 5,342,292
Held by NJEIT	\$ 2,597,917

The carrying amount of cash and cash equivalents is \$9,160,559 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	\$2,274,643	\$2,366,678

Investments totaling \$2,366,678 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 6.5% of employees' annual compensation, as defined, for the first two quarters of 2012 and 6.64% for the third and 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, 2012 totaling \$108,837 and November 30, 2011 totaling \$101,451.

The amount of the Authority's current year covered payroll was \$811,580 and the total payroll for all employees was \$872,816. Employee's contributions to the pension totaled \$53,316 or 6.57% 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, 2011, there were 93,323 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 the Alternate Benefit Program. The State paid \$144 million toward Chapter 126 benefits for 15,709 eligible retired members in Fiscal Year 2011.

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/pdf/financial/gasb-43-july2011.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, 2012, 2011, and 2010, were \$79,204, \$59,062, and \$36,047 respectively, which equaled the required contributions for each year. There were 4 retired participants eligible at November 30, 2012, 3 retired participants at 2011, and 3 retired participants at 2010.

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, 2012 is estimated at \$62,469.

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>
2012	110,473.51	3,781,956.53	3,741,650.34	96.13%
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%

Note 7: BOND ISSUANCE COSTS

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

	<u>2012</u>	<u>2011</u>
Bond Issue Costs	\$ 810,533	\$ 730,733
Accumulated Amortization	332,871	267,466
Unamortized Balance	477,662	463,267
Amortization Expense	\$ 65,405	\$ 60,695

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 8: REVENUE BONDS PAYABLE

The Revenue Bonds - **Series F, G, H, and I** dated September 1, 2003, March 10, 2010, December 2, 2010, and May 3, 2012 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.

The proceeds of **Series I-Traditional** Bonds were issued for \$2,205,680 and used to fund various Energy Audit Improvements. Of that amount ARRA principal forgiveness amounted to \$448,560. The balance of \$1,757,120 was funded through the New Jersey Environmental Infrastructure Financing Program (NJEIT), the Trust Loan portion and carries interest on \$860,000 with rates ranging from 3.00% to 5.00%. The remaining \$897,120 is the Fund Loan portion, and is interest free. Final principal payments are due in fiscal year 2031.

Bond Discount and Bond Premium :

Bond discount includes original issue discounts paid at the time on Series H. Series F, G, and I 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, 2012.

<u>Issue</u>	<u>Interest Rate Range</u>	<u>Dated</u>	<u>Balance Nov. 30, 2011</u>	<u>Issued / (Retired)</u>	<u>Balance Nov. 30, 2012</u>
Series F	2.50 to 5.25	09/01/03	6,380,000	(900,000)	5,480,000
Series G - Screw Pumps					
NJEIT-Trust	3.00 to 5.00	03/10/10	360,000	(15,000)	345,000
NJEIT-Fund-ARRA	0.00 to 0.00	03/10/10	351,462	(19,526)	331,936
Series G - Various Projects					
NJEIT-Trust	3.00 to 5.00	03/10/10	340,000	(10,000)	330,000
NJEIT-Fund	0.00 to 0.00	03/10/10	982,017	(54,556)	927,461
Series H	2.37 to 4.37	12/02/10	13,500,000	-	13,500,000
Series I - Energy Audit Improvements					
NJEIT-Trust	3.00 to 5.00	05/03/12	-	860,000	860,000
NJEIT-Fund	0.00 to 0.00	05/03/12	-	897,120	897,120
			<u>\$ 21,913,479</u>	<u>\$ (999,082)</u>	<u>\$ 22,671,517</u>

<u>Bond Year Ending December 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	1,039,082.13	839,615.05	1,878,697.18
2013	1,153,922.12	807,077.50	1,960,999.62
2014	1,208,922.12	765,357.50	1,974,279.62
2015	1,523,922.12	709,145.00	2,233,067.12
2016	1,583,922.12	643,707.50	2,227,629.62
2017	1,633,922.12	600,426.26	2,234,348.38
2018	1,688,922.12	549,576.26	2,238,498.38
2019	1,743,922.12	495,195.00	2,239,117.12
2020	1,818,922.12	426,645.00	2,245,567.12 *
2021	1,533,922.12	355,880.00	1,889,802.12
2022	1,598,922.12	294,261.26	1,893,183.38
2023-2027	5,679,610.60	515,000.00	6,194,610.60
2028-2031	463,602.45	20,306.25	483,908.70
	<u>22,671,516.38</u>		

Less:	
Current Portion	(1,039,082.13)
Unamortized Balance of:	
Bond Discount	(172,535.47)
Charge on Early Retirement	(796,388.70)
Bond Premium	246,561.94
Carrying Amount	<u>\$ 20,910,072.02</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:

	<u>Ocean Spray</u> <u>Billing</u>	<u>Total</u> <u>Billings</u>	<u>Percentage</u>
2012	585,788.10	3,781,956.53	15.49%
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>2012</u>	<u>2011</u>
Net Revenue:		
Operating Income (Exhibit B)	(202,830)	(113,250)
Add: Depreciation Expense	1,536,405	1,469,082
Investment Income	132,685	192,505
Gain / (Loss) on Sale of Assets	-	11,284
General Fund - Fund Balance	<u>600,307</u> *	<u>479,250</u> *
Net Revenues	<u><u>2,066,567</u></u>	<u><u>2,038,871</u></u>
Debt Service:		
Interest Charges (Schedule 1)	839,615	844,179
Add: Bond Principal (Due 12/1)		
Ensuing	<u>1,039,082</u>	<u>999,082</u>
Debt Service	<u><u>1,878,697</u></u>	<u><u>1,843,261</u></u>
Net Revenues	<u>2,066,567</u>	<u>2,038,871</u>
Debt Service	<u>1,878,697</u> = 1.10	<u>1,843,261</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, 2012 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 \$60,642.05 is reported net with the book value of the new debt. Amortization for the fiscal year ended November 30, 2012 and 2011 was \$30,446.43 and \$41,249.59.

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 \$735,744.68 is reported net with the book value of the new debt. Amortization for the fiscal year ended November 30, 2012 and 2011 was \$86,388.83 and \$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		Balance
	Dec. 1, 2011	Activity	Nov. 30, 2012
Land	\$ 2,264,000.00	\$ -	\$ 2,264,000.00
Buildings	16,950,548.28	-	16,950,548.28
Tanks	12,421,971.07	-	12,421,971.07
Pumping Stations	10,918,214.72	257,000.00	11,175,214.72
Force Mains	2,125,953.13	-	2,125,953.13
Gravity Mains	1,971,396.10	274,047.67	2,245,443.77
Computer Hardware and Software	126,377.70	21,931.30	148,309.00
Machinery and Equipment	4,272,791.61	650,468.16	4,923,259.77
Furniture and Fixtures	28,512.63	-	28,512.63
	<u>51,079,765.24</u>	<u>1,203,447.13</u>	<u>52,283,212.37</u>
Less: Accumulated Depreciation	<u>(27,040,204.87)</u>	<u>(1,488,018.43)</u>	<u>(28,528,223.30)</u>
	<u>\$ 24,039,560.37</u>	<u>\$ (284,571.30)</u>	<u>\$ 23,754,989.07</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>
2012	\$ 0	\$ 1,423	\$ 0	\$ 24,042
2011	0	1,409	0	23,291
2010	0	1,539	0	21,882

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	\$ 965,473	\$ 967,083	\$ 1,610
Bond Service Fund	1,461,696	1,461,696	0
Bond Reserve Fund	2,245,567	2,330,797	85,230
Renewal and Replacement Fund	150,000	150,000	0
Local Reserves:			
Renewal and Replacement Fund	250,000	250,000	0
Debt Service Reduction	999,969	999,969	0

Note 17: UNRESTRICTED NET ASSETS APPROPRIATED

Of the \$2,361,792 unrestricted net assets at November 30, 2012, \$755,144 was appropriated and anticipated as revenue in the 2012-13 budget as adopted. An additional \$415,000 was appropriated for capital projects leaving \$1,191,648 undesignated.

Note 18: OPERATING LEASE

The Authority had two commitments to lease copier equipment under operating leases, one which expires on October 2013, and one that expired in April 2012. Operating lease payments made during the year ended November 30, 2012 totaled \$3,518. The final lease payment will be made in 2013 amounting to \$2,568.50.

Note 19: CONTRIBUTIONS

Developers contributed assets consisting of a pump station and gravity mains totaling \$507,000. Also included with capital contributions is the \$448,560 AARA forgiveness portion of Series I NJEIT bonds issued this fiscal year.

SUPPLEMENTARY INFORMATION

THE BORDENTOWN SEWERAGE AUTHORITY
 SCHEDULE OF REVENUES AND EXPENSES -
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
Operating Revenues:					
Retained Earnings Appropriated	\$ 760,075	\$ 760,075	\$ 760,075	\$ -	\$ 569,941
User Charges and Fees	3,528,016	3,528,016	3,695,462	167,446	3,536,401
Delinquent Penalties	-	-	15,859	15,859	13,983
Connection Fees	206,590	206,590	26,870	(179,720)	248,597
Miscellaneous	50,000	50,000	75,039	25,039	74,457
Total Operating Revenues	4,544,681	4,544,681	4,573,305	28,624	4,443,379
Operating Expenses:					
Personnel Services:					
Board Salaries	3,000	3,000	2,500	500	2,500
Administrative Salaries	309,000	311,000	259,676	51,324	273,695
Plant Salaries	672,800	637,800	605,572	32,228	607,773
	984,800	951,800	867,748	84,052	883,968
Employee Benefits:					
Public Employees Retirement System	109,000	109,000	108,837	163	100,902
Social Security	76,000	76,000	65,912	10,088	66,407
Unemployment/Disability	3,000	3,000	1,895	1,105	674
Health Benefits	229,269	215,269	197,572	17,697	197,106
Health Benefits - Retirees	68,612	80,612	79,204	1,408	59,061
Other Employee Benefits	84,120	84,120	69,386	14,734	66,791
	570,001	568,001	522,806	45,195	490,941
Administrative Expenses:					
Office Expense	68,000	85,000	82,985	2,015	61,164
Insurance	110,000	110,000	102,370	7,630	104,211
Legal	63,000	75,000	72,771	2,229	66,557
Engineering	20,000	20,000	10,288	9,712	3,921
Auditing	32,000	41,000	39,497	1,503	31,215
Miscellaneous Administrative Expenses	26,000	33,200	29,423	3,777	37,480
Telephone	10,000	15,000	10,062	4,938	9,745
Trustee Expense	12,000	12,000	11,300	700	8,300
	341,000	391,200	358,696	32,504	322,593
Operations and Maintenance:					
Utilities	407,500	348,300	299,014	49,286	359,153
Repairs to Plants & Collection System	30,000	30,000	28,834	1,166	23,687
Fuel for Heating and Generators	500	500	-	500	-
Alarms	13,000	13,000	12,071	929	11,355
Chemicals	100,000	120,000	70,582	49,418	97,565
Plant and Lab Supplies	19,250	20,750	13,067	7,683	14,654
Other Repairs and Maintenance	8,000	8,000	6,981	1,019	9,004
Vehicle Expense	38,500	52,500	44,302	8,198	42,262
Permits	50,000	50,000	43,110	6,890	21,013
Sludge Removal	204,024	204,024	181,499	22,525	191,772
Laboratory Analysis	18,000	24,000	17,625	6,375	22,832
Uniform Expense	5,000	5,000	3,572	1,428	4,221
Miscellaneous Other Expenses	10,000	16,500	9,748	6,752	3,166
NJDEP Stream Study	5,000	1,000	-	1,000	125
Capital Outlay	-	-	-	-	19,295
	908,774	893,574	730,405	163,169	820,104
Bond Principal in Lieu of Depreciation	1,082,213	1,082,213	999,082	83,131	1,108,470
Total Operating Expenses	3,886,788	3,886,788	3,478,737	408,051	3,626,076

THE BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
Other Sources and (Uses):					
Investment Income:					
Unrestricted Accounts	-	-	42,422	42,422	3,615
Restricted Accounts	163,000	163,000	90,263	(72,737)	188,890
Gain / (Loss) on Sale of Assets	-	-	-	-	11,284
Refund of Prior Year Revenue	-	-	(31,212)	(31,212)	-
Interest on Bonds	(820,893)	(820,893)	(839,615)	(18,722)	(844,179)
Total Other Sources and (Uses)	(657,893)	(657,893)	(738,142)	(80,249)	(640,390)
Budgetary Revenues Over Expenses	\$ -	\$ -	\$ 356,426	\$ 356,426	\$ 176,913

Reconciliation of Budgetary Basis to GAAP Basis:

Excess from Above - Budgetary Basis			356,426		176,913
Budgeted Debt Principal			999,082		1,108,470
Depreciation			(1,536,405)		(1,469,082)
Amortization of Bond Discount, Premium and Early Retirement of Debt			(88,104)		(111,799)
Amortization of Bond Issuance Costs			(65,405)		(60,695)
Contributed Capital			507,000		-
Capital Grant - ARRA Forgiveness			448,560		-
Retained Earnings Appropriated			(760,075)		(569,941)
Changes in Net Assets			\$ (138,921)		\$ (926,134)

Capital Funding

Funding Source:					
NJFIT Loans	2,388,236	2,388,236	2,388,236	-	
Retained Earnings	945,000	945,000	945,000	-	
Total Capital Sources	3,333,236	945,000	945,000	-	
Costs:					
Capital Outlay:					
Energy Audit Improvements	2,242,800	2,242,800	83,638	2,159,162	
Plant and System Repairs	550,000	542,000	151,371	390,629	
Screw Pumps	-	-	1,587	(1,587)	
Armcon/Collection Systems	145,436	145,436	583,293	(437,857)	
Lab Equipment	10,000	10,000	7,043	2,957	
Collection System / Pump Station	370,000	370,000	28,013	341,987	
Communication Equipment	5,000	13,000	5,120	7,880	
Solar Power Review	10,000	10,000	-	10,000	
Total Capital Outlay	3,333,236	3,333,236	860,065	2,473,171	
Excess (Deficit) of Capital Funding Sources over (Under) Capital Costs	-	(2,388,236)	84,935	2,473,171	

THE BORDENTOWN SEWERAGE AUTHORITY
 STATEMENT OF MISCELLANEOUS REVENUE EARNED
 FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Insurance Reimbursement - JIF	\$ 20,331.00	\$ 18,869.48
Waste Water Treatment Tipping Fees	20,178.00	20,249.64
Enerwise Curtailment (Energy Rebate)	8,944.00	10,245.49
Application Fees	250.00	3,804.00
Georgetown Bypass	-	848.45
Inspection Fees	675.00	3,900.00
New Customer and Turn-On/Off Fees	10,785.00	9,770.00
Interest on Connection Fee Payment Plan	13,234.00	-
Miscellaneous	642.00	6,770.06
	<u>\$ 75,039.00</u>	<u>\$ 74,457.12</u>

THE BORDENTOWN SEWERAGE AUTHORITY
ANALYSIS OF CONSUMER ACCOUNTS RECEIVABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

Balance - December 1, 2011		\$ 110,473.48
Increased By:		
Billings:		
Rents	3,727,396.47	
Penalties	23,876.21	
Sludge	18,648.65	
Other	12,035.20	
	3,781,956.53	
		3,892,430.01
Decreased By:		
Collections		3,741,650.34
Balance - November 30, 2012		\$ 150,779.67

Aging

Current		123,383.29
30 Days		474.00
60 Days		-
90 Days		26,922.38
		26,922.38
		\$ 150,779.67
Consumer Accounts Receivable		\$ 150,779.67
Unbilled Revenue		(46,079.07)
		\$ 104,700.60

THE BORDENTOWN SEWERAGE AUTHORITY
ANALYSIS OF INTEREST RECEIVABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

	Balance Dec. 1, 2011	Interest Earned	Received	Balance Nov. 30, 2012
Unrestricted Assets:				
Revenue Account - Local	\$ -	\$ 233.38	\$ 233.38	\$ -
Operating Account - Local	-	644.91	644.91	-
General Account	1,760.36	37,176.13	38,475.84	460.65
Connection Fees	-	292.68	292.68	-
Escrow	-	151.24	151.24	-
	<u>1,760.36</u>	<u>38,498.34</u>	<u>39,798.05</u>	<u>460.65</u>
Restricted Assets:				
Unemployment	-	30.86	30.86	-
Revenue Account	-	2.66	2.66	-
Operating Account	406.87	13,362.85	13,454.37	315.35
Bond Service Account	-	41.71	41.71	-
Bond Reserve Account	2,108.12	73,513.20	73,818.09	1,803.23
Renewal and Replacement Account	-	24.29	24.29	-
Debt Service Reduction Account	24.35	904.87	914.81	14.41
	<u>2,539.34</u>	<u>87,880.44</u>	<u>88,286.79</u>	<u>2,132.99</u>
	<u>\$ 4,299.70</u>	<u>\$ 126,378.78</u>	<u>\$ 128,084.84</u>	<u>\$ 2,593.64</u>
Net Realized and Unrealized Gains and (Losses)		<u>6,306.73</u>		
Investment Income		<u>132,685.51</u>		

BORDENTOWN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2012

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) 298-8639

FAX: (609) 298-1198

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

BORDENTOWN SEWERAGE AUTHORITY
NOVEMBER 30, 2012
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, 2012
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 2012-1

Criteria:

Payroll tax reports should agree to the payroll records.

Condition:

The third quarter 2012 federal and state payroll tax reports did not agree with the payroll records. Federal and state gross wages were underreported by \$28,039.63 and \$32,349.65 respectively.

Cause:

The quarterly tax reports were prepared without including the last payroll of the quarter.

Effect:

Payroll wages were not accurately reported to the state of New Jersey. As a result of this audit finding, the quarterly reports were corrected.

Recommendation:

Quarterly payroll reports should be reconciled with the payroll records before filing.

Finding 2012-2

Criteria:

Quarterly state pension reports must be reconciled to employee pension withholding records.

Condition:

Two employee's pension withholding obligations were under withheld by a total of \$569.01.

Cause:

Oversight.

Effect:

Pension expense is overstated by \$569.01.

Recommendation:

Quarterly state pension reports should be reconciled with employee withholding records.

BORDENTOWN SEWERAGE AUTHORITY
NOVEMBER 30, 2012
FINDINGS AND RECOMMENDATIONS

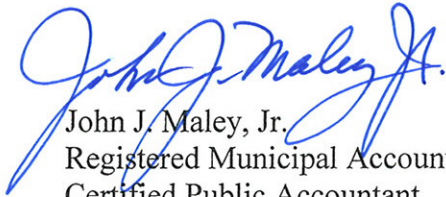
View of Responsible Officials

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

Status of Prior Years Audit Findings/Recommendations

A review was performed on the 2011 finding and a corrective action plan was adopted and implemented.

Respectfully submitted,



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

February 11, 2013