

THE BORDENTOWN SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2013

BORDENTOWN SEWERAGE AUTHORITY

NOVEMBER 30, 2013

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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

Report on the Financial Statements

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, 2013 and 2012 and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2013 and 2012, 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.

Change in Accounting Principles

As discussed in Note xx to the financial statements, in 2013 the Authority adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Information

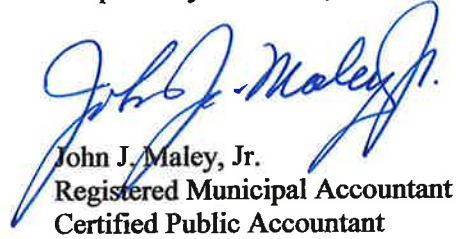
My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules, the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; the schedule of state financial assistance required by New Jersey Circular 04-04 OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules, the schedule of expenditures of federal awards and the schedule of state financial assistance are the responsibility of management and are 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, the schedule expenditures of federal awards and the schedule of state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued a report dated February 14, 2014 on my consideration of the Bordentown Sewerage Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements. The purpose of that is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,



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

February 14, 2014

JOHN J. MALEY, JR.

Certified Public Accountant

Registered Municipal 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, 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, the accompanying statement of net assets of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey, as of November 30, 2013 and 2012 and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended, and the notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued my report thereon dated February 14, 2014.

Internal Control Over Financial Reporting

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

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

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 material weaknesses or significant deficiencies

Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Findings and Recommendations section as 2013-1 through 2013-3 that I consider to be significant deficiencies.

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.

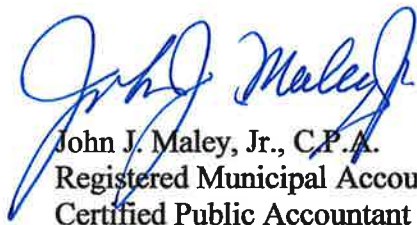
Responses to Findings

The Bordentown Sewerage Authority's responses to the findings identified in my audit are described in the accompanying Findings and Responses section. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

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

Respectfully submitted,


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

February 14, 2014

The Bordentown Sewerage Authority

Management Discussion and Analysis For The Fiscal Year Ending November 30, 2013

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 2013, ending November 30, 2013. 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, 2013 (FY13).

Total Operating Revenue: Total operating revenues for FY13 were \$4,427,558, which is an increase of \$614,328 from FY12, resulting primarily from an increase in connection fee revenue.

Total Operating Expenses: Total operating expenses for FY13 were \$4,043,166, which is an increase of \$27,106 over FY12.

Connection Fees: Connection fee revenues for FY13 were \$571,619, which is an increase of \$544,749 from FY12.

Debt Service: Principal paid in FY13 was \$1,251,043, which includes a reduction of Series G-Traditional debt of \$211,960 from unexpended proceeds. Interest paid for FY13 was \$807,078 compared to FY12 of \$839,569. Total debt service payments will increase slightly over the next two 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 FY13 were \$34,079,506. After deducting liabilities and adding Deferred Outflows of Resources, net position totaled \$12,136,345. At the end of FY12, total assets were \$35,766,610 and net position was \$12,715,845.

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 position includes all of the Authority's assets and liabilities. Net position, the difference between the Authority's assets and liabilities, is a measure of the Authority's financial health.

The statement of revenues, expenses and changes in fund net position 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 position of the Authority, as of November 30, are summarized below:

	2013	2012
Assets:		
Current Assets	2,946,807	3,030,978
Restricted Assets	6,647,334	8,765,663
Capital Assets - Net	24,485,365	23,969,969
Total Assets	<u>34,079,506</u>	<u>35,766,610</u>
Deferred Outflows of Resources:		
Unamortized Charge on Refunding Bonds	690,268	796,389
Total Deferred Outflows of Resources:	<u>690,268</u>	<u>796,389</u>
Liabilities:		
Current Liabilities	2,247,316	2,078,224
Long-Term Liabilities - Net	20,386,113	21,768,930
Total Liabilities	<u>22,633,429</u>	<u>23,847,154</u>
Net Position:		
Net Investment in Capital Assets	4,196,251	4,618,732
Restricted Accounts	5,743,157	5,735,321
Unrestricted Accounts - Designated	421,250	1,170,144
Unrestricted Accounts - Undesignated	1,775,687	1,191,648
Total Net Position	<u>12,136,345</u>	<u>12,715,845</u>

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The Authority had a net operating gain (total operating income less operating expenses) of \$384,392 in FY13. Combined with the net non-operating loss (total non-operating income less non-operating expenses) of \$(963,892), net position decreased by \$579,500. The revenues, expenses and change in net position of the Authority are summarized below:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>
Operating Revenues:			
Service Charges	3,726,886	3,695,462	31,424
Connection Fees	571,619	26,870	544,749
Miscellaneous Revenue	129,053	90,898	38,155
Total Operating Revenue:	<u>4,427,558</u>	<u>3,813,230</u>	<u>614,328</u>
Operating Expenses:			
Operating Expenses	2,509,103	2,479,655	29,448
Depreciation Expense	1,534,063	1,536,405	(2,342)
Total Operating Expenses:	<u>4,043,166</u>	<u>4,016,060</u>	<u>27,106</u>
Operating Income (Loss):	<u>384,392</u>	<u>(202,830)</u>	<u>587,222</u>
Non-Operating Revenues (Expenses):			
Investment Income / (Loss)	(70,411)	132,685	(203,096)
Refund of Prior Year Revenue	-	(31,212)	31,212
Interest Expense	(893,481)	(927,719)	34,238
Bond Issuance Costs	-	(79,799)	79,799
Total Non-Operating Income (Loss):	<u>(963,892)</u>	<u>(906,045)</u>	<u>(57,847)</u>
Income/(Loss)	<u>(579,500)</u>	<u>(1,108,875)</u>	<u>529,375</u>
Capital Contribution and ARRA Grant	<u>-</u>	<u>955,560</u>	<u>(955,560)</u>
Net Position, December 1	12,715,845	13,332,428	(616,583)
Prior Period Adjustment - Cumulative Effect	<u>-</u>	<u>(463,268)</u>	<u>463,268</u>
Net Position, December 1 as Restated	<u>12,715,845</u>	<u>12,869,160</u>	<u>(153,315)</u>
Net Position, November 30	<u>12,136,345</u>	<u>12,715,845</u>	<u>(579,500)</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.

During the fiscal year, the Authority expended \$2,049,459 for capital projects. Retained earnings provided funding for \$296,403 of those project costs, with the remainder funded by debt.

The proposed Capital Budget for FY14 is \$405,000. The major items constituting the capital budget are as follows.

Plant and System Repairs	300,000
Collection System Upgrades	70,000
Lab Equipment	10,000
Vehicle Replacement	25,000
	<u>\$ 405,000</u>

The proposed 2015 to 2019 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

The Authority's outstanding bonds and loans payable is \$21,420,474 at November 30, 2013, a decrease of \$1,251,042 when compared to the \$22,671,516 at November 30, 2012. 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 POSITION
NOVEMBER 30, 2013 AND 2012

ASSETS	2013	2012
Current Assets:		
Cash and Cash Equivalents	\$ 2,776,234	\$ 2,492,803
Investments	874	425,082
Accounts Receivable:		
Consumer Accounts Receivable	150,769	104,701
Unbilled Revenue	10,640	-
Other	-	175
Prepaid Expenses	8,290	8,217
Total Current Assets	2,946,807	3,030,978
Noncurrent Assets:		
Restricted Assets:		
Revenue Account		
Cash and Cash Equivalents	5,161	5,607
Operating Account		
Cash and Cash Equivalents	836,199	675,222
Investments	152,111	291,861
Debt Service Account		
Cash and Cash Equivalents	1,978,779	1,461,696
Debt Service Reserve Account		
Cash and Cash Equivalents	283,298	691,692
Investments	1,994,226	1,639,105
Debt Service Reduction Account		
Cash and Cash Equivalents	500,005	989,339
Investments	-	10,630
Renewal and Replacement Account		
Cash and Cash Equivalents	400,000	400,000
Unexpended Bond Proceeds		
Cash Held by NJEIT	495,400	2,597,917
Accrued Interest Receivable	2,155	2,594
Total Restricted Assets	6,647,334	8,765,663
Capital Assets		
Land	2,264,000	2,264,000
Buildings, Plant and Equipment		
(Net of Accumulated Depreciation)	22,221,365	21,490,989
Construction in Progress	-	214,980
Total Capital Assets	24,485,365	23,969,969
Total Assets	34,079,506	35,766,610
Deferred Outflows of Resources		
Unamortized Charge on Refunding Bonds	690,268	796,389
Total Deferred Outflows of Resources	\$ 690,268	\$ 796,389

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
NOVEMBER 30, 2013 AND 2012

	2013	2012
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 25,330	\$ 36,398
Payroll Deductions Payable	3,959	4,080
Deposits for Future Claims		
Deposits for Connection Fees	544,848	460,337
Developers' Escrow Deposits	91,426	91,671
State Unemployment Compensation	24,667	24,042
	<u>690,230</u>	<u>616,528</u>
Current Liabilities Payable From Restricted Assets:		
Revenue Bonds Payable - Current Portion	1,153,922	1,039,082
Bond Interest Payable	403,164	422,614
	<u>1,557,086</u>	<u>1,461,696</u>
Total Current Liabilities Payable From Restricted Assets		
	<u>1,557,086</u>	<u>1,461,696</u>
Noncurrent Liabilities		
Revenue Bonds Payable - Net of Unamortized Costs	20,320,860	21,706,461
Compensated Absences	65,253	62,469
	<u>20,386,113</u>	<u>21,768,930</u>
Total Noncurrent Liabilities		
	<u>20,386,113</u>	<u>21,768,930</u>
Total Liabilities		
	<u>22,633,429</u>	<u>23,847,154</u>
NET POSITION		
Net Position:		
Investment in Capital Assets, Net of Related Debt	4,196,251	4,618,732
Restricted Net Position:		
Reserved for Debt Service	4,355,299	4,369,848
Reserved for Operating Costs	987,858	965,473
Reserved for Renewal and Replacement	400,000	400,000
Unrestricted Net Position	2,196,937	2,361,792
	<u>12,939,994</u>	<u>12,136,943</u>
Total Net Position		
	<u>\$ 12,136,345</u>	<u>\$ 12,715,845</u>

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
User Charges and Fees	\$ 3,726,886	\$ 3,695,462
Delinquent Penalties	18,056	15,859
Connection Fees	571,619	26,870
Miscellaneous	110,997	75,039
Total Operating Revenues	<u>4,427,558</u>	<u>3,813,230</u>
Operating Expenses:		
Personnel Services	876,195	867,748
Employee Benefits	525,947	522,806
Administrative Expenses	328,660	358,696
Operations and Maintenance	778,301	730,405
Depreciation	1,534,063	1,536,405
Total Operating Expenses	<u>4,043,166</u>	<u>4,016,060</u>
Operating Income	<u>384,392</u>	<u>(202,830)</u>
Non-Operating Revenues (Expenses):		
Investment Income / (Loss)	(70,411)	132,685
Refund of Prior Year Revenue	-	(31,212)
Interest Expense	(893,481)	(927,719)
Bond Issuance Costs	-	(79,799)
Total Non-Operating Revenues (Expenses)	<u>(963,892)</u>	<u>(906,045)</u>
Income (Loss)	(579,500)	(1,108,875)
Capital Contributions:		
Capital Assets Acquired through Contribution	-	507,000
Capital Grant - ARRA Principal Forgiveness	-	448,560
Change in Net Position	<u>(579,500)</u>	<u>(153,315)</u>
Net Position, December 1	12,715,845	13,332,428
Prior Period Adjustment-Cumulative Effect	-	(463,268)
Net Position, December 1 as Restated	<u>12,715,845</u>	<u>12,869,160</u>
Net Position, November 30	<u>\$ 12,136,345</u>	<u>\$ 12,715,845</u>

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Cash Received from Customers and Users	\$ 4,455,536	\$ 4,069,884
Cash Payments for Goods and Supplies	(1,119,791)	(1,108,029)
Cash Payments for Employee Expenses	(1,399,358)	(1,397,861)
Net Cash Provided by Operating Activities	1,936,387	1,563,994
Cash Flows From Capital and Related Financing Activities:		
General and Construction Outlays	(2,047,511)	(860,066)
Proceeds of Bonds	-	1,757,120
Capital Grant	-	448,560
Bond Premium / (Discount)	-	112,458
Cost of Issuance	-	(79,800)
Debt Service:		
Principal	(1,251,043)	(999,082)
Interest	(826,528)	(839,569)
Net Cash (Used) or Provided by Capital and Related Financing Activities	(4,125,082)	(460,379)
Cash Flows From Investing Activities:		
Investment Income	(69,972)	134,391
Net Change in Investments	219,467	1,351,995
Net Cash (Used) Or Provided by Investing Activities	149,495	1,486,386
Net Cash Increase (Decrease) for the Year	(2,039,200)	2,590,001
Cash at Beginning of Year	9,314,276	6,724,275
Cash at End of Year	\$ 7,275,076	\$ 9,314,276
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, 2013 AND 2012

Reconciliation of Operating Income to Net Cash Used by Operating Activities:		2013	2012
Operating Income		\$ 384,392	\$ (202,830)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:			
Depreciation		1,534,063	1,536,405
Other Nonoperating Expenses		-	(31,211)
(Increase) Decrease in:			
Accounts Receivable		(56,533)	(8,498)
Prepaid Expenses		(73)	167
(Decrease) Increase in:			
Accounts Payable		(11,068)	12,703
Payroll Deductions Payable		(121)	1,018
Deposits for Connection Fees		84,511	265,152
Developers' Escrow Deposits		(245)	(2,357)
Reserve for Unemployment Insurance		625	752
Compensated Absences		2,784	(7,307)
Total Adjustments		1,553,943	1,766,824
Net Cash Provided by Operating Activities		\$ 1,938,335	\$ 1,563,994
<u>Reconciliation of Cash to the Statement of Net Position</u>			
Current Assets:			
Cash		\$ 2,776,234	\$ 2,492,803
Restricted Assets:			
Cash		4,498,842	6,821,473
		\$ 7,275,076	\$ 9,314,276

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. The flow of economic resources refers to reporting of all of the net position available to the Authority for the purpose of providing goods and services to the public. When the flow of economic resources is applied on an accrual basis of accounting, all assets, deferred outflows of resources, liabilities and deferred inflows of resources, are presented in the statement of net position in accordance with standards established by The Governmental Accounting Standards Board (GASB).

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. As a result, this Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance by codifying all sources of generally accepted accounting principles for state and local governments into a single source. The adoption of the Codification, which became effective July 1, 2012, did not have a significant effect on the District's financial statements.

Effective December 1, 2012 the Authority implemented the general provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources and Net Position*. This statement amends the net position reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of GASB No. 63 had a material effect on the financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB No. 63 had a material effect on the financial statements.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Required Accounts (Continued)

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.

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. During the year this account was reduced to \$500,005.

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.A. 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 Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Assets restricted for capital projects include unexpended bond proceeds reduced by an equal amount of debt outstanding. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Income Taxes

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

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Discounts/Bond Premium

Bond discounts and bond premiums 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. Bond premium is presented as an addition to bonds payable.

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.

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, 2013, 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.	\$ 6,555,335
Held by NJEIT	\$ 495,400

The carrying amount of cash and cash equivalents is \$7,274,825 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	\$2,201,005	\$2,147,211

Investments totaling \$2,147,211 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. 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, 2013 totaling \$94,917, November 30, 2012 totaling \$108,837 and November 30, 2011 totaling \$101,451.

The amount of the Authority's current year covered payroll was \$819,559 and the total payroll for all employees was \$865,491. Employee's contributions to the pension totaled \$54,999 or 6.71% 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, 2012, there were 97,661 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 \$146.6 million toward Chapter 126 benefits for 16,618 eligible retired members in Fiscal Year 2012.

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 November 30, 2013, 2012, and 2011, were \$84,339, \$79,204, and \$59,062 respectively, which equaled the required contributions for each year. There were 5 retired participants eligible at November 30, 2013, 4 retired participants at 2012, and 3 retired participants at 2011.

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, 2013 is estimated at \$65,253.

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:

Fiscal Year	Beginning Balance	Billings	Total Collections	Percentage of Collections
2013	150,780	3,731,208	3,731,220	96.12%
2012	110,474	3,781,957	3,741,650	96.13%
2011	135,454	3,585,420	3,610,400	97.03%
2010	115,375	3,662,497	3,642,417	96.41%
2009	105,222	3,705,048	3,694,896	96.97%
2008	96,358	3,811,673	3,802,808	97.31%
2007	89,030	3,896,470	3,889,142	97.58%
2006	64,537	3,747,045	3,722,552	97.66%
2005	55,122	3,603,123	3,592,820	98.21%
2004	53,516	3,493,193	3,491,587	98.45%

Note 7: 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.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 7: REVENUE BONDS PAYABLE (Continued)

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 7: REVENUE BONDS PAYABLE (Continued)

Outstanding Debt:

The following is a summary of long-term debt at November 30, 2013.

<u>Issue</u>	<u>Interest Rate Range</u>	<u>Dated</u>	<u>Balance Nov. 30, 2012</u>	<u>Issued / (Retired)</u>	<u>Balance Nov. 30, 2013</u>
Series F	2.50 to 5.25	09/01/03	5,480,000	(935,000)	4,545,000
Series G - Screw Pumps					
NJEIT-Trust	3.00 to 5.00	03/10/10	345,000	(15,000)	330,000
NJEIT-Fund-ARRA	0.00 to 0.00	03/10/10	331,936	(19,526)	312,410
Series G - Various Projects					
NJEIT-Trust	3.00 to 5.00	03/10/10	330,000	(15,000)	315,000
NJEIT-Fund	0.00 to 0.00	03/10/10	927,461	(266,517)	660,945
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>\$ 22,671,517</u>	<u>\$ (1,251,043)</u>	<u>\$ 21,420,475</u>

<u>Bond Year Ending December 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,522,207.16	515,000.00	6,037,207.16
2028-2031	409,045.98	20,306.25	429,352.23
	<u>21,420,474.34</u>		

Less:

Current Portion (1,153,922.12)

Unamortized Balance of:

 Bond Discount (152,699.58)

 Bond Premium 207,007.80

Carrying Amount \$ 20,320,860.44

* - Debt Service Reserve requirement

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 8: 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>
2013	577,378.80	3,731,208.29	15.47%
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%

Note 9: 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>2013</u>	<u>2012</u>
Net Revenue:		
Operating Income (Exhibit B)	384,392	(202,830)
Add: Depreciation Expense	1,534,063	1,536,405
Interest Income	85,715	132,685
General Fund - Fund Balance	152,930 *	600,307 *
Net Revenues	<u><u>2,157,100</u></u>	<u><u>2,066,567</u></u>
Debt Service:		
Interest Charges (Schedule 1)	807,078	839,615
Add: Bond Principal (Due 12/1)		
Ensuing	<u>1,153,922</u>	<u>1,039,082</u>
Debt Service	<u><u>1,961,000</u></u>	<u><u>1,878,697</u></u>
Net Revenues	<u>2,157,100</u>	<u>2,066,567</u>
Debt Service	<u>1,961,000</u> = 1.10	<u>1,878,697</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, 2013 to meet the required coverage.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 10: 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 \$40,910.12 is reported as a Deferred Outflow of Resources. Amortization for the fiscal years ended November 30, 2013 and 2012 was \$19,731.93 and \$30,446.43.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 10: 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 \$649,355.85 is reported as a Deferred Outflow of Resources. Amortization for the fiscal years ended November 30, 2013 and 2012 was \$86,388.83 and \$82,605.06.

Note 11: 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 12: 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 13: **CAPITAL ASSETS**

	Balance Dec. 1, 2012	Activity	Balance Nov. 30, 2013
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	11,175,214.72	1,455.00	11,176,669.72
Force Mains	2,125,953.13	24,500.00	2,150,453.13
Gravity Mains	2,245,443.77	9,739.00	2,255,182.77
Computer Hardware and Software	148,309.00	1,475.12	149,784.12
Machinery and Equipment	4,923,259.77	2,220,294.17	7,143,553.94
Furniture and Fixtures	28,512.63	6,975.31	35,487.94
	52,283,212.37	2,264,438.60	54,547,650.97
Less: Accumulated Depreciation	(28,528,223.30)	(1,534,062.69)	(30,062,285.99)
	<u>\$ 23,754,989.07</u>	<u>\$ 730,375.91</u>	<u>\$ 24,485,364.98</u>

Note 14: **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	\$ 1,371	\$ 0	\$ 24,667
2011	0	1,423	0	24,042
2010	0	1,409	0	23,291

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 15: **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	\$ 987,858	\$ 988,310	\$ 452
Bond Service Fund	1,557,086	1,978,779	421,693
Bond Reserve Fund	2,245,567	2,277,524	31,957
Renewal and Replacement Fund	150,000	150,000	0
Local Reserves:			
Renewal and Replacement Fund	250,000	250,000	0
Debt Service Reduction	500,005	500,005	0

Note 16: **UNRESTRICTED NET POSITION APPROPRIATED**

Of the \$2,196,937 unrestricted net position at November 30, 2013, \$728,773 was appropriated and anticipated as revenue in the 2013-14 budget as adopted. An additional \$405,000 was appropriated for capital projects leaving \$1,063,164 undesignated.

Note 17: **OPERATING LEASE**

The Authority had one commitment to lease copier equipment under an operating lease, which expired on October 2013. Operating lease payments made during the year ended November 30, 2013 totaled \$2,568.50. Verify no new Operating Lease

Note 18: **CONTRIBUTIONS**

There were no contributions this fiscal year.

Note 19: **CHANGE IN ACCOUNTING PRINCIPLE**

The implementation of GASB Statement No.'s 63 and 65, which established new reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities resulted in a prior period adjustment. The November 30, 2012 financial statements were adjusted to reclassify the unamortized balance of \$796,389 for the unamortized charge on refunding bonds associated with the early retirement of debt, reported net with long-term debt, to deferred outflows of resources. Also, the unamortized bond issuance cost asset of \$477,662 and the \$65,405 related amortization expense were restated to zero along with expensing bond issuance costs of \$79,799, resulting in a decrease in net position at November 30, 2012 by \$463,268, reported as the cumulative effect of changes in accounting principles.

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 19: **CHANGE IN ACCOUNTING PRINCIPLE (Continued)**

Affect of Prior Period Adjustment on 2012 Financial Statements

	2012 Previously Reported	Adjustment	2012 As Restated
ASSETS			
Current Assets	\$ 3,030,978	\$ -	\$ 3,030,978
Restricted Assets	8,765,663	-	8,765,663
Capital Assets	23,969,969	-	23,969,969
Unamortized Bond Issue Costs	477,662	(477,662)	-
Total Assets	36,244,272	(477,662)	35,766,610
Deferred Outflows of Resources			
Unamortized Charge on Refunding Bonds	-	796,389	796,389
	<u>\$36,244,272</u>	<u>\$ 318,727</u>	<u>\$36,562,999</u>
LIABILITIES			
Current Liabilities	616,528	-	616,528
Current Liabilities Payable From Restricted Assets	1,461,696	-	1,461,696
Noncurrent Liabilities			
Revenue Bonds Payable - Net of Unamortized	20,910,072	796,389	21,706,461
Compensated Absences	62,469	-	62,469
Total Long-Term Liabilities	20,972,541	796,389	21,768,930
Total Liabilities	23,050,765	796,389	23,847,154
NET POSITION			
Investment in Capital Assets, Net of Related Debt	5,096,394	(477,662)	4,618,732
Restricted Net Position:	5,735,321	-	5,735,321
Unrestricted Net Position	2,361,792	-	2,361,792
Total Net Position	<u>\$13,193,507</u>	<u>\$ (477,662)</u>	<u>\$12,715,845</u>
Operating Revenues			
	\$ 3,813,230	\$ -	\$ 3,813,230
Operating Expenses			
	4,016,060	-	4,016,060
Operating Income			
	(202,830)	-	(202,830)
Non-Operating Revenues (Expenses):			
Investment Income	132,685	-	132,685
Refund of Prior Year Revenue	(31,212)	-	(31,212)
Interest on Bonds	(927,719)	-	(927,719)
Bond Issuance Costs	(65,405)	(14,394)	(79,799)
Total Non-Operating Revenues (Expenses)	<u>(891,651)</u>	<u>(14,394)</u>	<u>(906,045)</u>
(Loss) Before Capital Contributions	(1,094,481)	(14,394)	(1,108,875)
Capital Contributions			
	955,560	-	955,560
Decrease in Net Position	(138,921)	(14,394)	(153,315)
Net Position, December 1, 2012	<u>13,332,428</u>	<u>(463,268)</u>	<u>12,869,160</u>
Net Position, November 30, 2012	<u>\$13,193,507</u>	<u>\$ (477,662)</u>	<u>\$12,715,845</u>

SUPPLEMENTARY INFORMATION

THE BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
Operating Revenues:					
Retained Earnings Appropriated	\$ 755,144	\$ 755,144	\$ 755,144	\$ -	\$ 760,075
User Charges and Fees	3,693,376	3,693,376	3,670,167	(23,209)	3,695,462
Unbilled Water	-	-	56,719	56,719	-
Delinquent Penalties	13,000	13,000	18,056	5,056	15,859
Connection Fees	205,900	205,900	571,619	365,719	26,870
Miscellaneous	50,000	50,000	110,997	60,997	75,039
Total Operating Revenues	4,717,420	4,717,420	5,182,702	465,282	4,573,305
Operating Expenses:					
Personnel Services:					
Board Salaries	3,000	3,000	2,500	500	2,500
Administrative Salaries	317,650	317,650	260,855	56,795	259,676
Plant Salaries	673,620	678,620	612,840	65,780	605,572
	994,270	999,270	876,195	123,075	867,748
Employee Benefits:					
Public Employees Retirement System	97,040	91,040	88,857	2,183	108,837
Social Security	77,640	77,640	64,748	12,892	65,912
Unemployment/Disability	3,000	3,000	462	2,538	1,895
Health Benefits	252,197	243,897	210,474	33,423	197,572
Health Benefits - Retirees	85,765	85,765	84,339	1,426	79,204
Other Employee Benefits	92,031	92,031	77,067	14,964	69,386
	607,673	593,373	525,947	67,426	522,806
Administrative Expenses:					
Office Expense	90,000	92,000	79,002	12,998	82,985
Insurance	112,200	104,000	99,391	4,609	102,370
Legal	65,000	65,000	58,984	6,016	72,771
Engineering	20,000	20,000	16,680	3,320	10,288
Auditing	35,000	35,000	26,575	8,425	39,497
Miscellaneous Administrative Expenses	26,000	36,300	31,360	4,940	29,423
Telephone	12,000	12,000	8,368	3,632	10,062
Trustee Expense	12,000	12,000	8,300	3,700	11,300
	372,200	376,300	328,660	47,640	358,696
Operations and Maintenance:					
Utilities	409,526	402,026	324,834	77,192	299,014
Repairs to Plants & Collection System	30,000	32,000	26,004	5,996	28,834
Fuel for Heating and Generators	500	1,000	-	1,000	-
Alarms	13,000	13,000	12,714	286	12,071
Chemicals	115,000	115,000	103,080	11,920	70,582
Plant and Lab Supplies	19,750	19,950	14,908	5,042	13,067
Other Repairs and Maintenance	15,000	15,000	8,612	6,388	6,981
Vehicle Expense	41,500	51,500	41,902	9,598	44,302
Permits	35,000	35,000	24,000	11,000	43,110
Sludge Removal	205,000	205,000	195,600	9,400	181,499
Laboratory Analysis	22,000	23,000	21,417	1,583	17,625
Uniform Expense	5,000	5,000	1,921	3,079	3,572
Miscellaneous Other Expenses	10,500	9,500	3,309	6,191	9,748
NJDEP Stream Study	500	500	-	500	-
	922,276	927,476	778,301	149,175	730,405
Bond Principal in Lieu of Depreciation	1,153,922	1,153,922	1,039,082	114,840	999,082
Total Operating Expenses	4,050,341	4,050,341	3,548,185	502,156	3,478,737

Schedule 2

THE BORDENTOWN SEWERAGE AUTHORITY
STATEMENT OF MISCELLANEOUS REVENUE EARNED
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Insurance Reimbursement - JIF	\$ 18,828	\$ 20,331
Waste Water Treatment Tipping Fees	19,923	20,178
Enerwise Curtailment (Energy Rebate)	6,179	8,944
Application Fees	-	250
Inspection Fees	4,125	675
New Customer and Turn-On/Off Fees	18,035	10,785
Review Fees	55	-
Interest on Connection Fee	19,404	13,234
FEMA Reimbursement	23,818	
Miscellaneous	<u>630</u>	<u>642</u>
	<u>\$ 110,997</u>	<u>\$ 75,039</u>

THE BORDENTOWN SEWERAGE AUTHORITY
ANALYSIS OF INTEREST RECEIVABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013

	Balance Dec. 1, 2012	Interest Earned	Received	Balance Nov. 30, 2013
Unrestricted Assets:				
Revenue Account - Local	\$ -	\$ 244	\$ 244	\$ -
Operating Account - Local	-	605	605	-
General Account	461	8,556	9,016	1
Connection Fees	-	487	487	-
Escrow	-	96	96	-
	<u>461</u>	<u>9,988</u>	<u>10,448</u>	<u>1</u>
Restricted Assets:				
Unemployment	-	24	24	-
Revenue Account	-	1	1	-
Operating Account	315	8,739	8,881	173
Bond Service Account	-	67	67	-
Bond Reserve Account	1,803	66,698	66,520	1,981
Renewal and Replacement Account	-	24	24	-
Debt Service Reduction Account	14	174	188	-
	<u>2,132</u>	<u>75,727</u>	<u>75,705</u>	<u>2,154</u>
	<u>\$ 2,593</u>	<u>\$ 85,715</u>	<u>\$ 86,153</u>	<u>\$ 2,155</u>
Net Realized and Unrealized Gain or (Loss)		<u>(156,126)</u>		
Investment Income / (Loss)		<u>\$ (70,411)</u>		

BORDENTOWN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2013

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 A. Wilson
W. Craig Dansbury
Richard Czekanski of
Remington & Vernick
Thomas J. Coleman, III Esquire of
Raymond, Coleman, Heinold, & Normal LLP
TD Wealth Management

Executive Director
Administrative Manager
Operations Manager

Consulting Engineer

Solicitor
Trustee

SINGLE AUDIT SECTION

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
NEW JERSEY CIRCULAR 04-04-OMB**

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

Report on Compliance for Each Major Federal or State Program

I have audited the Bordentown Sewerage Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *New Jersey State Grant Compliance Supplement* that could have a direct and material effect on each of Bordentown Sewerage Authority's major federal or state programs for the year ended November 30, 2013. Bordentown Sewerage Authority's major federal and state programs are identified in the *Summary of Auditor's Results Section* of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Bordentown Sewerage Authority's major federal and state programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance 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; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey; and New Jersey Circular 04-04-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and New Jersey Circular 04-04-OMB, require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Bordentown Sewerage Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal and state program. However, my audit does not provide a legal determination of the Bordentown Sewerage Authority's compliance.

Opinion on Each Major Federal and State Program

In my opinion, the Bordentown Sewerage Authority, in the County of Burlington, State of New Jersey, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended November 30, 2013.

Report on Internal Control Over Compliance

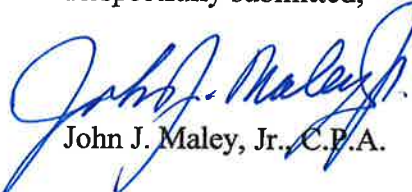
Management of the Board of Education of the Bordentown Sewerage Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing my audit, I considered the Bordentown Sewerage Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal and state programs in order to determine my auditing procedures for the purposes of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with New Jersey's Circular 04-04- OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Bordentown Sewerage Authority's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and New Jersey Circular 04-04-OMB. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



John J. Maley, Jr., C.P.A.

February 14, 2014

BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED NOVEMBER 30, 2013

State Grantor/Program Title	Pass-through Grant or State Project Number	Award Amount	Fiscal Year Program Amount Received	Fiscal Year Disbursements/ Expended	Total Disbursements/ Expended
Department of Environmental Protection					
New Jersey Environmental Infrastructure Trust/Fund					
Energy Audit Improvements	S340219-03	\$ 1,794,240.00	\$ 1,402,444.00	\$ 1,425,302.86	\$ 1,550,272.00
			\$ 1,402,444.00	\$ 1,425,302.86	\$ 1,550,272.00

BORDENTOWN SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
NOVEMBER 30, 2013

Note 1: GENERAL

The accompanying schedule of expenditures of state financial assistance includes the state grant activity of the Bordentown Sewerage Authority under programs of the state government for the year ended November 30, 2013. The Authority is defined in Note 1 to the Authority's basic financial statements. All state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies are included on the schedule of expenditures of state financial assistance.

Note 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of state financial assistance is presented on the accrual basis of accounting. This basis of accounting is described in Note 1 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of New Jersey Circular 04-04 OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*.

Note 3: RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

**BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013**

Section I - Summary of Auditor's Results

Financial Statements

[Reference – Section .510 and .520 of Circular OMB-133]

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

1) Material weakness(es) identified?

___ yes X no

2) Significant deficiencies identified that are
not considered to be material weaknesses?

X yes ___ no

Noncompliance material to basic financial
statements noted?

___ yes X no

Federal Awards

Internal Control over major programs:

1) Material weakness(es) identified?

___ yes X no

2) Significant deficiencies identified that are
not considered to be material weaknesses?

___ yes X none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section .510(a) of Circular A-133?

___ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program Or Cluster

NONE

NONE

Dollar threshold used to distinguish between type A and type B programs:

\$ N.A.

Auditee qualified as low-risk auditee?

___ yes ___ no X NA

**BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013
(continued)**

Section I - Summary of Auditor's Results (Continued)

State Awards

Internal Control over major programs:

- 1) Material weakness(es) identified? ☐ yes ☒ no
- 2) Significant deficiencies identified that are
not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section .510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

<u>State Grant/Project Number</u>	<u>Name of Federal Program Or Cluster</u>
<u>S340219-03</u>	<u>NJEIT Fund/Trust Loan</u>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Section II - Financial Statement Findings

Finding 2013-1

Criteria:

Payroll tax reports should agree to the payroll records.

Condition:

The first quarter New Jersey payroll tax report shows state withholding amounting to \$8,353.59 while actual withholding totaled \$8,087.3, a misstatement of \$266.12.

Cause:

Unknown.

Effect:

The state of New Jersey was overpaid by \$266.12.

Recommendation:

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

**BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013
(continued)**

Section II - Financial Statement Findings (Continued)

Finding 2013-2

Criteria:

Subsidiary ledgers should be routinely reconciled to the general ledger.

Condition:

The connection fee control account did not agree with the detail listing of connections by \$25, 030.

Cause:

Transactions related to installment interest received on connection fee payment plans were recorded incorrectly.

Effect:

Revenue was understated by \$25,030.

Recommendation:

The connection fee subsidiary ledger should be routinely reconciled to the general ledger.

Finding 2013-3

Criteria:

Budgeted line-items should be recorded with amounts approved in the annual budget document.

Condition:

Recorded capital budget line-items did not agree with amounts approved in the annual budget document. The amount shown for Energy Audit Improvements differed by \$846,303.

Cause:

Unknown.

Effect:

Budget reports were misstated..

Recommendation:

Budget line-items should be recorded to agree with amounts approved in the annual budget.

**Section III - Federal Award and State Financial Assistance Findings
and Questioned Costs**

There were no findings or questioned costs.

JOHN J. MALEY, JR.

Certified Public Accountant

Registered Municipal Accountant

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MEMBER

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

BORDENTOWN SEWERAGE AUTHORITY

NOVEMBER 30, 2013

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, 2013
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 2013-1 *

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BORDENTOWN SEWERAGE AUTHORITY
NOVEMBER 30, 2013
FINDINGS AND RECOMMENDATIONS

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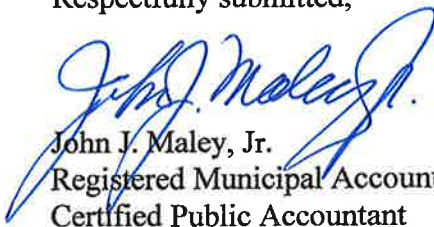
View of Responsible Officials

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 2012 finding and although a corrective action plan was adopted, finding 2013-1 marked with an * is a repeat finding.

Respectfully submitted,


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

February 14, 2014