

WASHINGTON TOWNSHIP MUNICIPAL
UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011 AND 2010

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
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YEAR ENDED DECEMBER 31, 2011

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INTRODUCTORY SECTION



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Park
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

March 2, 2012

The Honorable Chairman and Members
of the Washington Township Municipal Utilities Authority
Long Valley, NJ

Dear Authority Members:

The annual financial report of the Washington Township Municipal Utilities Authority (The "Authority") for the years ended December 31, 2011 and 2010, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The annual financial report is presented in four sections: introductory, financial, *government auditing standards section* and comments and recommendations. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. Information related to the government auditing standards section, including the auditors' report on the internal control structure and compliance with applicable laws and regulations and findings and related responses, are included in the government auditing standards section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Washington on February 16, 1972.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the accumulation, supply or distribution of water and works for the collection, treatment, purification or disposal of sewerage or other wastes.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

The Honorable Chairman and Members
of the Washington Township Municipal Utilities Authority
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March 2, 2012

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2011, the Authority experienced the following in the administrative area:

- Through personnel and organizational changes, the Authority continues to streamline the work flow and/updating data management. This allows us to more effectively use the resources available. In one area, reorganizing the ledger system together with incorporating tighter controls on data passed between the separate utility billing and accounting systems provides better fiscal control. Improvement of manpower utilization is being accomplished through reorganizing personnel assignments.
- The Authority enrolled an in-house employee in Rutgers University Public Purchasing classes with the intent of obtaining certification as a Qualified Purchasing Agent. At the end of 2011, all of the four classes were completed and the employee has obtained the title of Registered Professional Purchasing Specialist which allows the employee to take the qualified purchasing agent exam when it becomes available. Additionally, changes to the purchasing process are ongoing to comply with regulations.
- The Authority has been reviewing billing needs. Billing and finance software options were explored with the intent to reduce manpower required to maintain two incompatible software systems and improve customer service administration. In December, the Authority purchased new software that will address these issues
- The Authority continued its proactive & preventative maintenance program for both the water and sewer divisions. Key equipment and parts that are subject to wear are being monitored to allow for cyclical replacement. Parts for equipment where break downs are known to occur, but at unpredictable times, are being inventoried to prevent extended downtimes.

During 2011, the Authority's water division was involved in the following:

- In the exploration for new water sources in Schooley's Mountain water system, we have found a new source that will allow us to supplement the production capability and reliability of the system. Additional testing and permitting is required before the well can be placed into production. The testing and permitting is expected to be completed in 2012.
- A program for upgrading all customer water meters has been initiated to allow for automated reading. This will reduce manpower needed for reading and will provide better customer service as well as quicker identification of meter reader issues.
- Pumps & motors were replaced in wells LV7 & LV8 in the Hager water system.
- The Authority has been involved in the investigation of providing potable water to a portion of Chester Township affected by contamination from Combe South Landfill. The Authority has been working with EPA, NJDEP and Chester Township.

During 2011, the Authority's sewer division experienced the following:

- The Authority has continued its Inflow & Infiltration (I&I) program to reduce the volume of water that is treated and reduce the treatment costs.
- The Authority began exploring improvements to the Schooley's Mountain plant with the intent to generate cost savings and improve working conditions.

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 6. The Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

The Honorable Chairman and Members
of the Washington Township Municipal Utilities Authority
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March 2, 2012

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, public officials liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.


OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report. The auditors' reports related specifically to *Government Auditing Standards* is included in the *Government Auditing Standards* section of this report.


ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Washington Township Municipal Utilities Authority for their concern in providing fiscal accountability to the citizens of Washington Township and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

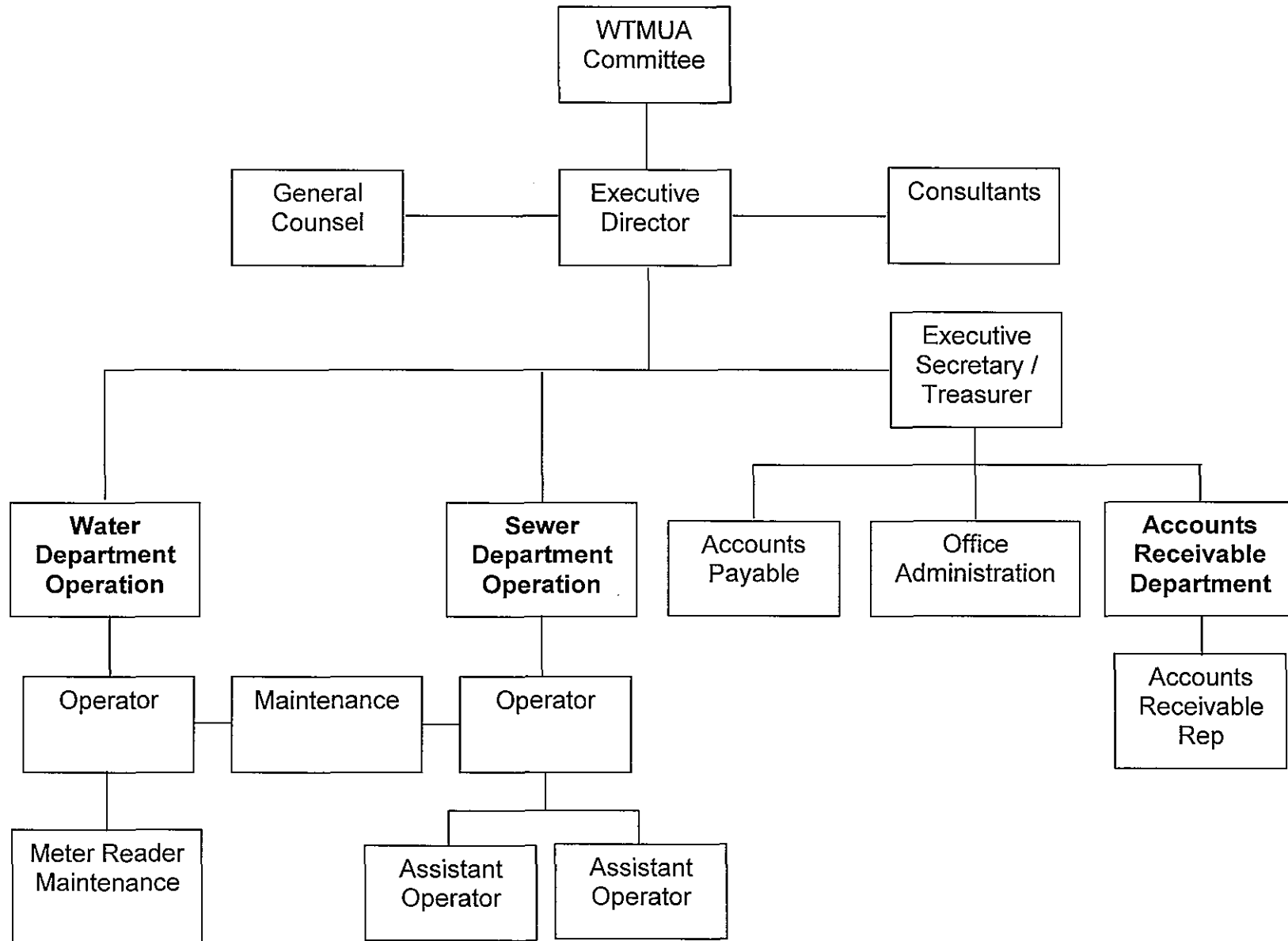
Respectfully submitted,



Michael Pucilowski
Executive Director



E. Jill Waller
Secretary



**WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2011**

Board Members

Sam Akin	Chairman
Dean Strawn	Vice Chairman
Vincent Kramer	Board Member Alternate 1
Mark Napolitano	Board Member
Howard Popper	Board Member Alternate 2
Walt Cullen	Board Member
Paul Peters	Board Member

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia LLP
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856

ATTORNEY

James R. Gregory, Esq.
Gregory and Reed
2 Sylvan Way, Suite 303
Parsippany, NJ 07054

ENGINEER

D.J. Egarian & Associate, Inc.
2 Sylvan Way
Suite 303 West
Parsippany, NJ 07054

FINANCIAL SECTION

Independent Auditors' Report

The Honorable Chairman and Members
of the Washington Township Municipal
Utilities Authority
Long Valley, NJ

We have audited the accompanying financial statements of the Washington Township Municipal Utilities Authority (the "Authority") as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the, "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Township Municipal Utilities Authority as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Honorable Chairman and Members
of the Washington Township Municipal
Utilities Authority
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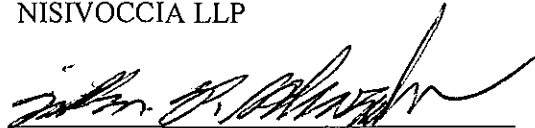
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The information included in the introductory section and the supplementary data schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary data schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note 1 to the financial statements and Note B to the schedules of expenditures of federal and state awards.

The information in the introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion of provide any assurance on it.

March 2, 2012

NISIVOCCIA LLP



William F. Schroeder
Registered Municipal Accountant #452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial position is strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- The Authority lowered its total debt by \$816,574 and the balance is \$8,333,506. This includes Environmental Infrastructure loans.
- During fiscal year 2011 the Authority treated 218.55 million gallons of wastewater. This is 12% more than the 195.12 million gallon quantity processed during fiscal year 2010.
- For fiscal year 2011 the Authority delivered in excess of 316.67 million gallons of potable water as compared to 2010 when 286.48 million gallons were delivered. This represents an increase of 10.5%
- Combined operating revenues were \$3.45 million, a decrease of \$11,458 compared to 2010.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net assets; a statement of revenue, expenses, and changes in net assets; a statement of cash flows and notes to the financial statements.

The *statement of net assets* presents the financial position of the Authority on a full accrual historical cost basis. The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the *statement of revenue, expenses, and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and ensure that capital costs are allocated on the basis of long-term requirements, ensuring that growth pays for growth.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Financial Conditions

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

The Authority's total net assets increased from the prior year by \$555,368. The analysis below focuses on the Authority's net assets (Table I) and changes in net assets (Table 2) during the year.

	<u>December 31,</u>		(Decrease)	Increase/
	<u>2011</u>	<u>2010</u>	<u>From 2010</u>	<u>(Decrease)</u>
Current and Other Assets	\$ 3,842,068	\$ 3,557,532	\$ 284,536	8.0%
Noncurrent Assets	<u>19,646,344</u>	<u>20,134,132</u>	<u>(487,788)</u>	<u>(2.42%)</u>
Total Assets	<u>23,488,412</u>	<u>23,691,664</u>	<u>(203,252)</u>	<u>(.86)</u>
Current Liabilities	1,277,873	1,195,271	82,602	6.91%
Long-term Liabilities	<u>7,492,284</u>	<u>8,333,506</u>	<u>(841,222)</u>	<u>(10.09%)</u>
Total Liabilities	<u>8,770,157</u>	<u>9,528,777</u>	<u>(758,620)</u>	<u>(7.96)</u>
Invested in Capital Assets, Net of Debt	11,189,739	10,845,565	344,174	3.17%
Unrestricted	2,027,967	1,862,561	165,406	8.88%
Restricted	<u>1,500,549</u>	<u>1,454,761</u>	<u>45,788</u>	<u>3.15%</u>
Total Net Assets	<u>\$14,718,255</u>	<u>\$14,162,887</u>	<u>\$ 555,368</u>	<u>3.92%</u>

Total net assets increased 3.92%. This was a result of adopting a conservative balanced budget which provides for the continued payment of debt service principal in excess of annual depreciation and planned growth in operating and maintenance reserves.

Changes in the Authority's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table II
Condensed Statement of Revenue, Expenses and Changes in Net Assets

	December 31,		Increase/ (Decrease) From 2010	Percent of Increase/ (Decrease)
	2011	2010		
Revenue				
Operating Revenue	\$ 3,445,853	\$ 3,457,311	\$ (11,458)	(.33)%
Nonoperating Revenue	30,203	27,054	3,149	11.64%
Total Revenue	<u>3,476,056</u>	<u>3,484,365</u>	<u>(8,309)</u>	2.38%
Expense				
Water Transmission	862,864	880,865	(18,001)	(2.04)%
Sewer Disposal	1,031,720	945,297	86,423	9.14%
Amortization of Loss on Advanced Refunding	15,387	15,387	-	-
Depreciation	758,795	751,635	7,161	.95%
Interest Expense - Debt Service	251,922	269,418	(17,496)	(6.49)%
Total Expenses	<u>2,920,688</u>	<u>2,862,602</u>	<u>58,086</u>	2.03%
Increase in Net Assets	555,368	621,763	(66,395)	(10.68)%
Beginning Net Assets	14,162,887	13,541,124	621,763	4.59%
Ending Net Assets	<u>\$ 14,718,255</u>	<u>\$ 14,162,887</u>	<u>\$ 555,368</u>	3.92%

Results of Operations

Operating Revenue: Revenue from operations falls into several categories: water and sewer service fees and water and sewer connection fees. Both sewer and water rates were increased on January 6, 2011. The connection fees were unchanged. Water rent revenue decreased 4.41% from 2010. Sewer rent revenue increased 3.01% over 2010. Water connection fee revenue decreased \$100 over 2010. Sewer connection fee revenue increased \$400 over 2010.

Budgetary Highlights: The Authority did not amend its 2011 water or sewer operating budgets.

Nonoperating Revenue: The Authority's non-operating revenue increased 11.64% from 2010. The primary reason for the increase was an increase in interest income.

Expenses: The Authority operates two water systems and two sewerage systems. Operating and non-operating expenses for the water systems decreased \$18,001 or 2.04% over 2010. Operating and non-operating expenses for the sewer systems increased \$86,413 or 9.14% from 2010.

Capital Assets: As of December 31, 2011, the Authority had \$19.523 million invested in net capital assets, including land, two wastewater treatment plants, two sewage collection systems including seven pumping stations, two water distribution systems including five water storage tanks, fifteen wells and potable water treatment systems. The amount represents a decrease of \$472,401 over the prior year.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2011 and 2010. These changes are presented in detail in Note 3 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase/ (Decrease) 2010	Percent of Increase/ (Decrease)
	2011	2010		
Land	\$ 485,970	\$ 485,970		
Buildings/Treatment Plant	8,272,944	8,272,944		
Transmission Facilities	24,981,881	24,773,909	\$207,972	.84%
Equipment/Vehicles	270,995	192,573	78,422	40.72%
Office Furniture/Fixtures	27,807	27,807		
Total	<u>34,039,597</u>	<u>33,753,203</u>	<u>286,394</u>	.85%
Less:				
Accumulated Depreciation	<u>14,516,352</u>	<u>13,757,557</u>	<u>758,795</u>	5.52%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,523,245</u>	<u>\$ 19,995,646</u>	<u>\$ (472,401)</u>	(2.36)%

Cash Flow Activity: Cash and cash equivalents at year-end 2011 increased by \$273,425, or 8.34% from the previous year. The Authority maintains a healthy cash balance to meet future emergencies and capital requirements.

Final Comments: The Authority has developed future water supply sources to meet the increased demands of growth within its franchise areas and is developing another new source to permit the abandonment of older sources. Infrastructure improvements, and vehicle and equipment replacement continue to be a priority of the Authority. Upgrades to both the sewerage and water systems are planned as the systems age.

Long-Term Debt: At year end, the Authority had \$8,333,506 in debt outstanding -- a decrease of \$816,574 from last year, as shown in Table IV. More detailed information about the Authority's long-term debt is presented in Note 4 to the financial statements.

Table IV

	Outstanding Long-Term Debt			
	Dec. 31, 2011	Dec. 31, 2010	(Decrease) From 2010	Increase/ (Decrease)
Wastewater Revenue Bonds Payable	\$ 3,063,098	\$ 3,619,351	\$ (556,253)	(15.37%)
Water and Sewer Revenue Bonds Payable	<u>5,270,408</u>	<u>5,530,729</u>	<u>(260,321)</u>	(4.71%)
	<u>\$ 8,333,506</u>	<u>\$ 9,150,080</u>	<u>\$ (816,574)</u>	(8.92%)

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 1,984,649	\$ 1,670,287
Water and Sewer Charges Receivable (Net of Allowance for Uncollectible Receivables of \$10,000 in 2011 and 2010)	289,537	279,310
Prepaid Expenses	884	
Total Unrestricted Assets	<u>2,275,070</u>	<u>1,949,597</u>
Restricted Assets:		
Bond Reserve Account:		
Cash and Cash Equivalents	121,149	121,149
Renewal and Replacement Account:		
Cash and Cash Equivalents	81,847	81,847
General Account:		
Cash and Cash Equivalents	977,962	938,104
Debt Service Account (1998 Series A & B):		
Cash and Cash Equivalents	1,558	1,558
Bond Reserve Account (1998 Series A):		
Cash and Cash Equivalents	281,281	281,281
Bond Reserve Account (1998 Series B):		
Cash and Cash Equivalents	26,466	26,466
Escrow Deposits Account:		
Cash and Cash Equivalents	66,449	153,174
Bond Service Reserve Account (2005 Series):		
Cash and Cash Equivalents	1	1
Unemployment Compensation Account:		
Cash and Cash Equivalents	10,285	4,355
Total Restricted Assets	<u>1,566,998</u>	<u>1,607,935</u>
Total Current Assets	<u>3,842,068</u>	<u>3,557,532</u>
Noncurrent Assets:		
Capitalized Assets, Net	19,523,245	19,995,645
Unamortized Loss on Advanced Refunding	123,099	138,487
	<u>19,646,344</u>	<u>20,134,132</u>
TOTAL ASSETS	<u>\$ 23,488,412</u>	<u>\$ 23,691,664</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010
(Continued)

	2011	2010
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 222,914	\$ 68,303
Accrued Interest Payable	46,150	53,176
Payroll Taxes and Deductions Payable		2,464
Total Current Liabilities Payable from Unrestricted Assets	269,064	123,943
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable - Short-Term Portion	262,796	260,321
Wastewater Bonds Payable - Short-Term Portion	578,426	556,253
Escrow Deposits Payable	167,587	254,754
Total Current Liabilities Payable from Restricted Assets	1,008,809	1,071,328
Total Current Liabilities	1,277,873	1,195,271
Long-Term Liabilities:		
Revenue Bonds Payable - Long-Term Portion	5,007,612	5,270,408
Wastewater Bonds Payable - Long-Term Portion	2,484,672	3,063,098
Total Long-Term Liabilities	7,492,284	8,333,506
Total Liabilities	8,770,157	9,528,777
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	11,189,739	10,845,565
Unrestricted	2,027,967	1,862,561
Restricted:		
Debt Service	1,490,264	1,450,406
Other Purposes	10,285	4,355
Total Net Assets	14,718,255	14,162,887
TOTAL LIABILITIES AND NET ASSETS	\$ 23,488,412	\$ 23,691,664

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Water Charges	\$ 1,018,390	\$ 1,065,428
Sewer Charges	2,247,448	2,181,775
Connection Fees	18,975	18,675
Other Fees and Income	161,040	191,433
Total Operating Revenue	<u>3,445,853</u>	<u>3,457,311</u>
Operating Expenses:		
Water Transmission	862,864	880,865
Sewer Disposal	1,031,720	945,297
Unallocated Depreciation	758,795	751,635
Total Operating Expenses	<u>2,653,379</u>	<u>2,577,797</u>
Operating Income	<u>792,474</u>	<u>879,514</u>
Nonoperating Revenue (Expenses):		
Interest Income	30,203	27,054
Interest Expense - Debt Service	(251,922)	(269,418)
Amortization of Loss on Advance Refunding	(15,387)	(15,387)
Total Nonoperating Revenue (Expenses)	<u>(237,106)</u>	<u>(257,751)</u>
Increase in Net Assets	555,368	621,763
Net Assets, Beginning of Year	14,162,887	13,541,124
Net Assets, End of Year	<u>\$ 14,718,255</u>	<u>\$ 14,162,887</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF
THIS STATEMENT

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 3,255,611	\$ 3,240,903
Other Receipts and Disbursements	91,964	298,908
Cash Paid to Suppliers and Employees	(1,742,437)	(2,000,639)
Net Cash (Used) for Operating Activities	1,605,138	1,539,172
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Debt	(816,574)	(803,371)
Interest Expense	(258,946)	(275,940)
Purchase of Capital Assets	(286,396)	(350,730)
Net Cash (Used) for Capital and Related Financing Activities	(1,361,916)	(1,430,041)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	45,788	435,355
Transfers Out	(45,788)	(435,355)
Net Cash Used for Noncapital Financing Activities	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	30,203	27,054
Net Cash Provided by Investing Activities	30,203	27,054
Net Increase in Cash and Cash Equivalents	273,425	136,185
Cash and Cash Equivalents - Beginning of Year	3,278,222	3,142,037
Cash and Cash Equivalents - End of Year	\$ 3,551,647	\$ 3,278,222
Reconciliation of net operating Income to net cash provided by operating activities:		
Operating Income	\$ 792,474	\$ 879,514
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	758,795	751,635
Changes in Net Assets:		
(Increase) in Water and Sewer Charges Receivable	(10,227)	(6,300)
(Increase) in Prepaid Expenses	(884)	
(Decrease) in Payroll Taxes and Deductions Payable	(2,464)	(7,292)
Increase/(Decrease) in Escrow Deposits Payable	(87,167)	88,800
Increase/(Decrease) in Accounts Payable	154,611	(167,185)
Net Cash Provided by Operating Activities	\$ 1,605,138	\$ 1,539,172

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note 1 - Nature of Authority

The Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Washington on February 16, 1972.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the accumulation, supply or distribution of water and works for the collection, treatment, purification or disposal of sewerage or other wastes.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

Note 2: Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings and interest expense. The Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., totals assets net of total liabilities) are segregated into “invested in capital assets, net of related debt”; “restricted”; and “unrestricted” components.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In addition, certain legally separate tax-exempt entities that meet specific criteria (i.e., benefit of economic resources, access/entitlement to economic resources, and significances) should be included in the financial reporting entity. The Authority is a legally separate organization, whose members are appointed by the Council of the Township of Washington. Financial transactions are processed and accounted for by the Authority's financial administration. Accordingly, the Authority is not considered a component unit of the Township of Washington under the provisions of Governmental Accounting Standards Boards, Codification Section 2100. There were no additional entities required to be included in the reporting entity under the criteria as described above.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are deferred.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as non-operating revenue. The Authority was not awarded any grants in 2010 or 2011.

C. Inventories

The cost of inventories of supplies is recorded as an expenditure at the time individual items are purchased, since they are immaterial to the financial position and results of operations of the Authority.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

E. Accrued Sick and Vacation Benefits

The Authority permits employees to accrue a limited amount of unused vacation, which may be taken as time off through March of the following year. Half of all unused sick pay is paid at year end. The cost of such unpaid compensation would be included in the Authority's operating expenditures in the year in which it is paid.

F. Net Assets

Net assets are classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted – consists of constraints placed on net asset use through external constraints imposed by the 1995, 1998 and 2005 Bond Resolutions.
3. Unrestricted – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

G. Restricted Accounts

The Authority has established a restricted escrow account to hold the cash portion of performance bonds required to be posted by developers whose work affects the Authority. The security portion of such deposits, together with interest earned on that portion, is refunded to the developer, once the work has been satisfactorily completed. At December 31, 2011, \$167,587 was restricted for this purpose and \$66,449 was held for cash and cash equivalents. The amount held for this purpose is less than the amount restricted due to other related expenses being paid from this account in prior years.

In accordance with the provisions of the July 1, 1995, October 1, 1998, and December 15, 2005 bond sales, the Authority has established restricted cash accounts for the following purposes:

Bond Reserve and Services Accounts - The Authority is required to segregate the next year's average annual debt service requirement. At December 31, 2011, \$428,897 was held for this purpose.

Renewal and Replacement Account - The Authority has segregated \$81,847 at December 31, 2011 for the renewal and replacement of Authority fixed capital.

Debt Service Account - The Authority is required to segregate on a monthly basis 1/6th of the next semi-annual interest payment due and 1/12th of the next annual principal payment due. At December 31, 2011, \$1,558 was held for this purpose.

Bond General Account - Restricted bond account to be used after the other restricted bond accounts have been satisfied. This account will be used for bond sale provisions. At December 31, 2011, \$977,962 was held for this purpose.

The Authority also has \$10,285 held for unemployment compensation at December 31, 2011.

H. Revenue Recognition

The Authority has service agreements with Washington Township and Tewksbury Township. The majority of the Authority's customers are residential. However, there are several commercial customers who are charged a different usage rate. All customers are billed quarterly based on actual usage readings. Estimates based on prior usage are utilized where actual readings cannot be obtained. Adjustments for actual usage are applied to the following quarter's bill or to the first quarter for which an actual reading can be obtained. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 3: Capital Assets

Capital assets , balances and activity for the year ended December 31, 2011 were as follows:

	<u>2010</u>	<u>Additions</u>	<u>2011</u>
Land	\$ 485,970		\$ 485,970
Buildings/Treatment Plant	8,272,944		8,272,944
Transmission Facilities	24,773,909	\$ 207,972	24,981,881
Equipment/Vehicle	192,573	78,422	270,995
Office Furniture/Fixtures	27,807		27,807
Total	<u>33,753,203</u>	<u>286,394</u>	<u>34,039,597</u>
Accumulated Depreciation	<u>(13,757,557)</u>	<u>(758,795)</u>	<u>(14,516,352)</u>
	<u>\$19,995,646</u>	<u>\$ (472,401)</u>	<u>\$19,525,245</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets were reviewed for impairment.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

	<u>Estimated Useful Life</u>
Building - Administration	40 Years
Treatment Plant	40 Years
Transmission Facilities	40 Years
Equipment/Vehicles	5 Years
Office Furniture/Fixtures	5 Years

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 4: Long-Term Debt

On July 1, 1995, the Authority issued its "Water and Sewer Revenue Refunding Bonds (1995 Series A)" in the amount of \$4,795,000. The Bonds were issued to provide funds: (i) to currently refund \$1,770,000 principal amount of Water and Sewer Revenue Bonds (Series A) (being those bonds maturing December 15, 1995 and thereafter) (the "1986 Series A Bonds"); (ii) to advance refund \$2,565,000 outstanding principal amount of Water and Sewer Revenue Bonds (Series B) (being those bonds maturing on and after December 15, 1995) (the "1990 Series B Bonds") which have been issued by the Authority for or with respect to the Authority's System and which are presently outstanding; (iii) to pay the cost of a bond insurance premium and (iv) to pay the costs and expenses incidental to the issuance and delivery of the Bonds.

On November 1, 1996, the Authority issued its "1996 Wastewater Trust Financing Bonds" in the amount of \$9,263,203. The bonds were issued to provide funds to construct a .3 million gallon per day wastewater treatment plant to serve the Parker Acres and Long Valley Center area of the Township, and construction and installation of a sanitary sewage collection system in the Long Valley area of the Township, including pumping stations and force mains, together with all necessary and incidental laterals, manholes, fittings, connections, equipment, apparatus, structures and appurtenances and including all real property or rights-of-way, easements and other interests therein, and all personal property necessary or desirable for the efficient construction and operation of such facilities.

During 2005, the Authority issued \$2,265,000 refunding bonds dated December 15, 2005 with interest rates ranging from 3.00% to 4.00%. The proceeds of these bonds were used to refund \$2,215,000 of the Authority's 1995 Series A bonds, make a deposit to the bond reserve fund and pay certain costs of issuance in connection with the refunding bonds. The refunding met the requirements of an in-substance debt defeasance and the 1995 Series A Bonds were removed from the Authority's government-wide financial statements.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 4: Long-Term Debt (Cont'd)

Maturity Schedule Giving Effect to the
"Water and Sewer Revenue Refinancing Bonds (of 2005)"

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.00%	\$145,000	\$51,600	\$196,600
2013	4.00%	150,000	45,800	195,800
2014	4.00%	155,000	39,800	194,800
2015	4.00%	165,000	33,600	198,600
2016	4.00%	170,000	27,000	197,000
2017	4.00%	180,000	20,200	200,200
2018	4.00%	180,000	13,000	193,000
2019	4.00%	145,000	5,800	150,800
		<u>1,290,000</u>	<u>236,800</u>	<u>1,526,800</u>
Less: Short-Term Portion		<u>145,000</u>	<u>51,600</u>	<u>196,600</u>
Long-Term Portion		<u>\$ 1,145,000</u>	<u>\$ 185,200</u>	<u>\$ 1,330,200</u>

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 4: Long-Term Debt (Cont'd)

Maturity Schedule Giving Effect to the 1996 Wastewater Trust Financing Bonds

<u>Year</u>	<u>Fund Loan Principal</u>	<u>Trust Loan Principal</u>	<u>Total Principal</u>	<u>Trust Loan Interest</u>	<u>Total Debt Service</u>
2012	\$248,426	\$330,000	\$578,426	\$95,812	\$674,238
2013	247,070	345,000	592,070	78,488	670,558
2014	248,171	365,000	613,171	60,375	673,546
2015	245,742	380,000	625,742	41,212	666,954
2016	248,689	405,000	653,689	10,631	664,320
	<u>1,238,098</u>	<u>1,825,000</u>	<u>3,063,098</u>	<u>286,518</u>	<u>3,349,616</u>
Less:					
Short-Term Portion	<u>248,426</u>	<u>330,000</u>	<u>578,426</u>	<u>95,812</u>	<u>674,238</u>
Long-Term Portion	<u>\$ 989,672</u>	<u>\$ 1,495,000</u>	<u>\$ 2,484,672</u>	<u>\$ 190,706</u>	<u>\$ 2,675,378</u>

On October 1, 1998, the Authority issued \$4,285,066 "Water and Sewer Revenue (1998 Series A) (Capital Appreciation Bonds)" and \$490,000 "Water and Sewer Revenue Bonds (1998 Series B)" for a total of \$4,775,066. The Bonds were issued to provide bonds: (i) to currently refund and permanently finance \$3,765,000 principal amount of 1996 Project Notes (Series C) maturing October 15, 2000; (ii) to pay the costs of sewer and water system improvements; (iii) to make a deposit to the Bond Reserve Fund; (iv) to pay the cost of a bond insurance premium; and (v) to pay the costs and expenses incidental to the issuance and delivery of the Bonds.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 4: Long-Term Debt (Cont'd)

Maturity Schedule Giving Effect to the
"Water and Sewer Revenue Refunding Bonds (1998 Series A&B)"

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.60%	\$117,796	\$89,773	\$207,569
2013	4.80%	117,796	96,174	213,970
2014	4.85%	110,264	100,130	210,394
2015	4.875%	108,151	104,489	212,640
2016	4.90%	104,703	100,127	204,830
2017	4.90%	370,261	507,959	878,220
2018	4.90%	354,892	526,718	881,610
2019	4.90%	301,484	538,516	840,000
2020	4.95%	356,875	698,125	1,055,000
2021	5.00%	336,028	718,972	1,055,000
2022	5.00%	319,834	735,166	1,055,000
2023	5.00%	304,420	750,580	1,055,000
2024	5.00%	289,756	765,244	1,055,000
2025	5.00%	275,788	779,212	1,055,000
2026	5.00%	262,505	792,495	1,055,000
2027	5.00%	249,855	805,145	1,055,000
		<u>3,980,408</u>	<u>8,108,825</u>	<u>12,089,233</u>
Less: Short-Term Portion		<u>117,796</u>	<u>89,773</u>	<u>207,569</u>
Long-Term Portion		<u>\$ 3,862,612</u>	<u>\$ 8,019,052</u>	<u>\$ 11,881,664</u>

Note 5: Pension

Authority employees are enrolled in the Public Employees' Retirement System (PERS) of New Jersey. The State of New Jersey sponsors and administers the plan which covers substantially all Authority employees. As a general rule, all full-time employees are eligible to join the public employees' retirement system.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 5: Pension (Cont'd)

Employees who are members of PERS and retire at a specific age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" during years of creditable service. Vesting occurs after 8 to 10 years of service.

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

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Effective with the first payroll to be paid on or after October 1, 2011 the employee contributions for PERS went from 5.5% to 6.5% of employees annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in the Fund. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to the plan amounted to \$51,143, \$35,420, and \$38,137, for 2011, 2010 and 2009, respectively.

Note 6: Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures*, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
 (Continued)

Note 6: Cash and Cash Equivalents (Cont'd)

Interest Rate Risk – In accordance with its cash management plan, the Authority ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed below and on the following page.

Deposits:

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of public funds; and

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 6: Cash and Cash Equivalents (Cont'd)

- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2011, cash and cash equivalents of the Washington Township Municipal Utilities Authority consisted of the following:

<u>Account</u>	Checking, Savings & Money Market Accounts	Certificate of Deposit	<u>Total</u>
Unrestricted	\$ 1,909,649	\$ 75,000	\$ 1,984,649
Bond Reserve	121,149		121,149
Renewal and Replacement	81,847		81,847
General Account	977,962		977,962
Unemployment Compensation	10,285		10,285
Escrow Deposit	66,449		66,449
Debt Service Account (1998 Series A & B)	1,558		1,558
Bond Reserve account (1998 Series A)	281,281		281,281
Bond Reserve account (1998 Series B)	26,466		26,466
Bond Service Reserve (2005 Series)	1		1
	<u>\$ 3,476,647</u>	<u>\$ 75,000</u>	<u>\$ 3,551,647</u>

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 6: Cash and Cash Equivalents (Cont'd)

During the year ended December 31, 2011 the Authority did not hold any investments, other than the \$75,000 Certificate of Deposit. The carrying amount of the Washington Township Municipal Utilities Authority's cash and cash equivalents at year end was \$3,476,647 and the bank balance was \$3,488,933.

Note 7 - Loss on Advance Refunding (2005 Series)

During 2005, the Authority issued Water and Sewer Revenue Refunding Bonds (2005 Series) for \$2,265,000 with interest rates which range from 3.00% to 4.00%. These Bonds were issued to 1) refund \$2,215,000 principal amount of Water and Sewer Revenue Bonds (1995 Series A) (being those bonds maturing December 15, 2005 and thereafter), 2) to make a deposit to the bond reserve fund, and 3) to pay the costs and expenses incidental to the issuance and delivery of the Bonds. The net proceeds of \$2,820,059 (which includes funds previously on hand of \$526,595 and after payment of \$111,925 in underwriting fees and other issuance costs and \$113,250 deposited into the Bonds Reserve Fund) were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 Series A Bonds. As a result, the 1995 Series A Bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets.

Although the advance refunding resulted in the recognition of an accounting loss of \$101,688 for the year ended December 31, 2005, the Authority reduced its aggregate debt service payments by approximately \$648,038 over the next 14 years, and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$301,418.

The loss on the advance refunding of \$101,688 is being amortized over the life of the issue of 14 years on a straight-line basis. During 2011, \$7,263 was amortized. The unamortized Loss on Advance Refunding balance was \$58,107 at December 31, 2011.

Note 8 - Loss on Advance Refunding (1995 Series A)

During 1995, the Authority issued Water and Sewer Revenue Refunding Bonds (1995 Series A) for \$4,795,000 with interest rates which range from 3.75% to 5.625%. These Bonds were issued to 1) currently refund \$1,770,000 principal amount of Water and Sewer Revenue Bonds (Series A) (being those bonds maturing December 15, 1995 and thereafter) (the "1986 Series A Bonds"); 2) to advance refund \$2,565,000 outstanding principal amount of Water and Sewer Revenue Bonds (Series B) (being those bonds maturing on and after December 15, 1995 (the "1990 Series B Bonds") which have been issued by the Authority for or with respect to the Authority's System and which are presently outstanding; 3) to pay the cost of a bond insurance premium; and 4) to pay the costs and expenses incidental to the issuance and delivery of the Bonds. The net proceeds of \$4,658,202 (which includes funds previously on hand of \$235,031 and after payment of \$213,148 in underwriting fees and other issuance costs and \$158,681 deposited into the Bond Reserve Fund) were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1986 and 1990 Series Bonds. As a result, the 1986 and 1990 Series Bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

(Continued)

Note 8 - Loss on Advance Refunding (1995 SeriesA) (Cont'd)

Although the advance refunding resulted in the recognition of an accounting loss of \$199,038 for the year ended December 31, 1995, the Authority reduced its aggregate debt service payments by approximately \$464,000 over the next 25 years, and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$291,262.

The loss on the advance refunding of \$199,038 is being amortized over the life of the issue of 24-1/2 years on a straight-line basis. During 2011, \$8,124 was amortized. The unamortized Loss on Advance Refunding balance was \$64,992 at December 31, 2011.

Note 9 - Recognition of Depreciation Expense Versus Bond Principal for Budget Purposes

The State of New Jersey Local Finance Board's "Budget Manual for Local Public Authorities" allows authorities to either budget for depreciation expense or bond principal. In the official budget document submitted to the State, the Authority budgeted \$818,574 for bond principal in lieu of depreciation expense. In the Authority's internal budget document, both bond principal of \$818,574 and depreciation expense of \$758,795 were included. The actual depreciation expense is therefore not reflected on the supplementary "Schedule of Water and Sewer Operating Fund Revenue and Expenditures Compared to Budget" since it was not budgeted for on the state budget document.

Note 10 - Risk Management

The Authority is exposed to various risks of loss related torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Health benefits are provided to employees through the State of New Jersey health benefits plan.

The Authority is currently a member of the Public Alliance Insurance Coverage Fund (the "Fund"). The Fund provides their members with Liability, Property and Workers' Compensation Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self administered group of governmental entities established for the purpose of providing low-cost insurance coverage for their respective members in order to keep expenses at a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Funds are elected.

The following coverages are offered by the Fund to its members:

- a) Workers' Compensation and Employers Liability
- b) Liability Other Than Motor Vehicles
- c) Property Damage Other Than Motor Vehicles
- d) Motor Vehicle
- e) Environmental

As a member of the Fund, the Authority could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 10 - Risk Management (Cont'd)

The December 31, 2011 audit report of the Fund is not available as of the date of this report.

Selected, summarized financial information for the Fund as of December 31, 2010 is as follows:

	<u>Public Alliance Insurance Coverage Dec. 31, 2010</u>
Total Assets	\$ 12,473,920
Net Assets	\$ 3,500,192
Total Revenue	\$ 9,633,163
Total Expenses	\$ 9,433,058
Changes in Net Assets	\$ 200,105
Net Asset Distribution to Participating Members	\$ -

Financial statements for the Fund are available at the office of the Fund's Executive Director:

Public Alliance Insurance Coverage Fund

Public Entity Group Administrative Services
51 Everett Drive
Suite B-40
West Windsor, NJ 08550
(609) 275-1155

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.

Note 11: Intraentity and Interfund Transfers

In the normal course of business, the Authority will, from time to time, authorize advances between accounts. During 2011, the Authority transferred \$45,788 between restricted and unrestricted accounts based on the bond provisions. There were no advances outstanding as of December 31, 2011.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

(Continued)

Note 12: Contractual Commitments

The Authority has entered into several contracts in the normal course of its business operations to provide sewer service for its customers including other local governments. Below is a summary of the significant contracts or agreements:

- The Authority has extended its annual needs contract for transportation and disposal of liquid sludge to Accurate Waste. The cost for service is \$0.0274 per gallon. In this one year contract, the Authority reserves the right to extend the contract for two additional one year periods or one additional two year period.
- The Authority has an ongoing contract with Passaic Valley Sewerage Commissioners for disposal services of residual sludge waste. The cost of this service is \$0.040 per gallon.
- The Authority has inter-municipal service agreements with other local government agencies, namely:
 1. The Township of Washington
 2. The Township of Tewksbury

Note 13: Accounts Payable

Accounts payable were as follows:

	2011	2010
Vendors	\$ 222,914	\$ 68,303

Note 14: Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenditures, net assets, financial condition or competitive position of the Authority. The Authority believes that their current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a noncapital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

Note 15: Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority may participate in federal and state assisted grant programs. These programs would be subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

WASHINGTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY

SUPPLEMENTARY DATA

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	Unrestricted	Restricted	Invested in Capital Assets, Net of Related Debt	Memo Total	
				2011	2010
Operating Revenue:					
Water Charges	\$ 1,018,390			\$ 1,018,390	\$ 1,065,428
Sewer Charges	2,247,448			2,247,448	2,181,775
Connection Fees	18,975			18,975	18,675
Other Income	161,040			161,040	191,433
Total Operating Revenue	<u>3,445,853</u>			<u>3,445,853</u>	<u>3,457,311</u>
Operating Expenses:					
Water Transmission	862,864			862,864	880,865
Sewer Disposal	1,031,720			1,031,720	945,297
Depreciation	758,795			758,795	751,635
Total Operating Expenses	<u>2,653,379</u>			<u>2,653,379</u>	<u>2,577,797</u>
Operating Income	<u>792,474</u>			<u>792,474</u>	<u>879,514</u>
Nonoperating Revenue (Expenses):					
Interest Earned on Investments	30,203			30,203	27,054
Interest Expense - Debt Service	(251,922)			(251,922)	(269,418)
Amortization of Loss on Advance Refunding	(15,387)			(15,387)	(15,387)
Total Nonoperating Revenue (Expenses)	<u>(237,106)</u>			<u>(237,106)</u>	<u>(257,751)</u>
Increase in Net Assets (Before Transfers)	<u>555,368</u>			<u>555,368</u>	<u>621,763</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)
 (continued)

	Unrestricted	Restricted	Invested in Capital Assets, Net of Related Debt	Memo Total	
				2011	2010
Transfers:					
Capital Acquisitions	\$ (286,395)		\$ 286,395		
Principal Paid on Debt Service	(816,574)		816,574		
Depreciation	758,795		(758,795)		
Designated per Bond Sale Provisions	<u>(45,788)</u>	\$ 45,788			
Increase in Net Assets (After Transfers)	165,406	45,788	344,174	\$ 555,368	\$ 621,763
Net Assets, January 1	<u>1,862,561</u>	<u>1,454,761</u>	<u>10,845,565</u>	<u>14,162,887</u>	<u>13,541,124</u>
Net Assets, December 31	<u>\$ 2,027,967</u>	<u>\$ 1,500,549</u>	<u>11,189,739</u>	<u>\$ 14,718,255</u>	<u>\$ 14,162,887</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF SEWER OPERATING FUND REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011 Final Budget	2011 Actual	Excess or (Deficit)	2010 Actual
Revenue:				
Operating Revenues:				
Service Fees	\$ 2,255,976	\$ 2,247,448	\$ (8,528)	\$ 2,181,775
Connection Fees	31,600	16,400	(15,200)	16,000
Total Operating Revenues	<u>2,287,576</u>	<u>2,263,848</u>	<u>(23,728)</u>	<u>2,197,775</u>
Non-Operating Revenues:				
Interest on Investments	1,785	28,988	27,203	24,997
Other Non-Operating Revenue	119,854	136,193	16,339	164,146
Total Non-Operating Revenue	<u>121,639</u>	<u>165,181</u>	<u>43,542</u>	<u>189,143</u>
Total Revenue	<u>2,409,215</u>	<u>2,429,029</u>	<u>19,814</u>	<u>2,386,918</u>
Budgeted Appropriations:				
Administration:				
Salaries & Wages	98,708	77,397	21,311	73,586
Fringe Benefits	29,543	22,180	7,363	26,662
Other Expenses	149,601	102,415	47,186	112,363
Total Administration	<u>277,852</u>	<u>201,992</u>	<u>75,860</u>	<u>212,611</u>
Cost of Providing Service:				
Salaries & Wages	534,769	467,277	67,492	231,530
Fringe Benefits	119,312	113,889	5,423	86,548
Other Expenses	249,976	248,562	1,414	414,608
Total Cost of Providing Service	<u>904,057</u>	<u>829,728</u>	<u>74,329</u>	<u>732,686</u>
Total Principal Payments on Debt Service in Lieu of Depreciation	<u>737,574</u>	<u>735,574</u>	<u>2,000</u>	<u>724,372</u>
Total Operating Appropriations	<u>1,919,483</u>	<u>1,767,294</u>	<u>152,189</u>	<u>1,669,669</u>
Non-Operating Appropriations:				
Bond Interest Expense	227,567	229,142	(1,575)	231,778
Operations and Maintenance Reserve	262,165		262,165	
Total Non-Operating Appropriations	<u>489,732</u>	<u>229,142</u>	<u>260,590</u>	<u>231,778</u>
Total Appropriations	<u>\$ 2,409,215</u>	<u>\$ 1,996,436</u>	<u>\$ 412,779</u>	<u>\$ 1,901,447</u>
Operating Expenses		\$		\$ 945,297
Debt Service in Lieu of Depreciation		1,031,720		724,372
Bond Interest Expense		<u>229,142</u>		<u>231,778</u>
		<u>\$ 1,996,436</u>		<u>\$ 1,901,447</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF WATER OPERATING FUND REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011 Final Budget	2011 Actual	Excess or (Deficit)	2010 Actual
Revenue:				
Operating Revenues:				
Service Fees	\$ 1,108,513	\$ 1,018,390	\$ (90,123)	\$ 1,065,428
Connection Fees	10,300	2,575	(7,725)	2,675
Total Operating Revenues	<u>1,118,813</u>	<u>1,020,965</u>	<u>(97,848)</u>	<u>1,068,103</u>
Non-Operating Revenues:				
Interest on Investments	2,264	1,215	(1,049)	2,057
Other Non-Operating Revenue	21,322	24,847	3,525	27,287
Total Non-Operating Revenue	<u>23,586</u>	<u>26,062</u>	<u>2,476</u>	<u>29,344</u>
Total Revenue	<u>1,142,399</u>	<u>1,047,027</u>	<u>(95,372)</u>	<u>1,097,447</u>
Budgeted Appropriations:				
Administration:				
Salaries & Wages	148,061	144,842	3,219	135,182
Fringe Benefits	45,632	38,298	7,334	44,129
Other Expenses	166,626	120,417	46,209	134,989
Total Administration	<u>360,319</u>	<u>303,557</u>	<u>56,762</u>	<u>314,300</u>
Cost of Providing Service:				
Salaries & Wages	404,185	329,125	75,060	162,978
Fringe Benefits	66,931	62,795	4,136	42,479
Other Expenses	166,200	167,387	(1,187)	361,108
Total Cost of Providing Service	<u>637,316</u>	<u>559,307</u>	<u>78,009</u>	<u>566,565</u>
Total Principal Payments on Debt Service in Lieu of Depreciation	81,000	81,000		79,000
Total Operating Appropriations	<u>1,078,635</u>	<u>943,864</u>	<u>134,771</u>	<u>959,865</u>
Non-Operating Appropriations:				
Bond Interest Expense	34,380	22,780	11,600	37,640
Operations and Maintenance Reserve	29,384		29,384	
Total Non-Operating Appropriations	<u>63,764</u>	<u>22,780</u>	<u>40,984</u>	<u>37,640</u>
Total Appropriations	<u>\$ 1,142,399</u>	<u>\$ 966,644</u>	<u>\$ 175,755</u>	<u>\$ 997,505</u>
		Operating Expenses	\$ 862,864	\$ 880,865
		Debt Service in Lieu of Depreciation	81,000	79,000
		Bond Interest Expense	22,780	37,640
		\$	<u>966,644</u>	<u>\$ 997,505</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF WATER AND SEWER REVENUE BONDS PAYABLE

	Original		Interest Rate	Maturities		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
Refinancing Issue of 2005	12/15/05	\$ 2,265,000	4.00%	12/15/2012	\$ 145,000	\$ 1,430,000	\$ 140,000	\$ 1,290,000
			4.00%	12/15/2013	150,000			
			4.00%	12/15/2014	155,000			
			4.00%	12/15/2015	165,000			
			4.00%	12/15/2016	170,000			
			4.00%	12/15/2017	180,000			
			4.00%	12/15/2018	180,000			
			4.00%	12/15/2019	145,000			
Issue of 1998 - Series A +B	10/1/98	4,775,066	4.60%	12/15/2012	117,796	4,100,729	120,321	3,980,408
			4.80%	12/15/2013	117,796			
			4.85%	12/15/2014	110,264			
			4.875%	12/15/2015	108,151			
			4.90%	12/15/2016	104,703			
			4.90%	12/15/2017	370,261			
			4.90%	12/15/2018	354,892			
			4.90%	12/15/2019	301,484			
			4.95%	12/15/2020	356,875			
			5.00%	12/15/2021	336,028			
			5.00%	12/15/2022	319,834			
			5.00%	12/15/2023	304,420			
			5.00%	12/15/2024	289,756			
			5.00%	12/15/2025	275,788			
			5.00%	12/15/2026	262,505			
			5.00%	12/15/2027	249,855			
						<u>\$ 5,530,729</u>	<u>\$ 260,321</u>	<u>\$ 5,270,408</u>
Balance Comprised of:								
Short - term portion						\$ 260,321	\$ -2,475	\$ 262,796
Long - term portion						<u>5,270,408</u>	<u>262,796</u>	<u>5,007,612</u>
						<u>\$ 5,530,729</u>	<u>\$ 260,321</u>	<u>\$ 5,270,408</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY WASTEWATER TREATMENT FINANCING BONDS PAYABLE

Balance January 1, 2011	\$ 3,619,351
Less - Bonds Matured	<u>556,253</u>
Balance December 31, 2011	<u>\$ 3,063,098</u>

Analysis of Balance @ 12-31-11

<u>Year</u>	<u>Total</u>	<u>Fund Loan Principal</u>	<u>Trust Loan Principal</u>
2012	\$ 578,426	\$ 248,426	\$ 330,000
2013	592,070	247,070	345,000
2014	613,171	248,171	365,000
2015	625,742	245,742	380,000
2016	653,689	248,689	405,000
	<u>\$ 3,063,098</u>	<u>\$ 1,238,098</u>	<u>\$ 1,825,000</u>

Balance Comprised of:

Short-term portion	\$ 578,426	\$ 248,426	\$ 330,000
Long-term Portion	<u>2,484,672</u>	<u>989,672</u>	<u>1,495,000</u>
	<u>\$ 3,063,098</u>	<u>\$ 1,238,098</u>	<u>\$ 1,825,000</u>

WASHINGTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY

GOVERNMENT AUDITING STANDARDS SECTION

YEAR ENDED DECEMBER 31, 2011



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Honorable Chairman and Members
of the Washington Township Municipal
Utilities Authority
Long Valley, NJ

We have audited the financial statements of the Washington Township Municipal Utilities (the "Authority") as of, and for the years ended, December 31, 2011 and 2010 and have issued our report thereon dated March 2, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the auditing requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Honorable Chairman and Members
of the Washington Township Municipal
Utilities Authority
Page 2

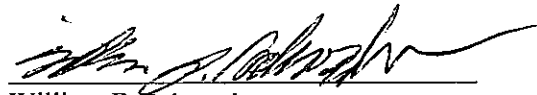
Compliance and Other Matters

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

This report is intended solely for the information and use of management, and to meet the requirements for filing with the Division, and federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than those specified parties.

Mt. Arlington, New Jersey
March 2, 2012

NISIVOCCIA LLP



William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant #452

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Summary of Auditors' Results:

- An unqualified report was issued on the Authority's financial statements.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of the Authority.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of the Authority.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

The Authority had no prior year audit findings.

COMMENTS AND RECOMMENDATIONS

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required Advertisement for Bids

N.J.S.A. 40A:11-3 states:

a. " 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. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, C.198 (N.J.S.A. 40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S.A. 40A: 11-4 states: "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. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective January 1, 2011 bid threshold in accordance with N.J.S.A 40A:11-3 and 40A:11-4 (as amended) is \$17,500 and with a qualified purchasing agent the threshold may be up to \$36,000.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where questions arise as to whether any contract or agreement might result in violation of the statute, the Authority Attorney's opinion should be sought before a commitment is made.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required Advertisement for Bids (Cont'd)

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Analysis of Escrow Deposits Payable

The Authority currently does not maintain an analysis by individual of its escrow deposits payable. When an individual requests a refund of their deposit on a completed project, the Authority must research that individual's transactions to determine the amount to be refunded.

It is recommended that an analysis by individual of escrow deposits payable be prepared and reconciled to the general ledger on a monthly basis.

Management's Response

The Authority continued to analyze the activity in escrow deposits payable during 2011, but did not complete it. The Authority will attempt to finalize the analysis of the activity in the escrow deposits payable account by individual during the year 2012.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. An analysis by individual of escrow deposits payable be prepared and reconciled to the general ledger on a monthly basis.

* * * * *