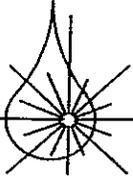


WASHINGTON TOWNSHIP MUNICIPAL
UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012 AND 2011

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2012

	<u>Page</u>
<u>INTRODUCTORY SECTION (Unaudited)</u>	
Letter of Transmittal	1-3
Organizational Chart	4
Roster of Officials	5
 <u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-7
 <u>Financial Statements</u>	
Comparative Statement of Net Assets	8-9
Comparative Statement of Revenue, Expenses and Changes in Net Assets	10
Comparative Statement of Cash Flows	11
 Notes to Financial Statements	 12-28
	 <u>Schedule</u>
 <u>Supplementary Information</u>	
Schedule of Revenue, Expenses and Changes in Net Assets – Restricted and Unrestricted Funds	1-2
Schedule of Sewer Operating Fund Revenue and Expenditures Compared to Budget	3
Schedule of Water Operating Fund Revenue and Expenditures Compared to Budget	4
Schedule of Water and Sewer Revenue Bonds Payable	5
Schedule of New Jersey Wastewater Financing Bonds Payable	6
 <u>GOVERNMENT AUDITING STANDARDS SECTION</u>	
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	1-2
Schedule of Findings and Responses	3
Summary Schedule of Prior Audit Findings	4
Comments and Recommendations	5-6
Summary of Recommendations	7

INTRODUCTORY SECTION



WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

PO Box 226 - 46 E. Mill Road
Long Valley, NJ 07853

• WASTEWATER TREATMENT • PUBLIC WATER SUPPLY •

Phone: (908) 876-3145
Fax: (908) 876-5528

March 22, 2013

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, 2012 and 2011, 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.

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2012, the Authority experienced the following in the administrative area:

- An employee of the Authority passed the Qualified Purchasing Agent (QPA) certification and was appointed as the QPA for the Authority. The Authority's bid threshold was raised to \$36,000.
- Vendor compliance has been fully implemented and all vendors are now compliant with purchasing requirements.
- The billing and finance software have been installed. The utility billing has been fully implemented. The financial implementation was scheduled for the end of the year and will be fully operational by mid-year 2013.

The Honorable Chairman and Members
of the Washington Township Municipal Utilities Authority
Page 2
March 22, 2013

- The Authority continued its proactive and preventative maintenance program for both the water and sewer division. 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 2012, the Authority's water division was involved in the following:

- The testing has been completed for the new well in the Schooley's Mountain water system. The application will be submitted to the DEP in Spring of 2013 and it is expected that the new well will be operational in 2015, improving production capability and reliability of the system.
- The installation program for radio read meters is ongoing. With the upgrade to automated read meters to all customers' residences, man power will be reduced and customer service will improve with more usage data. It is expected that all meters within both water systems will be installed as of 2017. Additionally a drive by radio receiver was acquired in 2012, further reducing meter reading time for automated reads.
- The pumps were replaced at SM10 and LV03 due to failure.
- The water extension into Chester Township due to the contamination from the Combe South Landfill is ongoing. Improvements to the Long Valley water system are anticipated with this extension in order to be able to service the addition of approximately 70 new connections.
- The bid for Grove Street Pump station was in the final stages of modification. The Authority is anticipating going out for bid in 2013. This project is a requirement of the DEP to connect the homes that are currently serviced by LV02 to another water source. LV02 was fed by the reservoir that was taken out of service due to ground water infiltration. The reservoir was by passed with a tanker. With the additional of the pump station, residents will receive their water from the Long Valley (Hager) water system which will be pumped to their homes through the pump station. LV02 and the reservoir will be abandoned and the tanker removed.

During 2012, 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 cost.
- The Authority began exploring improvements to the Schooley's Mountain plant with the intent to generate cost savings and improve working conditions.
- An order was placed for a hardware upgrade to the SCADA system for the Long Valley Sewer plant to replace outdated hardware and improve communications with the sewer plant equipment. The installation is expected to take place in 2013.
- A Long Valley plant sewage pump was replaced due to failure.
- Replacement of sand media for the filter system at the Long Valley plant.
- Improvements to Ashwood Pump Station were completed to improve efficiency of approximately 50 percent.

The Honorable Chairman and Members
of the Washington Township Municipal Utilities Authority
Page 3
March 22, 2013

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.

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.

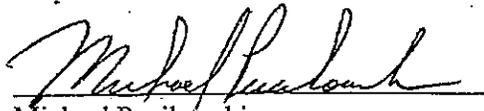
OTHER INFORMATION:

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' report related specifically to *Government Auditing Standards* is included in the *Government Auditing Standards* section of this report.

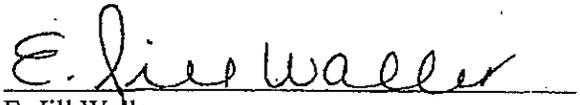
ACKNOWLEDGEMENTS:

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.

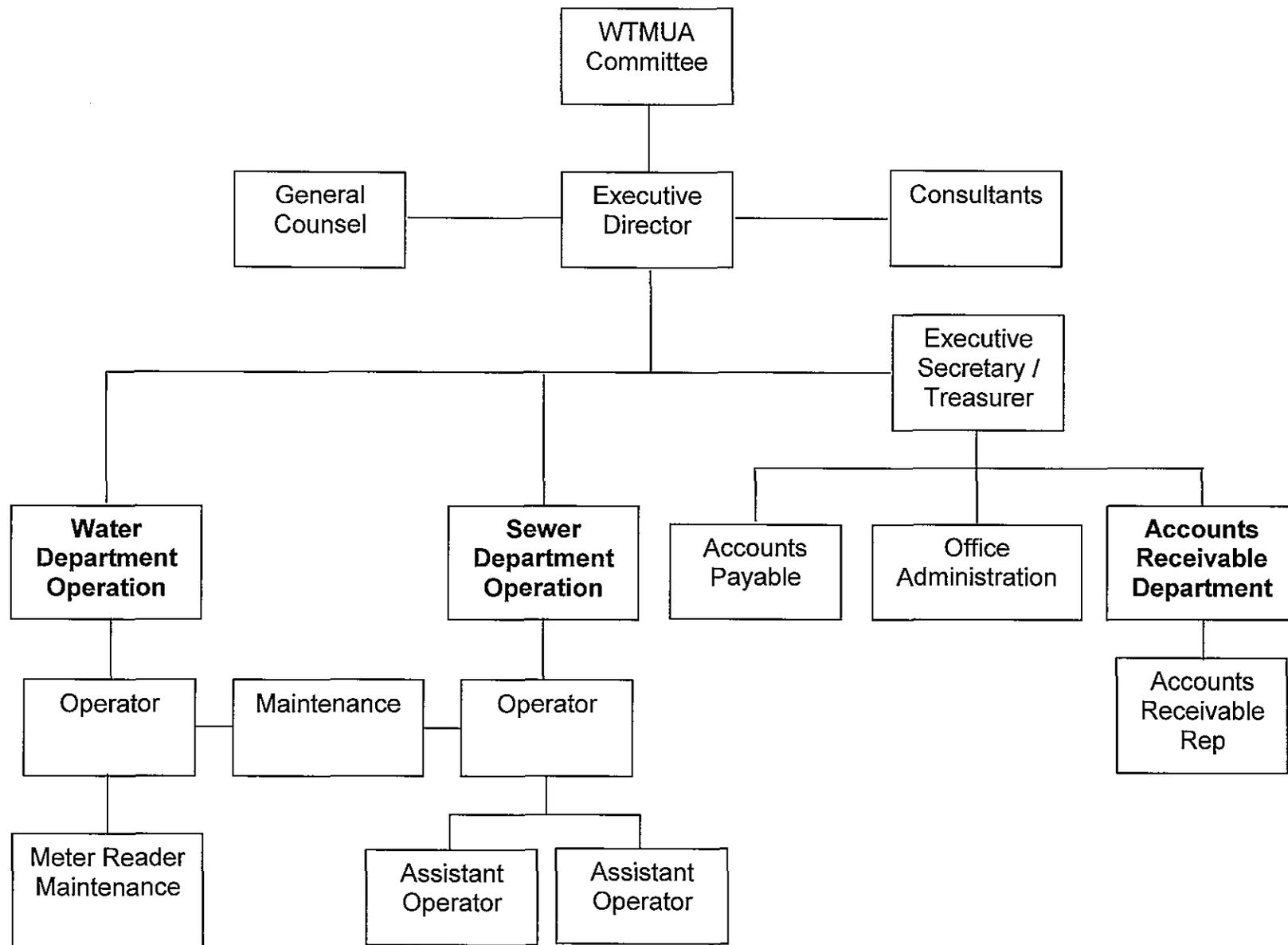
Respectfully submitted,



Michael Pucilowski
Executive Director



E. Jill Waller
Secretary



**WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2012**

Board Members

Walt Cullen	Chairman
Mark Napolitano	Vice Chairman
Vincent Kramer	Board Member Alternate 1
Donald Babb	Board Member Alternate 2
Howard Popper	Board Member
Sam Akin	Board Member
Joseph Mascott	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



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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington Township, (the "Authority"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the foregoing 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; 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.

Auditors' Responsibility

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, audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Authority'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 Authority's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Authority at December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplementary data schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary data schedules 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. Such 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 supplementary data schedules and the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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 or provide any assurance on it.

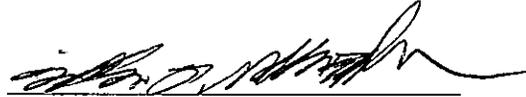
The Honorable Chairman and Members
of the Washington Township Municipal
Utilities Authority
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 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 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.

Mt. Arlington, New Jersey
March 22, 2013

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

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 \$841,222 and the balance is \$7,492,283. This includes Environmental Infrastructure loans.
- During fiscal year 2012 the Authority treated 189.1 million gallons of wastewater. This is 13.5% less than the 218.55 million gallon quantity processed during fiscal year 2011.
- For fiscal year 2012 the Authority delivered in excess of 330.4 million gallons of potable water as compared to 2011 when 286.48 million gallons were delivered. This represents an increase of 4.3%.
- Combined operating revenues were \$3.74 million, an increase of \$297,067 compared to 2011.

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 entities. The financial statements include a statement of net position; a statement of revenue, expenses, and changes in net position; a statement of cash flows and notes to the financial statements.

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenue, expenses, and changes in net position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position 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 solid at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net position. 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 position increased from the prior year by \$821,833. The analysis below focuses on the Authority's net position (Table I) and changes in net position (Table 2) during the year.

Table 1
Condensed Statement of Net Position

	<u>December 31,</u>		Increase/ (Decrease) From 2011	% Increase/ (Decrease)
	<u>2012</u>	<u>2011</u>		
Current and Other Assets	\$ 4,330,924	\$ 3,842,068	\$ 488,856	12.72
Noncurrent Assets	<u>19,015,957</u>	<u>19,523,245</u>	<u>(507,288)</u>	(2.60)
Total Assets	<u>23,346,881</u>	<u>23,365,313</u>	<u>(18,432)</u>	(.07)
Deferred Outflow of Resources	<u>107,712</u>	<u>123,099</u>	<u>(15,387)</u>	(12.50)
Current Liabilities	1,282,038	1,277,873	4,165	.33
Long-term Liabilities	<u>6,632,417</u>	<u>7,492,284</u>	<u>(859,867)</u>	(11.48)
Total Liabilities	<u>7,914,455</u>	<u>8,770,157</u>	<u>(855,702)</u>	(9.76)
Invested in Capital Assets, Net of Related Debt	11,523,674	11,189,739	333,935	2.98
Unrestricted	2,580,602	2,027,967	552,635	27.25
Restricted	<u>1,435,862</u>	<u>1,500,549</u>	<u>(64,687)</u>	(4.31)

Total net position increased 5.58%. 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 position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

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

	December 31,		Increase/ (Decrease)	%
	2012	2011	From 2011	Increase/ (Decrease)
Revenue				
Operating Revenue	\$ 3,742,920	\$ 3,445,853	\$ 297,067	8.62
Nonoperating Revenue	21,922	30,203	(8,281)	(27.42)
Total Revenue	<u>3,764,842</u>	<u>3,476,056</u>	<u>288,786</u>	8.31
Expense				
Water Transmission	925,404	862,864	62,540	7.25
Sewer Disposal	1,009,759	1,031,720	(21,961)	(2.13)
Amortization of Loss on Advanced Refunding	15,387	15,387		-
Depreciation	763,233	758,795	4,438	.58
Interest Expense - Debt Service	229,176	251,922	(22,746)	(9.03)
Total Expenses	<u>2,942,959</u>	<u>2,920,688</u>	<u>22,271</u>	.76
Increase in Net Position	821,833	555,368	266,465	47.99
Beginning Net Position	14,718,255	14,162,887	555,368	3.92
Ending Net Position	<u>\$ 15,540,088</u>	<u>\$ 14,718,255</u>	<u>\$ 821,833</u>	5.58

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 5% in January of 2012. The connection fees were unchanged. Water rent revenue increased 8.75% from 2011. Sewer rent revenue increased 5.72% over 2011. Water connection fee revenue increased \$10,300 over 2011. Sewer connection fee revenue increased \$27,050 over 2011.

Budgetary Highlights: The Authority did one amendment to its 2012 water and sewer operating budgets.

Nonoperating Revenue: The Authority's non-operating revenue decreased 27.42% from 2011. The primary reason for the decrease was a decrease in interest income.

Expenses: The Authority operates two water systems and two sewerage systems. Operating and non-operating expenses for the water systems increased \$62,540 or 7.25% over 2011. Operating and non-operating expenses for the sewer systems decreased \$21,961 or 2.13% from 2011.

Capital Assets: As of December 31, 2012, the Authority had \$19.015 million invested in net capital assets, including land, two wastewater treatment plants, two sewage collection systems including eight pumping stations, two water distribution systems including five water storage tanks, sixteen wells and potable water treatment systems. The amount represents a decrease of \$507,288 over the prior year.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the years ended December 31, 2012 and 2011. 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) 2011	% Increase/ (Decrease)
	2012	2011		
Land	\$ 485,970	\$ 485,970		
Buildings/Treatment Plant	8,272,944	8,272,944		
Transmission Facilities	25,237,829	24,981,881	\$ 255,948	1.02
Equipment/Vehicles	270,995	270,995		
Office Furniture/Fixtures	27,807	27,807		
Total	<u>34,295,545</u>	<u>34,039,597</u>	<u>255,948</u>	.75
Less:				
Accumulated Depreciation	<u>15,279,588</u>	<u>14,516,352</u>	<u>763,236</u>	5.25
Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,015,957</u>	<u>\$ 19,523,245</u>	<u>\$ (507,288)</u>	(2.60)

Cash Flow Activity: Cash and cash equivalents at year-end 2012 increased by \$304,501, or 8.57% from the previous year. The Authority maintains an adequate cash balance to meet future emergencies and capital requirements.

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, 2012	Dec. 31, 2011	(Decrease) From 2010	% Increase/ (Decrease)
Water and Sewer Revenue Bonds Payable	<u>5,007,611</u>	<u>5,270,408</u>	<u>(262,797)</u>	(4.99)
	<u>\$ 7,492,283</u>	<u>\$ 8,333,506</u>	<u>\$ (841,223)</u>	(10.09)

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.

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
<u>ASSETS</u>		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 2,354,762	\$ 1,984,649
Water and Sewer Charges Receivable (Net of Allowance for Uncollectible Receivables of \$10,000 in 2012 and 2011)	474,776	289,537
Prepaid Expenses		884
Total Unrestricted Assets	2,829,538	2,275,070
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	879,862	977,962
Debt Service Account (1998 Series A & B):		
Cash and Cash Equivalents	29,049	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	65,524	66,449
Bond Service Reserve Account (2005 Series):		
Cash and Cash Equivalents	1	1
Unemployment Compensation Account:		
Cash and Cash Equivalents	16,207	10,285
Total Restricted Assets	1,501,386	1,566,998
Total Current Assets	4,330,924	3,842,068
Noncurrent Assets:		
Capital Assets, Net	19,015,957	19,523,245
TOTAL ASSETS	23,346,881	23,365,313
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Advance Refunding	\$ 107,712	\$ 123,099

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011
(Continued)

	2012	2011
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 217,942	\$ 222,914
Accrued Interest Payable	38,140	46,150
Total Current Liabilities Payable from Unrestricted Assets	256,082	269,064
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable - Short-Term Portion	267,796	262,796
Wastewater Bonds Payable - Short-Term Portion	592,070	578,426
Escrow Deposits Payable	166,090	167,587
Total Current Liabilities Payable from Restricted Assets	1,025,956	1,008,809
Total Current Liabilities	1,282,038	1,277,873
Long-Term Liabilities:		
Revenue Bonds Payable - Long-Term Portion	4,739,815	5,007,612
Wastewater Bonds Payable - Long-Term Portion	1,892,602	2,484,672
Total Long-Term Liabilities	6,632,417	7,492,284
Total Liabilities	7,914,455	8,770,157
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	11,523,674	11,189,739
Unrestricted	2,580,602	2,027,967
Restricted:		
Debt Service	1,419,655	1,490,264
Other Purposes	16,207	10,285
Total Net Position	15,540,138	14,718,255

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 POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenue:		
Water Charges	\$ 1,107,518	\$ 1,018,390
Sewer Charges	2,376,107	2,247,448
Connection Fees	56,325	18,975
Other Fees and Income	202,970	161,040
Total Operating Revenue	<u>3,742,920</u>	<u>3,445,853</u>
Operating Expenses:		
Water Transmission	925,404	862,864
Sewer Disposal	1,009,759	1,031,720
Unallocated Depreciation	763,233	758,795
Total Operating Expenses	<u>2,698,396</u>	<u>2,653,379</u>
Operating Income	<u>1,044,524</u>	<u>792,474</u>
Nonoperating Revenue (Expenses):		
Interest Income	21,922	30,203
Interest Expense - Debt Service	(244,563)	(267,309)
Total Nonoperating Revenue (Expenses)	<u>(222,641)</u>	<u>(237,106)</u>
Increase in Net Position	821,883	555,368
Net Position, Beginning of Year	14,718,255	14,162,887
Net Position, End of Year	<u>\$ 15,540,138</u>	<u>\$ 14,718,255</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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 3,298,386	\$ 3,255,611
Other Receipts and Disbursements	258,682	91,964
Cash Paid to Suppliers and Employees	(1,940,135)	(1,742,437)
Net Cash (Used) for Operating Activities	1,616,933	1,605,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Debt	(841,222)	(816,574)
Interest Expense	(237,186)	(258,946)
Purchase of Capital Assets	(255,946)	(286,396)
Net Cash (Used) for Capital and Related Financing Activities	(1,334,354)	(1,361,916)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In	64,687	45,788
Transfers Out	(64,687)	(45,788)
Net Cash Used for Noncapital Financing Activities	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	21,922	30,203
Net Cash Provided by Investing Activities	21,922	30,203
Net Increase in Cash and Cash Equivalents	304,501	273,425
Cash and Cash Equivalents - Beginning of Year	3,551,647	3,278,222
Cash and Cash Equivalents - End of Year	\$ 3,856,148	\$ 3,551,647
Reconciliation of net operating Income to net cash provided by operating activities:		
Operating Income	\$ 1,044,524	\$ 792,474
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	763,233	758,795
Changes in Net Assets:		
(Increase) in Water and Sewer Charges Receivable	(185,239)	(10,227)
(Increase)/Decrease in Prepaid Expenses	884	(884)
(Decrease) in Payroll Taxes and Deductions Payable		(2,464)
Increase/(Decrease) in Escrow Deposits Payable	(1,497)	(87,167)
Increase/(Decrease) in Accounts Payable	(4,972)	154,611
Net Cash Provided by Operating Activities	\$ 1,616,933	\$ 1,605,138

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, 2012

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.

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 position and all liabilities associated with the operations are included on the statement of net assets. Net position (i.e., totals assets plus deferred outflows net of total liabilities and deferred inflows) 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, 2012
(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 2012 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, 2012
(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 Position

Net position is 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 position use through external constraints imposed by the 1995, 1998 and 2005 Bond Resolutions.
3. Unrestricted - net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(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, 2012, \$166,090 was restricted for this purpose and \$65,524 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, 2012, \$428,896 was held for this purpose.

Renewal and Replacement Account - The Authority has segregated \$81,847 at December 31, 2012 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, 2012, \$29,049 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, 2012, \$879,862 was held for this purpose.

The Authority also has \$16,207 held for unemployment compensation at December 31, 2012.

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, 2012
(Continued)

Note 3: Capital Assets

Capital assets, balances and activity for the year ended December 31, 2012 were as follows:

	<u>2011</u>	<u>Additions</u>	<u>2012</u>
Land	\$ 485,970		\$ 485,970
Buildings/Treatment Plant	8,272,944		8,272,944
Transmission Facilities	24,981,881	\$ 255,948	25,237,829
Equipment/Vehicle	270,995		270,995
Office Furniture/Fixtures	27,807		27,807
Total	<u>34,039,597</u>	<u>255,948</u>	<u>34,295,545</u>
Accumulated Depreciation	<u>(14,516,352)</u>	<u>(763,236)</u>	<u>(15,279,588)</u>
	<u>\$ 19,523,245</u>	<u>\$ (507,288)</u>	<u>\$ 19,015,957</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, 2012
(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, 2012
(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>
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>1,145,000</u>	<u>185,200</u>	<u>1,330,200</u>
Less: Short-Term Portion		<u>150,000</u>	<u>45,800</u>	<u>195,800</u>
Long-Term Portion		<u>\$ 995,000</u>	<u>\$ 139,400</u>	<u>\$ 1,134,400</u>

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(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>
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>989,672</u>	<u>1,495,000</u>	<u>2,484,672</u>	<u>190,706</u>	<u>2,675,378</u>
Less:					
Short-Term					
Portion	<u>247,070</u>	<u>345,000</u>	<u>592,070</u>	<u>78,488</u>	<u>670,558</u>
Long-Term					
Portion	<u>\$ 742,602</u>	<u>\$ 1,150,000</u>	<u>\$ 1,892,602</u>	<u>\$ 112,218</u>	<u>\$ 2,004,820</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, 2012
(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>
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>3,862,612</u>	<u>8,019,052</u>	<u>11,881,664</u>
Less: Short-Term Portion		<u>117,796</u>	<u>96,174</u>	<u>213,970</u>
Long-Term Portion		<u>\$ 3,744,816</u>	<u>\$ 7,922,878</u>	<u>\$ 11,667,694</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, 2012
(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. For PERS, the contribution rate was 6.5 % of base salary from October 1, 2011 through June 30, 2012 and increased to 6.64 % effective July 1, 2012. Subsequent increases after October 1, 2011 are being phased in over seven years effective on each July 1 to bring the total pension contribution rate to 7.5 % of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to the plan amounted to \$54,804, \$51,143 and \$35,420 for 2012, 2011 and 2010, 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, 2012
(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, 2012
(Continued)

Note 6: Cash and Cash Equivalents (Cont'd)
Investments (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, 2012, cash and cash equivalents of the Washington Township Municipal Utilities Authority consisted of the following:

<u>Account</u>	<u>Checking/Savings and Money Market Accounts</u>	<u>Certificate of Deposit</u>	<u>Total</u>
Unrestricted	\$ 2,279,762	\$ 75,000	\$ 2,354,762
Bond Reserve	121,149		121,149
Renewal and Replacement	81,847		81,847
General Account	879,862		879,862
Unemployment Compensation	16,207		16,207
Escrow Deposit	65,524		65,524
Debt Service Account (1998 Series A & B)	29,049		29,049
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>\$ 3,781,148</u>	<u>\$ 75,000</u>	<u>\$ 3,856,148</u>

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

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

During the year ended December 31, 2012 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 \$3,781,148 and the bank balance was \$3,801,269.

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 position.

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 2012, \$7,263 was amortized. The unamortized Loss on Advance Refunding balance was \$50,844 at December 31, 2012.

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 position.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
 (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 2012, \$8,124 was amortized. The unamortized Loss on Advance Refunding balance was \$56,868 at December 31, 2012.

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 \$841,222 for bond principal in lieu of depreciation expense. In the Authority's internal budget document, both bond principal of \$841,222 and depreciation expense of \$763,233 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.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

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.

Note 10 - Risk Management (Cont'd)

The December 31, 2012 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, 2011 is as follows:

	<u>Public Alliance Insurance Coverage Dec. 31, 2011</u>
Total Assets	\$ 13,435,346
Net Position	\$ 4,688,074
Total Revenue	\$ 9,397,920
Total Expenses	\$ 8,210,038
Changes in Net Position	\$ 1,187,882
Member's Dividends	\$ -

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.

WASHINGTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
 (Continued)

Note 11: Intraentity and Interfund Transfers

In the normal course of business, the Authority will, from time to time, authorize advances between accounts. During 2012, the Authority transferred \$64,687 between restricted and unrestricted accounts based on the bond provisions. There were no advances outstanding as of December 31, 2012.

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 \$0.045 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:

	<u>2012</u>	<u>2011</u>
Vendors	<u>\$217,942</u>	<u>\$222,914</u>

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 POSITION
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

	Unrestricted	Restricted	Invested in Capital Assets, Net of Related Debt	Memo Total	
				2012	2011
Operating Revenue:					
Water Charges	\$ 1,107,518			\$ 1,107,518	\$ 1,018,390
Sewer Charges	2,376,107			2,376,107	2,247,448
Connection Fees	56,325			56,325	18,975
Other Income	202,970			202,970	161,040
Total Operating Revenue	<u>3,742,920</u>			<u>3,742,920</u>	<u>3,445,853</u>
Operating Expenses:					
Water Transmission	925,404			925,404	862,864
Sewer Disposal	1,009,759			1,009,759	1,031,720
Depreciation	763,233			763,233	758,795
Total Operating Expenses	<u>2,698,396</u>			<u>2,698,396</u>	<u>2,653,379</u>
Operating Income	<u>1,044,524</u>			<u>1,044,524</u>	<u>792,474</u>
Nonoperating Revenue (Expenses):					
Interest Earned on Investments	21,922			21,922	30,203
Interest Expense - Debt Service	(244,563)			(244,563)	(267,309)
Total Nonoperating Revenue (Expenses)	<u>(222,641)</u>			<u>(222,641)</u>	<u>(237,106)</u>
Increase in Net Position (Before Transfers)	<u>821,883</u>			<u>821,883</u>	<u>555,368</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)
(continued)

	<u>Unrestricted</u>	<u>Restricted</u>	Invested in Capital Assets, Net of Related Debt	<u>Memo Total</u>	
				<u>2012</u>	<u>2011</u>
Transfers:					
Capital Acquisitions	\$ (255,946)		\$ 255,946		
Principal Paid on Debt Service	(841,222)		841,222		
Depreciation	763,233		(763,233)		
Designated per Bond Sale Provisions	64,687	\$ (64,687)			
Increase in Net Positions (After Transfers)	<u>552,635</u>	<u>(64,687)</u>	<u>333,935</u>	<u>\$ 821,883</u>	<u>\$ 555,368</u>
Net Position, January 1	<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>
Net Position, December 31	<u>\$ 2,580,602</u>	<u>\$ 1,435,862</u>	<u>11,523,674</u>	<u>\$ 15,540,138</u>	<u>\$ 14,718,255</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF SEWER OPERATING FUND REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012 Final Budget	2012 Actual	Excess or (Deficit)	2011 Actual
Revenue:				
Operating Revenues:				
Service Fees	\$ 2,359,362	\$ 2,376,107	\$ 16,745	\$ 2,247,448
Connection Fees	31,600	43,450	11,850	16,400
Total Operating Revenues	<u>2,390,962</u>	<u>2,419,557</u>	<u>28,595</u>	<u>2,263,848</u>
Non-Operating Revenues:				
Interest on Investments	884	20,341	19,457	28,988
Other Non-Operating Revenue	113,664	168,258	54,594	136,193
Total Non-Operating Revenue	<u>114,548</u>	<u>188,599</u>	<u>74,051</u>	<u>165,181</u>
Total Revenue	<u>2,505,510</u>	<u>2,608,156</u>	<u>102,646</u>	<u>2,429,029</u>
Budgeted Appropriations:				
Administration:				
Salaries & Wages	266,464	238,158	28,306	77,397
Fringe Benefits	118,266	108,736	9,530	22,180
Other Expenses	584,877	459,746	125,131	102,415
Total Administration	<u>969,607</u>	<u>806,640</u>	<u>162,967</u>	<u>201,992</u>
Cost of Providing Service:				
Salaries & Wages	89,768	82,511	7,257	467,277
Fringe Benefits	22,928	22,704	224	113,889
Other Expenses	153,666	97,904	55,762	248,562
Total Cost of Providing Service	<u>266,362</u>	<u>203,119</u>	<u>63,243</u>	<u>829,728</u>
Total Principal Payments on Debt Service in Lieu of Depreciation	<u>753,222</u>	<u>753,222</u>		<u>735,574</u>
Total Operating Appropriations	<u>1,989,191</u>	<u>1,762,981</u>	<u>226,210</u>	<u>1,767,294</u>
Non-Operating Appropriations:				
Bond Interest Expense	206,196	211,098	(4,902)	244,529
Operations and Maintenance Reserve	310,123		310,123	
Total Non-Operating Appropriations	<u>516,319</u>	<u>211,098</u>	<u>305,221</u>	<u>244,529</u>
Total Appropriations	<u>\$ 2,505,510</u>	<u>\$ 1,974,079</u>	<u>\$ 531,431</u>	<u>\$ 2,011,823</u>
		Operating Expenses	\$ 1,009,759	\$ 1,031,720
		Debt Service in Lieu of Depreciation	753,222	735,574
		Bond Interest Expense	211,098	244,529
			<u>\$ 1,974,079</u>	<u>\$ 2,011,823</u>

TOWNSHIP OF WASHINGTON MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF WATER OPERATING FUND REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012 Final Budget	2012 Actual	Excess or (Deficit)	2011 Actual
Revenue:				
Operating Revenues:				
Operating Reserve Anticipated	\$ 40,509		\$ (40,509)	
Service Fees	1,060,728	\$ 1,107,518	46,790	\$ 1,018,390
Connection Fees		12,875	12,875	2,575
Total Operating Revenues	<u>1,101,237</u>	<u>1,120,393</u>	<u>19,156</u>	<u>1,020,965</u>
Non-Operating Revenues:				
Interest on Investments	1,327	1,581	254	1,215
Other Non-Operating Revenue	17,982	34,712	16,730	24,847
Total Non-Operating Revenue	<u>19,309</u>	<u>36,293</u>	<u>16,984</u>	<u>26,062</u>
Total Revenue	<u>1,120,546</u>	<u>1,156,686</u>	<u>36,140</u>	<u>1,047,027</u>
Budgeted Appropriations:				
Administration:				
Salaries & Wages	191,445	191,286	159	144,842
Fringe Benefits	71,570	67,062	4,508	38,298
Other Expenses	395,939	340,570	55,369	120,417
Total Administration	<u>658,954</u>	<u>598,918</u>	<u>60,036</u>	<u>303,557</u>
Cost of Providing Service:				
Salaries & Wages	145,653	145,486	167	329,125
Fringe Benefits	44,604	44,491	113	62,795
Other Expenses	157,505	136,509	20,996	167,387
Total Cost of Providing Service	<u>347,762</u>	<u>326,486</u>	<u>21,276</u>	<u>559,307</u>
Total Principal Payments on Debt Service in Lieu of Depreciation	<u>88,000</u>	<u>88,000</u>		<u>81,000</u>
Total Operating Appropriations	<u>1,094,716</u>	<u>1,013,404</u>	<u>81,312</u>	<u>943,864</u>
Non-Operating Appropriations:				
Bond Interest Expense	25,830	33,465	(7,635)	22,780
Total Non-Operating Appropriations	<u>25,830</u>	<u>33,465</u>	<u>(7,635)</u>	<u>22,780</u>
Total Appropriations	<u>\$ 1,120,546</u>	<u>\$ 1,046,869</u>	<u>\$ 73,677</u>	<u>\$ 966,644</u>
		\$ 925,404		\$ 862,864
Operating Expenses				
Debt Service in Lieu of Depreciation		88,000		81,000
Bond Interest Expense		33,465		22,780
		<u>\$ 1,046,869</u>		<u>\$ 966,644</u>

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

	Original		Interest Rate	Maturities		Balance Jan. 1, 2012	Matured	Balance Dec. 31, 2012
	Date	Amount		Date	Amount			
Refinancing Issue of 2005	12/15/05	\$ 2,265,000	4.00%	12/15/2013	150,000	\$ 1,290,000	\$ 145,000	\$ 1,145,000
			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			
4.85%	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						
						\$ 5,270,408	\$ 262,797	\$ 5,007,611
Balance Comprised of:								
Short - term portion						\$ 262,796	\$ -5,000	\$ 267,796
Long - term portion						5,007,612	267,797	4,739,815
						\$ 5,270,408	\$ 262,797	\$ 5,007,611

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

Balance January 1, 2012	\$ 3,063,098
Less - Bonds Matured	<u>578,426</u>
Balance December 31, 2012	<u>\$ 2,484,672</u>

Analysis of Balance @ 12-31-12

<u>Year</u>	<u>Total</u>	<u>Fund Loan Principal</u>	<u>Trust Loan Principal</u>
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>\$ 2,484,672</u>	<u>\$ 989,672</u>	<u>\$ 1,495,000</u>

Balance Comprised of:

Short-term portion	\$ 592,070	\$ 247,070	\$ 345,000
Long-term Portion	<u>1,892,602</u>	<u>742,602</u>	<u>1,150,000</u>
	<u>\$ 2,484,672</u>	<u>\$ 989,672</u>	<u>\$ 1,495,000</u>

WASHINGTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY

GOVERNMENT AUDITING STANDARDS SECTION

YEAR ENDED DECEMBER 31, 2012



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

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit 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, the financial statements of the Washington Township Municipal Utilities Authority (the "Authority") as of, and for the years ended, December 31, 2012 and 2011, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated March 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. *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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

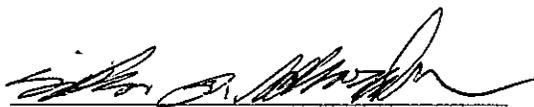
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 certain matters that we reported to management in the comments and recommendations section of this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

Mount Arlington, New Jersey
March 22, 2013

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, 2012

Summary of Auditors' Results:

- An unqualified opinion 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.
- The Authority was not subject to the single audit provisions of Federal OMB Circular A-133 and New Jersey OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* for 2012 as grant expenditures were less than the single audit thresholds of \$500,000 identified in the Circulars.

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
YEAR ENDED DECEMBER 31, 2012

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 2012, 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 2013.

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.

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