

MUSCONETCONG SEWERAGE AUTHORITY



**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011**

MUSCONETCONG SEWERAGE AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	
Independent Auditor's Report	1-2
REQUIRED SUPPLEMENTARY INFORMATION – PART I	
Management's Discussion and Analysis (Unaudited)	4-7
BASIC FINANCIAL STATEMENTS	
Fund Financial Statements:	
Proprietary Funds:	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Fund Net Assets	12
Statement of Cash Flows	13
NOTES TO BASIC FINANCIAL STATEMENTS	15-34
OFFICIALS IN OFFICE	36
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to the Budget for the Fiscal Year Ended December 31, 2011	38-40
Schedule of Revenues, Expenses and Changes in Net Assets - Restricted and Unrestricted	41

MUSCONETCONG SEWERAGE AUTHORITY

TABLE OF CONTENTS CONTINUED

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION (CONTINUED)	
Schedule of Amount Due To/(From) Municipalities – December 31, 2011	42
Schedule of Construction in Progress	43
Schedule of Contracts Payable and Retainage Payable	44
Schedule of Revenue Bonds Payable for the Fiscal Year Ending December 31, 2011	45
Schedule of New Jersey Wastewater Treatment Financing Program Loan Payable - 1993	46
Schedule of New Jersey Wastewater Treatment Financing Program Loan Payable - 1995	47
Schedule of New Jersey Environmental Infrastructure Trust Financing Program Loan Payable – 2002	48
Schedule of New Jersey Environmental Infrastructure Trust Financing Program Loan Payable – 2007	49
Schedule of New Jersey Environmental Infrastructure Trust Financing Program Loan Payable – 2010	50
SINGLE AUDIT SECTION	
Independent Auditor’s 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”	52-53
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04	54-55
Schedule of Expenditures of Federal Awards and State Financial Assistance, Schedule A	56
Notes to Schedules of Expenditures of Awards and Financial Assistance	57
Schedule of Findings and Questioned Costs	
Part 1 – Summary of Auditor’s Results	58-59
Part 2 – Schedule of Financial Statement Findings	60
Part 3 – Schedule of Federal Award and State Financial Assistance Findings and Questioned Costs	61
Summary Schedule of Prior-Year Audit Findings and Questioned Costs as Prepared by Management	62
General Comments and Recommendations	64-65

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
Musconetcong Sewerage Authority
Budd Lake, New Jersey 07828

We have audited the accompanying basic financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Musconetcong Sewerage Authority as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Musconetcong Sewerage Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

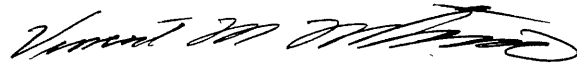
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Musconetcong Sewerage Authority as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 April 20, 2012 on our consideration of the Musconetcong Sewerage 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

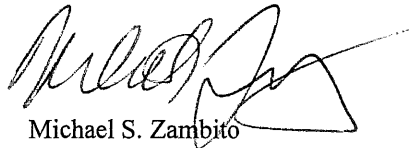
The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Musconetcong Sewerage Authority's basic financial statements. The accompanying other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 20, 2012

REQUIRED SUPPLEMENTARY INFORMATION – PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Musconetcong Sewerage Authority's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- The Authority's net assets of its business-type activities increased \$1,340,863.69 or 4.89 percent as a result of this year's operations.
- Total cost of all of the Authority's programs was \$5,439,632.93 in 2011 compared to \$5,536,164.35 in 2010.
- During the year, the Authority had expenses for business-type activities that were \$1,340,863.69 less than the \$6,780,496.62 generated in service fees and other program revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operation in more detail than the government-wide statements by providing information about the Authority's most financially significant funds

Reporting the Authority as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net assets* and changes in them. You can think of the Authority's net assets, the difference between assets and liabilities, as one way to measure the Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Authority's net assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's user fee base, and the condition of the Authority's capital assets to assess the overall *health* of the Authority.

In the Statement of Net Assets and the Statement of Activities, we divide the Authority into two kinds of activities:

- Governmental activities: The Authority has no governmental activities.
- Business-type-activities: the Authority has one proprietary fund – Sewer operations.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the Authority as a whole. Some funds are required to be established by State law.

Proprietary funds: when the Authority charges customers for the full cost of the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Authority's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE AUTHORITY AS A WHOLE

The Authority's *combined* net assets changed from a year ago, *increasing* from \$27,393,338.00 to \$28,734,201.69. Looking at the net assets and net expenses of business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Authority's business-type activities as of December 31.

Table 1
Net Assets

	Business-type		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
Current and Other Assets	\$ 7,042,113.23	\$ 8,389,545.26	\$ 7,042,113.23	\$ 8,389,545.26
Noncurrent Assets	373,761.20	538,016.07	373,761.20	538,016.07
Capital Assets	<u>35,660,685.61</u>	<u>36,027,544.09</u>	<u>35,660,685.61</u>	<u>36,027,544.09</u>
Total Assets	<u>43,076,560.04</u>	<u>44,955,105.42</u>	<u>43,076,560.04</u>	<u>44,955,105.42</u>
Long-Term Debt Outstanding	13,111,165.36	16,193,513.11	13,111,165.36	16,193,513.11
Other Liabilities	<u>1,231,192.99</u>	<u>1,368,254.31</u>	<u>1,231,192.99</u>	<u>1,368,254.31</u>
Total Liabilities	<u>14,342,358.35</u>	<u>17,561,767.42</u>	<u>14,342,358.35</u>	<u>17,561,767.42</u>
Net Assets:				
Invested in Capital Assets, Net				
of Debt	22,593,151.67	19,920,749.53	22,593,151.67	19,920,749.53
Restricted	4,941,287.28	6,179,914.65	4,941,287.28	6,179,914.65
Unrestricted	<u>1,199,762.74</u>	<u>1,292,673.82</u>	<u>1,199,762.74</u>	<u>1,292,673.82</u>
Total Net Assets	<u>\$ 28,734,201.69</u>	<u>\$ 27,393,338.00</u>	<u>\$ 28,734,201.69</u>	<u>\$ 27,393,338.00</u>

Net assets of the Authority's business-type activities *increased* 4.89 percent. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – *decreased* \$92,911.08. Restricted net assets, those restricted mainly for capital projects *decreased* \$1,238,627.37. The investment in capital assets, net of debt category *increased* \$2,672,402.14.

Table 2
Changes in Net Assets

	Business-type		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
Revenues				
Program Revenues:				
Charges for Services	\$ 6,675,001.24	\$ 6,675,826.20	\$ 6,675,001.24	\$ 6,675,826.20
General Revenues:				
NJEIT Loan Proceeds and Savings Credits	59,411.88	225,323.88	59,411.88	225,323.88
Escrow Deposits	1,000.00	3,660.74	1,000.00	3,660.74
Interest and Investment Earnings	993.63	645.21	993.63	645.21
Other General Revenues	44,089.87	733.99	44,089.87	733.99
Total Revenues:	6,780,496.62	6,906,190.02	6,780,496.62	6,906,190.02
Program Expenses Including Indirect Expenses				
Escrow Deposits Returned	1,000.00	3,672.49	1,000.00	3,672.49
Business-type Activities:				
Sewer	5,438,632.93	5,532,491.86	5,438,632.93	5,532,491.86
Total Expenses	5,439,632.93	5,536,164.35	5,439,632.93	5,536,164.35
Increase/(Decrease) in Net Assets	\$ 1,340,863.69	\$ 1,370,025.67	\$ 1,340,863.69	\$ 1,370,025.67

Business-type Activities
Table 3

The Authority's one major Enterprise Fund consists of Sewer Operations.

					<u>Sewer</u>
Total Assets					\$ 43,076,560.04
Net Assets					\$ 28,688,599.77
Change in Net Assets					\$ 1,295,261.77
Return on Ending Total Assets					3.01%
Return on Ending Net Assets					4.51%

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets
Table 4**

**Capital Assets at Year-end
(Net of Depreciation)**

	Business-type		Totals	
	Activities			
	2011	2010	2011	2010
Land	\$ 505,700.00	\$ 505,700.00	\$ 505,700.00	\$ 505,700.00
Infrastructure, Buildings and Equipment	57,255,681.26	57,255,681.26	57,255,681.26	57,255,681.26
Vehicles	193,842.00	193,842.00	193,842.00	193,842.00
Construction-in-Progress	2,099,684.81	832,172.11	2,099,684.81	832,172.11
Subtotal	60,054,908.07	58,787,395.37	60,054,908.07	58,787,395.37
Accumulated Depreciation	(24,394,222.46)	(22,759,851.28)	(24,394,222.46)	(22,759,851.28)
Totals	<u>\$ 35,660,685.61</u>	<u>\$ 36,027,544.09</u>	<u>\$ 35,660,685.61</u>	<u>\$ 36,027,544.09</u>

This year’s addition to Business-type Activities includes construction in progress for Contracts #220, 225, 230, 235 and #240.

The Authority’s 2012 capital budget anticipates a spending level of \$58,000.00 for capital projects. More detailed information about the Authority capital assets is presented in Note III:B. to the basic financial statements.

DEBT

At year – end the Authority had total debt of \$13,111,165.36 outstanding versus \$16,193,513.11 last year – a decrease of 19.03 percent – as shown in Table 5.

**Outstanding Debt, at year –end
Table 5**

	Business-Type	
	Activities	
	2011	2010
Serial Bonds	\$ 2,915,000.00	\$ 4,265,000.00
Loans	10,152,533.94	11,841,794.56
Compensated Absences	43,631.42	86,718.55
	<u>\$ 13,111,165.36</u>	<u>\$ 16,193,513.11</u>

An analysis of Authority Debt is presented in Note IV:B. to the basic financial statements.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Assistant, Musconetcong Sewerage Authority, 110 Continental Drive, Budd Lake, New Jersey 07828.

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

PROPRIETARY FUNDS

**MUSCONETCONG SEWERAGE AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Business-type Activities - Enterprise Funds	
	Sewer	Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,209,714.82	\$ 1,209,714.82
Petty Cash	150.00	150.00
Cash - Restricted - Escrow	1,818.34	1,818.34
Cash - Restricted - Payroll	11,883.95	11,883.95
Cash - Restricted - Construction	244,705.63	244,705.63
Investments - Restricted - Operations	23,162.41	23,162.41
Investments - Restricted - Current Debt Service	2,676,103.01	2,676,103.01
Investments - Restricted - Future Debt Service	1,841,053.76	1,841,053.76
Investments - Restricted - Construction	4,784.03	4,784.03
Investments - Restricted - Renewal and Replacement	268,607.93	268,607.93
Environmental Infrastructure Trust Financing - Receivable	759,925.00	759,925.00
Prepaid Expenses	<u>204.35</u>	<u>204.35</u>
Total Current Assets	<u>7,042,113.23</u>	<u>7,042,113.23</u>
Noncurrent Assets:		
Unamortized Debt Issue Costs	52,203.98	52,203.98
Unamortized Debt Discount	83,550.41	83,550.41
Future Bond Interest	238,006.81	238,006.81
Capital Assets Not Being Depreciated:		
Land	505,700.00	505,700.00
Construction in Progress	2,099,684.81	2,099,684.81
Capital Assets Being Depreciated	57,449,523.26	57,449,523.26
Less: Accumulated Depreciation	<u>(24,394,222.46)</u>	<u>(24,394,222.46)</u>
Total Noncurrent Assets	<u>36,034,446.81</u>	<u>36,034,446.81</u>
Total Assets	<u>\$43,076,560.04</u>	<u>\$43,076,560.04</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 175,128.68	\$ 175,128.68
Contracts Payable	530,359.00	530,359.00
Amount Due to Municipalities	373,346.98	373,346.98
Payroll Deductions and Withholdings	1,186.64	1,186.64
Held in Trust for Escrow Funds	1,818.34	1,818.34
Accrued Interest on Debt	114,394.79	114,394.79
Retainage Payable	<u>34,958.56</u>	<u>34,958.56</u>
Total Current Liabilities	<u>1,231,192.99</u>	<u>1,231,192.99</u>
Noncurrent Liabilities:		
Compensated Absences Payable	43,631.42	43,631.42
Revenue Bonds Payable	2,915,000.00	2,915,000.00
Loans Payable	<u>10,152,533.94</u>	<u>10,152,533.94</u>
Total Noncurrent Liabilities	<u>13,111,165.36</u>	<u>13,111,165.36</u>
Total Liabilities	<u>14,342,358.35</u>	<u>14,342,358.35</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	22,593,151.67	22,593,151.67
Restricted for:		
Construction	121,874.22	121,874.22
Current Debt Service	2,674,543.32	2,674,543.32
Future Debt Service	1,541,037.50	1,541,037.50
Renewal and Replacement	553,832.24	553,832.24
Operations	50,000.00	50,000.00
Unrestricted	<u>1,199,762.74</u>	<u>1,199,762.74</u>
Total Net Assets	<u>\$28,734,201.69</u>	<u>\$28,734,201.69</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

MUSCONETCONG SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds	
	<u>Sewer</u>	<u>Totals</u>
Operating Revenues:		
Service Charges	\$ 6,675,001.24	\$ 6,675,001.24
Total Operating Revenues	<u>6,675,001.24</u>	<u>6,675,001.24</u>
Operating Expenses:		
Personnel Services	713,147.35	713,147.35
Employee Benefits	145,167.27	145,167.27
Administrative	304,895.21	304,895.21
Operations and Maintenance	1,617,939.80	1,617,939.80
Depreciation	1,634,371.18	1,634,371.18
Total Operating Expenses	<u>4,415,520.81</u>	<u>4,415,520.81</u>
Operating Income	<u>2,259,480.43</u>	<u>2,259,480.43</u>
Nonoperating Revenues (Expenses):		
Interest Income	993.63	993.63
Interest Expense - Revenue Bonds	(223,912.50)	(223,912.50)
Interest Expense - Wastewater	(261,173.26)	(261,173.26)
Environmental Infrastructure Trust Financing - Savings Credit	59,411.88	59,411.88
Escrow Deposits	1,000.00	1,000.00
Amount Due to Municipalities	(373,346.98)	(373,346.98)
Miscellaneous Expenses	(424.51)	(424.51)
Miscellaneous Income	1,002.74	1,002.74
Escrow Deposits Returned	(1,000.00)	(1,000.00)
Unamortized Debt Issuance Costs	(17,401.31)	(17,401.31)
Unamortized Debt Discount Costs	(27,850.14)	(27,850.14)
Future Bond Interest Amortized	(119,003.42)	(119,003.42)
Compensated Absences	43,087.13	43,087.13
Total Nonoperating Revenues (Expenses)	<u>(918,616.74)</u>	<u>(918,616.74)</u>
Change in Net Assets	1,340,863.69	1,340,863.69
Total Net Assets—Beginning	<u>27,393,338.00</u>	<u>27,393,338.00</u>
Total Net Assets—Ending	<u>\$ 28,734,201.69</u>	<u>\$ 28,734,201.69</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**MUSCONETCONG SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Sewer</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 6,675,001.24	\$ 6,675,001.24
Payments to Employees	(713,147.35)	(713,147.35)
Payments for Employee Benefits	(145,167.27)	(145,167.27)
Payments to Suppliers	<u>(2,006,197.06)</u>	<u>(2,006,197.06)</u>
Net Cash Provided by Operating Activities	<u>3,810,489.56</u>	<u>3,810,489.56</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Amount Due to Municipalities	(437,682.57)	(437,682.57)
Escrow Deposits Received	1,000.00	1,000.00
Escrow Deposits Expended/Returned	(1,000.00)	(1,000.00)
Payroll Deduction Payable Decrease	(1,008.51)	(1,008.51)
Miscellaneous Income	<u>1,002.74</u>	<u>1,002.74</u>
Net Cash (Used) for Non-Capital Financing Activities	<u>(437,688.34)</u>	<u>(437,688.34)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(3,039,260.62)	(3,039,260.62)
Interest Paid on Capital Debt	(487,322.22)	(487,322.22)
NJEIT Earnings Credit	59,411.88	59,411.88
NJEIT Trust and Loan Received	1,270,528.00	1,270,528.00
Construction Expenditures	(1,090,234.37)	(1,090,234.37)
Renewal and Replacement Expenditures	<u>(163,810.77)</u>	<u>(163,810.77)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(3,450,688.10)</u>	<u>(3,450,688.10)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends	<u>993.63</u>	<u>993.63</u>
Net Cash Provided by Investing Activities	<u>993.63</u>	<u>993.63</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(76,893.25)	(76,893.25)
Balances—Beginning of Year	<u>6,358,877.13</u>	<u>6,358,877.13</u>
Balances—End of Year	<u>\$ 6,281,983.88</u>	<u>\$ 6,281,983.88</u>
Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:		
Operating Income	\$ 2,259,480.43	\$ 2,259,480.43
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,634,371.18	1,634,371.18
Decrease in Prepaid Expenses	10.78	10.78
Increase/(Decrease) in Accounts Payable	<u>(83,372.83)</u>	<u>(83,372.83)</u>
Total Adjustments	<u>1,551,009.13</u>	<u>1,551,009.13</u>
Net Cash Provided by Operating Activities	<u>\$ 3,810,489.56</u>	<u>\$ 3,810,489.56</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Musconetcong Sewerage Authority (“the Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through December 31, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In June 2007, The Governmental Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 51 are not applicable for the Authority.

In June 2008, The Governmental Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 53 are not applicable for the Authority.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will become effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

The Musconetcong Sewerage Authority was created under the Sewerage Authorities Law of the State of New Jersey (Chapter 138, Laws of 1946 as amended and supplemented) to service the Borough of Stanhope in the County of Sussex and the Borough of Netcong in the County of Morris. Parallel ordinances were adopted by the respective governing bodies as follows: By the Borough of Stanhope on September 27, 1965, and by the Borough of Netcong on August 3, 1965.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

By agreement between the Authority and the Boroughs of Stanhope and Netcong dated 1967, the Authority constructed a trunk sewer system and a 500,000 G.P.D. sewage disposal plant. Said construction was financed by a bond issue of \$591,000.00 dated January 1, 1971 (Series "A" Bonds) and by State and Federal Grants.

The aforementioned agreement also permits the signing of agreements to service additional municipalities as Customers of the Authority. The Authority has entered into an agreement with the Township of Mount Olive and has passed a resolution to treat sewerage from the Township of Roxbury.

A 500,000 G.P.D. addition was placed in service on July 5, 1976. To finance the cost of said improvement the Authority sold bonds in the amount of \$400,000.00 dated July 1, 1976 (Series "B" Bonds).

The governing body of the Authority consists of twelve members. Three members are appointed by each of the governing bodies of the Boroughs of Netcong and Stanhope, two members are appointed by each of the governing bodies of the Townships of Mount Olive and Roxbury and one member is appointed by the governing bodies of the Boroughs of Mount Arlington and Hopatcong.

The Authority has constructed a 2.2 million gallon per day water pollution control plant and made improvements to an existing pumping station and force mains. The Authority also constructed a new regional interceptor, pumping stations and force mains. The total cost for the Project was estimated at \$33 million.

The Project allowed for new sewer unit connections in the Boroughs of Stanhope and Netcong. Service has been expanded to provide more gallonage to areas located in the Township of Mount Olive and the International Trade Zone. Additionally, sewer service is now available to the entire Landing-Shore Hills and Port Morris sections of Roxbury Township.

The Authority was awarded a grant from the United States Department of Environmental Protection to the extent of 55% of eligible costs of the Project. The remainder of the Project costs were raised by the issuance of revenue bonds in the amount of \$17,450,000.00 and by contributions from the International Trade Center, located within the Service Area of the Authority.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

In 1993 the Authority initiated design and funding of the Phase IA project to expand the Authority's existing wastewater treatment plant to provide 3.63 MGD treatment capacity within the existing plant site. The additional treatment capacity (1.43 MGD) is being constructed to provide sewer service to the densely developed areas around Budd Lake within the Township of Mount Olive and within the Borough of Mount Arlington adjacent to Lake Hopatcong. The treatment plant expansion also includes capacity for future development within portions of the Township of Roxbury and the New Jersey Foreign Trade Zone. The selected treatment process for the treatment plant expansion is conventional activated sludge with mechanical aeration, the same as the existing treatment process. The treatment process design will include provisions for nitrification, phosphorus removal, microstraining facilities and ultraviolet disinfection. Treated effluent will continue to be discharged to the Musconetcong River through the existing post aeration cascade unit and outfall sewer. In 2002 the Authority was successful in having the plant rered adding an additional .18 MGD to the overall treatment capacity.

Sewage sludge generated by the expanded wastewater treatment plant will be treated in the existing composting facility at the plant site. The existing composting facility has sufficient capacity to accommodate all sludge that will be generated by the 3.63 MGD treatment plant.

Funding for the Phase IA project was financed by the issuance of Sewer Revenue Bonds, Series C, in the amount of \$3,545,000.00 for the local ineligible share and by New Jersey Wastewater Treatment Trust Financing Program loans from the Trust (\$7,955,000.00) and from the Fund (\$6,260,617.00) for the allowable costs of the new project.

In November of 1995, \$2,280,000.00 of Series C, Revenue Bonds were defeased since the Authority became eligible for additional New Jersey Wastewater Treatment Trust Financing, \$1,190,000.00 from the Trust and \$1,045,037.00 from the fund.

On December 15, 2002, \$12,855,000.00 of Series B, Refunding Bonds were defeased with the issuance of \$12,520,000.00 of Project I – Series 2002, Refunding Bonds.

In 2002, the Authority initiated design and funding for the Phase IIA project to add an additional 500,000 gallon per day expansion to its wastewater treatment plant for the benefit of the Borough of Hopatcong. The Authority financed the cost of the project with grants from the United States Environmental Protection Agency totaling \$4,359,700.00 and loans from the New Jersey Environmental Infrastructure Trust Program. The addition was certified for operation effective July 1, 2005.

As a public body under existing statute, the Authority is exempt from both Federal and State Taxes.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Fund Financial Statements

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Authority:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Authority is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges; or, where the Authority has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Improvements	10-20 Years
Machinery and Equipment	5-10 Years
Light Trucks and Vehicle	5 Years
Heavy Trucks and Vehicle	6 Years
Infrastructure	10-50 Years

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

E. Budgets/Budgetary Control

The annual budget is required to be balanced and authorities are permitted to utilize unreserved retained earnings to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved retained earnings or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

For the purpose of using projected Unreserved Retained Earnings or funding operating deficits, Authorities are permitted to amend or modify the annual operating budget, since actual results may differ from the amount estimated in the budget process.

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be investments. U.S. Treasury and Agency Obligations and Certificates of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 et. seq. provides a list of permissible investments that may be purchased by New Jersey Authorities.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Authority and that are due within one year.

3. Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements and the Authority has therefore chosen to report these items as expenditures/expenses at the time of purchase.

4. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees and interest earnings as their major receivables.

5. Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

6. Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt related trustee accounts and developer's deposits.

7. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, notes and loans payable.

The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

8. Compensated Absences

The Authority's policies regarding sick time permit employees to accumulate earned but unused sick leave. The proprietary fund reports the liability as it is incurred.

9. Equity Classifications

Fund Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

9. Equity Classifications (Continued)

Fund Statements (Continued)

- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Revenues, Expenditures and Expenses

1. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Expenditures/Expenses

In the fund financial statements, expenditures are classified as follows:

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, proprietary funds report expenses relating to use of economic resources.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note II: Stewardship, Compliance and Accountability

By its nature as a local government unit, the Authority is subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

A. Revenue Restrictions and Debt Covenants

In accordance with the bond resolutions (Section 602-609), the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenues received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses and, as of the 10th day of each March, June September and December, transfers to the various accounts described below.
Construction	Proceeds of debt issued	Construction costs of the project system, including improvements and additions.
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest plus principal and interest due on or before the following December 1 st .	Principal and interest on the bonds.
Bond Reserve (Future Debt Service)	Amount needed to equal the reserve requirements per section 607.	Transfers to meet minimum levels required in the bond service or sinking accounts. Any excess may be transferred into the general account.
Sinking	Amount equal of all Sinking Fund installments payable during next fiscal year.	Sinking Fund requirements per Bond Resolution.
Renewal and Replacement	Amount needed in the Renewal and Replacement Fund to equal the System Reserve Requirement.	Major repairs, renewals, replacements or maintenance items of a type not recurring annually.
General	Amount needed to increase the balance to equal the requirements as defined by the resolution.	Transfers to meet deficiencies in any fund or account, after which funds may be expended for any lawful corporate purpose of the Authority including payment of loans or redemption of bonds.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

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 (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA). Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

At December 31, 2011 the Authority's cash and cash equivalent's amounted to \$1,484,683.74. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$1,234,683.74 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2011 the Authority did not participate in the State of New Jersey Cash Management Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of December 31, 2011 none of the Authority's cash and cash equivalents of \$1,484,683.74 was exposed to custodial credit risk.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the Authority to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of commissioners of any Authority may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority;

(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 Authority or bonds or other obligations of local unit or units within which the Authority is located;

(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 Authority;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(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 section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments (Continued)

The Authority had the following investments valued at cost, which approximates fair value, at December 31, 2011:

	<u>Fair Value</u>
Money Market Funds	\$4,813,711.14

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). U.S. government debt is considered to have no credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. Since certificates of deposits are covered by F.D.I.C. and GUDPA and U. S. government debt is guaranteed, there is no custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in a single issuer. All of the above investments are guaranteed U.S. government debt.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Business - type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 505,700.00	\$ -	\$ -	\$ 505,700.00
Construction in Progress	<u>832,172.11</u>	<u>1,267,512.70</u>	<u>-</u>	<u>2,099,684.81</u>
Total Capital Assets not being Depreciated	<u>1,337,872.11</u>	<u>1,267,512.70</u>	<u>-</u>	<u>2,605,384.81</u>
Infrastructure, Buildings and Equipment	57,255,681.26		-	57,255,681.26
Vehicles	<u>193,842.00</u>	<u>-</u>	<u>-</u>	<u>193,842.00</u>
Totals at Historical Cost	<u>57,449,523.26</u>	<u>-</u>	<u>-</u>	<u>57,449,523.26</u>
Less Accumulated Depreciation for:				
Infrastructure, Buildings and Equipment	(22,597,332.88)	(1,626,584.38)		(24,223,917.26)
Vehicles	<u>(162,518.40)</u>	<u>(7,786.80)</u>	<u>-</u>	<u>(170,305.20)</u>
Total Accumulated Depreciation	<u>(22,759,851.28)</u>	<u>(1,634,371.18)</u>	<u>-</u>	<u>(24,394,222.46)</u>
Net Capital Assets being Depreciated	<u>34,689,671.98</u>	<u>(1,634,371.18)</u>	<u>-</u>	<u>33,055,300.80</u>
Business - type Activities Capital Assets, Net	<u>\$36,027,544.09</u>	<u>\$ (366,858.48)</u>	<u>\$ -</u>	<u>\$35,660,685.61</u>

(1) Depreciation expense was charged to business-type functions as follows:

Sewer	<u>\$ 1,634,371.18</u>
-------	------------------------

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The Authority has no commitments under operating leases.

B. Long - Term Liabilities

Long - Term liability activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities:					
Long - Term Debt:					
Bonds Payable	\$ 4,265,000.00	\$ -	\$(1,350,000.00)	\$ 2,915,000.00	\$1,420,000.00
Loans	<u>11,841,794.56</u>	<u>-</u>	<u>(1,689,260.62)</u>	<u>10,152,533.94</u>	<u>1,689,260.62</u>
Total Debt Payable	<u>16,106,794.56</u>	<u>-</u>	<u>(3,039,260.62)</u>	<u>13,067,533.94</u>	<u>3,109,260.62</u>
Other Liabilities:					
Compensated Absences	<u>86,718.55</u>	<u>9,658.79</u>	<u>(52,745.92)</u>	<u>43,631.42</u>	<u>-</u>
Total Other Liabilities	<u>86,718.55</u>	<u>9,658.79</u>	<u>(52,745.92)</u>	<u>43,631.42</u>	<u>-</u>
Business-type Activities					
Long - Term Liabilities	<u>\$16,193,513.11</u>	<u>\$ 9,658.79</u>	<u>\$(3,092,006.54)</u>	<u>\$13,111,165.36</u>	<u>\$3,109,260.62</u>

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

1. Bonds Payable

Pursuant to resolutions dated December 6, 1989, as amended and supplemented the Authority has issued Revenue Bonds as follows:

	<u>Amount Issued</u>	<u>Amount Outstanding</u> <u>Dec. 31, 2011</u>
Project I, Series 2002 Bonds	<u>\$12,520,000.00</u>	<u>\$2,915,000.00</u>

Sewer Revenue Refunding Bonds (Project I – Series 2002)

The 2002 Bonds are not subject to redemption prior to maturity.

The 2002 Bonds are being issued to provide funds (i) to refund certain of the Authority's outstanding Sewer Revenue Refunding Bonds (Series B); and (ii) to pay certain costs and expenses incidental to the issuance and delivery of the 2002 Bonds.

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

2. Loans Payable

Pursuant to agreements entered into with the New Jersey Wastewater Treatment Trust Financing Program dated October 15, 1993 and November 1, 1995, the Authority has borrowed the following:

	<u>Amount of Loan (1)</u>	<u>Amount Outstanding December 31, 2011</u>
Fund	\$ 7,305,654.00	\$ 914,470.64
Trust	<u>9,145,000.00</u>	<u>1,605,000.00</u>
	<u>\$16,450,654.00</u>	<u>\$ 2,519,470.64</u>

(1) Net of Debt Issuance Costs and Investment Earnings.

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2002, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding December 31, 2011</u>
Fund	\$3,016,851.00	\$1,985,484.39
Trust	<u>3,290,000.00</u>	<u>2,334,744.52</u>
	<u>\$6,306,851.00</u>	<u>\$4,320,228.91</u>

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2007, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding December 31, 2011</u>
Fund	\$ 906,790.00	\$ 696,350.67
Trust	<u>890,000.00</u>	<u>745,000.00</u>
	<u>\$1,796,790.00</u>	<u>\$1,441,350.67</u>

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2010, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding December 31, 2011</u>
Fund	\$1,078,027.00	\$1,041,483.72
Trust	<u>830,000.00</u>	<u>830,000.00</u>
	<u>\$1,908,027.00</u>	<u>\$1,871,483.72</u>

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

C. Long – Term Liabilities (Continued)

3. Bonds Authorized But Not Issued

As of December 31, 2011 the Authority had no authorized but not issued bonds.

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Assets

Enterprise Fund:

Restricted for:

Construction	\$ 121,874.22
Current Debt Service	2,674,543.32
Future Debt Service	1,541,037.50
Renewal and Replacement	553,832.24
Operations	50,000.00

Note VI: Pension Plans

Description of Systems

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer defined benefit plan.

The Public Employees' Retirement System (PERS) was established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits.

According to State law all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system terminate. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of the Public Employees Retirement System. This report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note VI: Pension Plans (Continued)

Description of Systems (Continued)

Significant Legislation

Chapter 89, P.L. 2008, effective November 1, 2008, increased the PERS retirement age. If a person becomes a member on or after November 1, 2008 that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

Chapter 78, P.L. 2011, effective June 28, 2011 implements changes to the PERS. PERS employee pension contribution rates will increase from 5.5% to 6.5% of salary

The second phase of the contribution rate increase from 6.5% to 7.5% is to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

The increase in the PERS employee contribution rate will also increase the minimum repayment amount for pension loans or the cost for a purchase of service credit if certified after the employee's increased contribution becomes effective.

Under a provision of Chapter 78, P.L. 2011, Cost of Living Adjustments (COLA) are suspended for all current and future retirees of all retirement systems. There is no reduction to any COLA increases that were already added to retiree benefits prior to the effective date of the law.

Contribution Requirements

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. The PERS pension fund provides for employee contribution rates to increase from 5.50 percent of employees' annual compensation to 6.5%, effective with the first payroll amount to be paid on or after October 1, 2011. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS.

During the year ended June 30, 2011, for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note VI: Pension Plans (Continued)

Description of Systems (Continued)

Contribution Requirements (Continued)

The Authority's total payroll for the year ended December 31, 2011 was \$755,269.11 and covered payroll was \$631,657.00 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		<u>PERS</u>	<u>Percent of Covered Payroll</u>
Employees	12/30/09	33,203.85	5.50%
	12/30/10	35,377.50	5.50%
	12/30/11	36,598.38	5.79%
Authority	12/30/09	56,126.00	9.30%
	12/30/10	55,427.00	8.62%
	12/30/11	68,434.00	10.83%

Note VII: Post Retirement Medical Benefits

PERS employees do not receive post – retirement medical benefits.

Note VIII: Risk Management

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

The Authority is a member of the New Jersey Utility Authority Joint Insurance Fund. (the "Fund"). The Fund is both an insured and self-administered group of municipalities established for the purpose of providing certain low-cost property, liability, public official's liability and workers' compensation insurance coverage for member authorities. The Musconetcong Sewerage Authority pays an annual assessment to the Fund and should it be determined that payments received by the Fund are deficient, additional assessments may be levied.

The Authority continues to carry commercial insurance coverage for all other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(CONTINUED)

Note IX: Accrued Sick and Vacation Benefits

The Authority permits employees to accrue a limited amount of unused vacation and sick pay, which may be paid upon retirement or death at an agreed-upon rate. It is estimated that the current cost of such unpaid compensation would approximate \$43,631.42. This amount is reported as a liability as required by GASB 34 and it is expected that the cost of such unpaid compensation would be included in the Authority's budget operating expenditures in the year in which it is used.

Note X: Related Parties

Mr. James Benson and Mr. Edward Schwartz, Commissioners of the Authority are Council members of the Borough of Stanhope. The schedule of operating revenues includes \$790,660.24 of revenue from the Borough of Stanhope and the schedule of amount due to/(from) municipalities includes \$18,631.67 due to the Borough of Stanhope.

Mr. John Sylvester, Commissioner of the Authority is a Councilman of the Borough of Netcong. The schedule of operating revenues includes \$660,588.56 of revenue from the Borough of Netcong and the schedule of amount due to/(from) municipalities includes \$26,930.43 due to the Borough of Netcong.

Note XI: Contingent Liabilities

A. Litigation

The Authority is party to certain legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Authority, the Authority feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Authority.

Note XII Subsequent Events

The Authority's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of audit.

OFFICIALS IN OFFICE

MUSCONETCONG SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>
Steven Rattner	Chairman
John Sylvester	Vice-Chairman
Joseph Schwab	Secretary-Treasurer
Patrick Kunkel	Assistant Secretary-Treasurer
Donald L. Bates	Member
James Benson	Member
David Hoyt	Member
John Kieser	Member
Melanie M. Michetti	Member
Darren Phil	Member
Michael Pucilowski	Member
Edward Schwartz	Member
James Oscovitch	None Voting Member
Adolf Steyh	Alternate
<u>Other Officials</u>	
Larry I. Kron, Esq.	Attorney
Lee T. Purcell Associates	Engineer
Martha Soccio	Administrative Assistant
<u>Plant</u>	
David A. Biasi	Facilities Manager (To 6/24/11)
James Schilling	Director (From 4/18/11)

OTHER SUPPLEMENTARY INFORMATION

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
 COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
 WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
Operating Revenues:			
Sewer Charges:			
Township of Byram	\$ 171,006.92	\$ 171,006.96	\$ 176,939.84
Borough of Hopatcong	1,179,040.17	1,179,040.20	1,174,335.00
Borough of Mount Arlington	564,322.86	564,322.88	583,901.32
Township of Mount Olive	2,113,850.78	2,113,850.84	2,140,620.80
Borough of Netcong	660,588.53	660,588.56	640,604.68
Township of Roxbury	1,195,531.53	1,195,531.56	1,192,683.08
Borough of Stanhope	790,660.21	790,660.24	766,741.48
Retained Earnings Appropriated	<u>169,000.00</u>	<u>169,000.00</u>	<u>84,500.00</u>
 Total Operating Revenues	 <u>\$ 6,844,001.00</u>	 <u>\$ 6,844,001.24</u>	 <u>\$ 6,760,326.20</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

	Original Budget	Modified Budget	2011 Actual Paid or Charged	Accounts Payable	2010 Actual
Expenses:					
Operating Appropriations:					
Personnel Services:					
Administration	\$ 46,000.00	\$ 46,000.00	\$ 43,538.95	\$ -	\$ 41,780.63
Operating	750,000.00	750,000.00	669,608.40	-	681,703.23
	<u>796,000.00</u>	<u>796,000.00</u>	<u>713,147.35</u>	<u>-</u>	<u>723,483.86</u>
Employee Benefits:					
Public Employees'					
Retirement System	68,500.00	68,500.00	68,434.00	-	55,427.00
Social Security Tax	57,500.00	57,500.00	57,525.36	-	55,879.75
Reserve for Future Retirements	26,000.00	15,000.00	15,000.00	-	-
Unemployment Compensation					
Insurance	3,000.00	4,210.00	4,207.91	-	3,029.41
	<u>155,000.00</u>	<u>145,210.00</u>	<u>145,167.27</u>	<u>-</u>	<u>114,336.16</u>
Administrative Expenses:					
Legal	25,000.00	18,130.00	11,940.00	2,354.00	10,422.00
Audit	6,500.00	6,500.00		6,500.00	6,500.00
Engineer	25,000.00	15,000.00	5,955.00	1,445.00	3,000.00
Hospitalization	200,000.00	200,000.00	191,813.08	-	165,834.10
Trustee Fees	50,000.00	50,000.00	49,296.13	-	45,362.50
Other Expenses	30,000.00	35,500.00	33,998.73	1,593.27	23,826.43
	<u>336,500.00</u>	<u>325,130.00</u>	<u>293,002.94</u>	<u>11,892.27</u>	<u>254,945.03</u>
Operations and Maintenance:					
Telephone	14,000.00	14,000.00	9,929.47	1,310.45	9,702.39
Electric	565,000.00	563,700.00	414,894.98	58,248.51	489,398.52
Propane/ Fuel Oil	35,000.00	35,000.00	23,416.98	3,374.10	23,425.17
Supplies and Chemicals	220,000.00	220,000.00	173,695.44	27,951.93	214,311.15
Laboratory Supplies	6,000.00	6,000.00	5,781.90	74.95	5,693.81
Training and Education	11,000.00	6,800.00	6,104.74	50.00	6,395.20
Laboratory Fees	25,000.00	25,000.00	17,472.03	2,109.00	18,037.10
Maintenance and Repairs	60,000.00	97,660.00	75,035.91	14,453.37	75,113.10
Insurance	110,000.00	110,000.00	94,163.57	-	93,090.86
NJDEP Fees	22,000.00	22,000.00	18,517.81	-	18,811.70
Disability Insurance	12,000.00	12,000.00	6,961.08	-	7,307.52
Permit/Compliance	100,000.00	89,000.00	59,878.06	-	29,339.00
Equipment	10,000.00	10,000.00	3,889.42	-	1,807.95
Sludge Removal	650,000.00	650,000.00	540,462.00	55,664.10	657,815.00
Contingency	25,000.00	25,000.00	4,500.00	-	-
	<u>1,865,000.00</u>	<u>1,886,160.00</u>	<u>1,454,703.39</u>	<u>163,236.41</u>	<u>1,650,248.47</u>
Total Operating Appropriations	<u>3,152,500.00</u>	<u>3,152,500.00</u>	<u>2,606,020.95</u>	<u>175,128.68</u>	<u>2,743,013.52</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2010
(CONCLUDED)

	Original <u>Budget</u>	Modified <u>Budget</u>	<u>2011 Actual</u>		2010 <u>Actual</u>
			<u>Paid or Charged</u>	<u>Accounts Payable</u>	
Expenses: (Continued)					
Debt Service:					
Interest on Bonds	\$ 223,913.00	\$ 223,913.00	\$ 223,913.00	\$ -	\$ 288,163.00
Bond Principal	1,350,000.00	1,350,000.00	1,350,000.00		1,285,000.00
Interest on Loans	277,841.00	277,841.00	277,841.00		259,691.00
Wastewater Principal	<u>1,789,747.00</u>	<u>1,789,747.00</u>	<u>1,789,747.00</u>		<u>1,649,972.00</u>
Total Debt Service	<u>3,641,501.00</u>	<u>3,641,501.00</u>	<u>3,641,501.00</u>		<u>3,482,826.00</u>
Renewal and Replacement:					
Renewal and Replacement Reserve	<u>50,000.00</u>	<u>50,000.00</u>	<u>50,000.00</u>		<u>100,000.00</u>
Total Renewal and Replacement	<u>50,000.00</u>	<u>50,000.00</u>	<u>50,000.00</u>	-	<u>100,000.00</u>
Total Expenses	<u>\$ 6,844,001.00</u>	<u>\$ 6,844,001.00</u>	<u>\$ 6,297,521.95</u>	<u>\$ 175,128.68</u>	<u>\$ 6,325,839.52</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF AMOUNT DUE TO/(FROM) MUNICIPALITIES - DECEMBER 31, 2011

Analysis of 2011 Operations

Unexpended Budget	\$ 371,350.37
Interest Earned	993.63
Miscellaneous Revenue	<u>1,002.74</u>
	<u>\$ 373,346.74</u>

Apportionment of Operations	%s (1)	2011 Budget Operating	Debt Service	Revenue Realized	Excess or (Deficit)	Share of 2011 Operations	Amount Due To/(From)
Township of Byram	2.2390	\$ 71,703.97	\$ 96,582.10	\$ 171,006.96	\$ 2,720.89	\$ 8,359.23	\$ 11,080.12
Borough of Hopatcong	14.3643	460,016.71	747,376.20	1,179,040.20	(28,352.71)	53,628.65	25,275.94
Borough of Mt. Arlington	7.3886	236,619.92	318,720.94	564,322.88	8,982.02	27,585.09	36,567.11
Township of Mt. Olive	34.3234	1,099,206.89	972,918.29	2,113,850.84	41,725.66	128,145.30	169,870.96
Borough of Netcong	10.9386	350,308.67	324,188.38	660,588.56	(13,908.48)	40,838.91	26,930.43
Township of Roxbury	17.1729	549,962.12	624,693.16	1,195,531.56	20,876.28	64,114.47	84,990.75
Borough of Stanhope	13.5732	434,681.73	388,021.93	790,660.24	(32,043.42)	50,675.09	18,631.67
	<u>100.00</u>	<u>\$ 3,202,500.00</u>	<u>\$ 3,472,501.00</u>	<u>\$ 6,675,001.24</u>	<u>\$ 0.24</u>	<u>\$ 373,346.74</u>	<u>\$ 373,346.98</u>

(1) Based on Annual Average Flow or Guaranteed Minimum Flow Per Service Contracts.

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF CONSTRUCTION IN PROGRESS

Balance January 1, 2011		\$ 832,172.11
Increased by:		
2011 Contracts Awarded	\$ 1,005,635.00	
2011 Change Orders Awarded	20,137.75	
Project Expenditures	<u>241,739.95</u>	
		<u>1,267,512.70</u>
Balance December 31, 2011		<u>\$ 2,099,684.81</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF CONTRACTS PAYABLE

Balance January 1, 2011		\$ 551,850.00
Increased by:		
Contracts Awarded in 2011	\$ 1,005,635.00	
Change Orders Approved in 2011	<u>20,137.75</u>	
		<u>1,025,772.75</u>
		1,577,622.75
Decreased by:		
Paid in 2011	\$ 1,012,305.19	
Transferred to Retainage Due to Contractors	<u>34,958.56</u>	
		<u>1,047,263.75</u>
Balance December 31, 2011		<u>\$ 530,359.00</u>

Analysis of Balance December 31, 2011

Contract #220 (Jogi Construction)		\$ 187,780.00
Contract #225 (Longo Electrical)		10,250.00
Contract #230 (DeMaio Electrical)		112,239.00
Contract #235 (CFM Construction)		66,490.00
Contract #240 (National Water Main Cleaning)		<u>153,600.00</u>
		<u>\$ 530,359.00</u>

Schedule 6

SCHEDULE OF RETAINAGE DUE TO CONTRACTORS

Increased by:		
Transferred from Contracts Payable		<u>\$ 34,958.56</u>
Balance December 31, 2011		<u>\$ 34,958.56</u>

Analysis of Balance December 31, 2011

Contract #220 (Jogi Construction)		\$ 2,765.78
Contract #225 (Longo Electrical)		5,435.00
Contract #230 (DeMaio Electrical)		21,606.58
Contract #235 (CFM Construction)		2,826.20
Contract #240 (National Water Main Cleaning)		<u>2,325.00</u>
		<u>\$ 34,958.56</u>

**MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF REVENUE BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

<u>Issue</u>	<u>Original</u>		<u>Interest</u>		<u>Maturities</u>		<u>Balance Jan. 1, 2011</u>	<u>Paid 2011</u>	<u>Balance Dec. 31, 2011</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>				
Refunding Bonds of 2002 (Project 1)	12/15/02	\$ 12,520,000.00	5.25%	1/1/2013	\$ 1,420,000.00	\$ 4,265,000.00	\$ 1,350,000.00	\$ 2,915,000.00	
			5.25%	1/1/2014	1,495,000.00	-	-	-	
						<u>\$ 4,265,000.00</u>	<u>\$ 1,350,000.00</u>	<u>\$ 2,915,000.00</u>	

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF NEW JERSEY WASTEWATER TREATMENT FINANCING
PROGRAM LOAN PAYABLE - 1993

Balance January 1, 2011		\$ 3,035,263.00
Decreased by:		
Paid in 2011	\$ 942,017.26	
Earnings Credits Applied	<u>39,996.80</u>	
		<u>982,014.06</u>
Balance December 31, 2011		<u>\$ 2,053,248.94</u>

Analysis of Loan Payable December 31, 2011

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
3/1/2012	\$ 363,313.24	\$ 640,000.00	\$ 1,003,313.24
9/1/2012	8,700.82		8,700.82
3/1/2013	<u>371,234.88</u>	<u>670,000.00</u>	<u>1,041,234.88</u>
	<u>\$ 743,248.94</u>	<u>\$ 1,310,000.00</u>	<u>\$ 2,053,248.94</u>

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF NEW JERSEY WASTEWATER TREATMENT FINANCING
PROGRAM LOAN PAYABLE - 1995

Balance January 1, 2011		\$ 685,968.68
Decreased by:		
Paid in 2011	\$ 205,916.07	
Earnings Credits Applied	<u>13,830.91</u>	
		<u>219,746.98</u>
Balance December 31, 2011		<u>\$ 466,221.70</u>

Analysis of Loan Payable December 31, 2011

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
2/1/2012	\$ 4,164.74	\$ -	\$ 4,164.74
8/1/2012	82,148.64	145,000.00	227,148.64
2/1/2013	2,117.67		2,117.67
8/1/2013	<u>82,790.65</u>	<u>150,000.00</u>	<u>232,790.65</u>
	<u>\$ 171,221.70</u>	<u>\$ 295,000.00</u>	<u>\$ 466,221.70</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING
PROGRAM LOAN PAYABLE - 2002

Balance January 1, 2011		\$ 4,659,480.57
Decreased by:		
Paid in 2011	\$ 333,667.49	
Earnings Credits Applied	<u>5,584.17</u>	
		<u>339,251.66</u>
Balance December 31, 2011		<u>\$ 4,320,228.91</u>

Analysis of Loan Payable December 31, 2011

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
2/1/2012	\$ 37,610.49	\$ -	\$ 37,610.49
8/1/2012	142,879.63	170,000.00	312,879.63
2/1/2013	34,978.76		34,978.76
8/1/2013	146,440.21	180,000.00	326,440.21
2/1/2014	32,052.90		32,052.90
8/1/2014	149,706.64	190,000.00	339,706.64
2/1/2015	28,964.49		28,964.49
8/1/2015	149,714.38	186,127.41	335,841.79
2/1/2016	25,945.74		25,945.74
8/1/2016	152,887.94	195,303.01	348,190.95
2/1/2017	22,772.19		22,772.19
8/1/2017	159,002.84	209,238.03	368,240.87
2/1/2018	19,366.42		19,366.42
8/1/2018	161,789.37	218,809.10	380,598.47
2/1/2019	15,805.85		15,805.85
8/1/2019	164,421.10	228,345.77	392,766.87
2/1/2020	12,090.47		12,090.47
8/1/2020	166,898.02	237,936.48	404,834.50
2/1/2021	8,220.28		8,220.28
8/1/2021	172,316.29	252,289.44	424,605.73
2/1/2022	4,117.88		4,117.88
8/1/2022	<u>177,502.50</u>	<u>266,695.28</u>	<u>444,197.78</u>
	<u>\$ 1,985,484.39</u>	<u>\$ 2,334,744.52</u>	<u>\$ 4,320,228.91</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING
PROGRAM LOAN PAYABLE - 2007

Balance January 1, 2011		\$ 1,553,055.31
Decreased by:		
Paid in 2011	111,704.64	
Earnings Credits Applied	<u>-</u>	
		<u>111,704.64</u>
Balance December 31, 2011		<u>\$ 1,441,350.67</u>

Analysis of Loan Payable December 31, 2011

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
2/1/2012	\$ 11,953.22	\$ -	\$ 11,953.22
8/1/2012	51,551.33	55,000.00	106,551.33
2/1/2013	11,280.05		11,280.05
8/1/2013	50,878.16	55,000.00	105,878.16
2/1/2014	10,587.09		10,587.09
8/1/2014	53,785.02	60,000.00	113,785.02
2/1/2015	9,809.53		9,809.53
8/1/2015	53,007.46	60,000.00	113,007.46
2/1/2016	8,729.58		8,729.58
8/1/2016	55,527.34	65,000.00	120,527.34
2/1/2017	7,559.63		7,559.63
8/1/2017	54,357.39	65,000.00	119,357.39
2/1/2018	6,389.69		6,389.69
8/1/2018	56,787.28	70,000.00	126,787.28
2/1/2019	5,129.75		5,129.75
8/1/2019	59,127.16	75,000.00	134,127.16
2/1/2020	4,049.80		4,049.80
8/1/2020	58,047.21	75,000.00	133,047.21
2/1/2021	2,969.85		2,969.85
8/1/2021	60,567.09	80,000.00	140,567.09
2/1/2022	1,529.92		1,529.92
8/1/2022	<u>62,727.12</u>	<u>85,000.00</u>	<u>147,727.12</u>
	<u>\$ 696,350.67</u>	<u>\$ 745,000.00</u>	<u>\$ 1,441,350.67</u>

MUSCONETCONG SEWERAGE AUTHORITY

**SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING
PROGRAM LOAN PAYABLE - 2010**

Balance January 1, 2011	\$ 1,908,027.00
Decreased by:	
Paid in 2011	<u>36,543.28</u>
Balance December 31, 2011	<u>\$ 1,871,483.72</u>

Analysis of Loan Payable December 31, 2011

<u>Date</u>	<u>Fund Programs</u>	<u>Trust Programs</u>	<u>Total</u>
2/1/2012	\$ 18,271.63	\$ -	\$ 18,271.63
8/1/2012	36,543.28	25,000.00	61,543.28
2/1/2013	18,271.63		18,271.63
8/1/2013	36,543.28	25,000.00	61,543.28
2/1/2014	18,271.63		18,271.63
8/1/2014	36,543.28	30,000.00	66,543.28
2/1/2015	18,271.63		18,271.63
8/1/2015	36,543.28	35,000.00	71,543.28
2/1/2016	18,271.63		18,271.63
8/1/2016	36,543.28	35,000.00	71,543.28
2/1/2017	18,271.63		18,271.63
8/1/2017	36,543.28	35,000.00	71,543.28
2/1/2018	18,271.63		18,271.63
8/1/2018	36,543.28	35,000.00	71,543.28
2/1/2019	18,271.63		18,271.63
8/1/2019	36,543.28	35,000.00	71,543.28
2/1/2020	18,271.63		18,271.63
8/1/2020	36,543.28	40,000.00	76,543.28
2/1/2021	18,271.63		18,271.63
8/1/2021	36,543.28	45,000.00	81,543.28
2/1/2022	18,271.63		18,271.63
8/1/2022	36,543.28	45,000.00	81,543.28
2/1/2023	18,271.63		18,271.63
8/1/2023	36,543.28	45,000.00	81,543.28
2/1/2024	18,271.63		18,271.63
8/1/2024	36,543.28	50,000.00	86,543.28
2/1/2025	18,271.63		18,271.63
8/1/2025	36,543.28	50,000.00	86,543.28
2/1/2026	18,271.63		18,271.63
8/1/2026	36,543.28	55,000.00	91,543.28
2/1/2027	18,271.63		18,271.63
8/1/2027	36,543.28	60,000.00	96,543.28
2/1/2028	18,271.63		18,271.63
8/1/2028	36,543.28	60,000.00	96,543.28
2/1/2029	18,271.63		18,271.63
8/1/2029	36,543.28	60,000.00	96,543.28
2/1/2030	18,271.63		18,271.63
8/1/2030	<u>36,543.71</u>	<u>65,000.00</u>	<u>101,543.71</u>
	<u>\$ 1,041,483.72</u>	<u>\$ 830,000.00</u>	<u>\$ 1,871,483.72</u>

SINGLE AUDIT SECTION

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

INDEPENDENT AUDITOR'S 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

Honorable Chairman and Members
Musconetcong Sewerage Authority
Budd Lake, New Jersey 07828

We have audited the financial statements of the Musconetcong Sewerage Authority as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements prescribed by the bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Musconetcong Sewerage Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Musconetcong Sewerage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Musconetcong Sewerage Authority's internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial report that, in our judgement, could adversely affect the Musconetcong Sewerage Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item #11-1.

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 deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

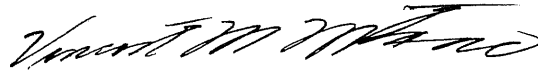
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

111 Howard Boulevard
Suite 212
P.O. Box 397
Mt. Arlington, NJ 07856
Phone: 973-770-5491
Fax: 973-770-5494
vm_associates@msn.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Musconetcong Sewerage Authority's basic 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 direct and material effect on the determination of basic 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 Governmental Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended solely for the information and use of management, the Musconetcong Sewerage Authority, the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs (the cognizant audit agency), and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 20, 2012

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

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

The Honorable Chairman and Members
Musconetcong Sewerage Authority
Budd Lake, New Jersey 07828

Compliance

We have audited the compliance of the Musconetcong Sewerage Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the New Jersey Compliance Manual State Grants Compliance Supplement that are applicable to each of its major federal and state programs for the year ended December 31, 2011. The Musconetcong Sewerage Authority's major federal and state programs are identified in the Summary of Auditor's Results Section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal and state programs is the responsibility of the Musconetcong Sewerage Authority's management. Our responsibility is to express an opinion on the Musconetcong Sewerage Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; in compliance with the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and New Jersey Office of Management and Budget Circular Letter 04-04 Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133 and New Jersey OMB's Circular Letter 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state programs occurred. An audit includes examining, on a test basis, evidence about the Musconetcong Sewerage Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Musconetcong Sewerage Authority's compliance with those requirements

111 Howard Boulevard
Suite 212
P.O. Box 397
Mt. Arlington, NJ 07856
Phone: 973-770-5491
Fax: 973-770-5494
vm_associates@msn.com

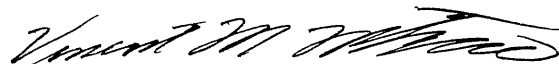
In our opinion, the Musconetcong Sewerage Authority, in the County of Morris, State of New Jersey, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Musconetcong Sewerage Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal and state programs. In planning and performing our audit, we considered the Musconetcong Sewerage Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB's Circular Letter 04-04.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

This report is intended solely for the information and use of the audit committee, management, the Musconetcong Sewerage Authority, the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 20, 2012

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

Funding Department	Program	CFDA or State Account Number	Grant/Loan Number	Grant/Loan Approval Amount	Grant/Loan Period From To	Amount of Receipts		Amount of Expenditures		Balance 12/31/2011
						Prior Year	Current Year	Prior Year	Current Year (1)	
Environmental Protection	Wastewater Treatment Fund-2007	66.458	S340384-06	\$ 906,790.00	10/1/2007 10/1/2008	\$ 906,790.00	\$ -	\$ 906,790.00	\$ -	\$ -
	Wastewater Treatment Fund-2010	66.458	S340384-07	373,675.00	10/1/2010 10/1/2011	64,412.00	167,969.00	64,412.00	167,969.00	141,294.00
	Wastewater Treatment Fund-2010	66.458	S340384-08	511,943.00	10/1/2010 10/1/2011		317,614.00		317,614.00	194,329.00
STATE:										
Environmental Protection	Wastewater Treatment Trust-2007	042-4860-510-013-08	S340384-06	906,790.00	10/1/2007 10/1/2008	\$ 906,790.00	\$ -	\$ 906,790.00	\$ -	\$ -
	Wastewater Treatment Fund-2010		S340384-07	373,675.00	10/1/2010 10/1/2011	-	232,381.00		232,381.00	141,294.00
	Wastewater Treatment Fund-2010		S340384-08	890,640.00	10/1/2010 10/1/2011		552,564.00		552,564.00	338,076.00

(1) Represents total expenditures (grant activity) subject to audit.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2011

Note 1: General

The accompanying schedules of expenditures of awards and financial assistance present the activity of all federal and state programs of the Musconetcong Sewerage Authority. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards.

Note 2: Basis of Accounting

The accompanying schedules of expenditures of awards and financial assistance are presented using the budgetary basis of accounting as described in Notes I:E. to the Musconetcong Sewerage Authority's basic financial statements.

Note 3: Relationship to Basic Financial Statements

Amounts reported in the accompanying schedules agree with amounts reported in the Musconetcong Sewerage Authority's basic financial statements.

Note 4: Relationship to Federal and State Financial Reports

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

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Part I – Summary of Auditor’s Report

Financial Statement Section

- A) Type of auditor’s report issued: Unqualified
- B) Internal Control over financial reporting:
- 1) Material weakness(es) identified? _____yes X no
 - 2) Were significant deficiencies identified that were not considered to be material weaknesses? _____yes X no
- C) Noncompliance material to basic financial statements noted? _____yes X no

Federal Awards Section

- D) Dollar threshold used to determine Type A programs \$ 300,000.00
- E) Auditee qualified as low-risk auditee? _____yes X no
- F) Type of auditor’s report on compliance for major programs Unqualified
- G) Internal Control over compliance:
- 1) Material weakness(es) identified? _____yes X no
 - 2) Were reportable condition(s) identified that were not considered to be material weaknesses? _____yes X no
- H) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510 (a))? _____yes X no

I) Identification of major programs:

<u>Grant/CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66-458</u>	<u>Environmental Infrastructure Fund - 2007</u>
<u>66-458</u>	<u>Environmental Infrastructure Fund - 2010</u>
_____	_____

THE MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

Finding #11-1

Criteria or specific requirement:

Management is responsible for establishing and maintaining an internal control system to ensure compliance with requirements of laws, regulations, contracts and grant agreements and other matters.

Condition:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Authority are handled by one person.

Questioned Costs:

Not Applicable

Context:

While this situation is not unusual in operations the size of the Authority management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Effect:

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

Recommendation:

Not Applicable

THE MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Part 3 – Schedule of Federal Awards and State Financial Assistance Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

FEDERAL AWARDS

Not Applicable

STATE FINANCIAL ASSISTANCE

Not Applicable

THE MUSCONETCONG SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (section .315 (a) (b)) and New Jersey OMB's Circular 04-04.

STATUS OF PRIOR YEAR FINDINGS

Finding #10-1

Condition:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Authority are handled by one person.

Current Status

Unchanged. See Finding #11-1.

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS

CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A. 40A:11-4

The following is presented for the information of the Members and Officials:

N.J.S.A. 40A:11-4 states "Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of the act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in the act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or the amount calculated by the Governor pursuant to, Section 3 of c. 198, P.L. (N.J.S.A. 40A:11-3) except by contract or agreement."

The governing body of the Musconetcong Sewerage Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, professional opinion should be sought before a commitment is made.

Effective April 17, 2000 N.J.S.A. 40A:11-1 et seq. (Local Public Contracts Law) was revised by P.L. 1999, c.440 (originally known as Assembly bill No. 3519). The Division of Local Government Services in the Department of Community Affairs, after consultation with the Commissioner of Education, shall prescribe rules and procedures to implement the requirements of the law.

Effective July 1, 2010 the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$26,000.00.

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings 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 disclosed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Authority and Authority Officials regarding expenditures.

TRUSTEE:

During our review of this year's Trustee statements we noted that similar to last year the Debt Service payments were paid out of the Revenue Fund instead of the Debt Service Fund and that no interest is being earned on the Authority's deposits in any of the Trustee Accounts.

RECOMMENDATIONS

That the Authority take action to insure that it gets the best return on its deposited funds.

That the Trustee make the Authorities Debt Service payments from the Debt Service Account.

Status of Prior Years' Audit Findings/Recommendations:

In accordance with government auditing standards, our procedures included a review of all prior year recommendations including findings. Corrective action has not been taken on all prior year findings, which are repeated in this year's recommendations:

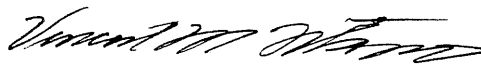
That the Authority take action to insure that it gets the best return on its deposited funds.

That the Trustee make the Authorities Debt Service payments from the Debt Service Account.

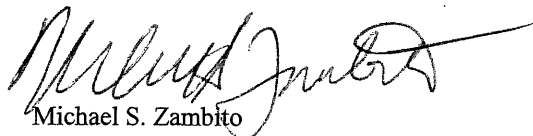
Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing our recommendations, please do not hesitate to call us.

APPRECIATION

We wish to express our appreciation of the assistance and courtesies rendered by the Authority Officials during the course of the audit.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 20, 2012