

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township, New Jersey)

Financial Statements and Supplementary Data

For the years ended December 31, 2012 and 2011

(With Independent Auditors' Report thereon)

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township, New Jersey)
Financial Statements and Supplementary Data
For the years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners of
Berkeley Township Municipal Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Berkeley Township Municipal Utilities Authority, a component unit of the Township of Berkeley, County of Ocean, State of New Jersey, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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 standards prescribed by the Local Finance Board and by the 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 financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-8 and 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Schedule of Revenue, Expenses and Changes in Net Position – Unrestricted and Restricted and Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments – Unrestricted and Restricted Accounts are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules stated above are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 06, 2013 on our consideration of the Berkeley Township Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and

not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Berkeley Township Municipal Utilities Authority's internal control over financial reporting and compliance.



HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 06, 2013
Toms River, New Jersey



**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***

Board of Commissioners of the
Berkeley Township Municipal Utilities Authority

We have audited, in accordance with the 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 audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Berkeley Township Municipal Utilities Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Berkeley Township Municipal Utilities Authority's basic financial statements and have issued our report thereon dated April 06, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Berkeley Township Municipal Utilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Berkeley Township Municipal Utilities Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berkeley Township Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of this Report

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

HOLMAN FRENIA ALLISON, P.C.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 06, 2013
Toms River, New Jersey



Berkeley Township MUNICIPAL UTILITIES AUTHORITY

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April 06, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The Berkeley Township Municipal Utilities Authority ("BTMUA" or "Authority") is a self-supporting water treatment plant and distribution entity proudly serving over 3,200 residents and businesses of a bayside community within Berkeley Township, NJ. The treatment plant consists of six rapid sand pressure filters with an automatic flow paced disinfection system. The treated water from three on-site wells is stored in two water storage tanks with a total capacity of 1.4MG. The Authority is managed by a six member Board of Commissioners appointed by the Berkeley Township Council. Each Board Member is appointed to a five year term at staggered intervals. Eight employees service a distribution system of approximately 308,000 linear feet of 6" to 16" diameter mains.

On October 29, 2012, Superstorm Sandy made landfall on the southern coastline of New Jersey. The resulting storm surge and winds caused catastrophic damage to many coastal and riverfront communities, as well as widespread physical damage (including loss of electrical power and other utilities) throughout the State. The Authority itself suffered no major damage to its infrastructure from the storm. Portions of the service area along the shoreline of the bay did experienced significant wind and water damage. The Authority was asked to shut off water service to some of those homes due to Hurricane Sandy related damage. These shut-offs represent less than 4% of the total customers (125 of approximately 3,200). The Authority does anticipate minor water usage decline in the short run until repairs are made. Actual change in revenues cannot be estimated at this time. Water meters exposed to flooding will need to be replaced. The Authority has applied to the Federal Emergency Management Agency ("FEMA") for reimbursement of hurricane related expenses and revenue financial assistance

The historically low interest rates of 2012 allowed the Authority to refinance six of its eight existing private bonds with the issuance of the 2012 public bond now listed within these financial statements. The results of the refunding will provide approximately \$40,000 in annual savings and over \$1.547 million in savings over the life of the loan.

The Berkeley Township Master Plan predicts significant growth within the section of Berkeley Township serviced by the BTMUA. The BTMUA Board Members remains steadfast to their commitment to provide safe drinking water and maintain user rates while meeting the long-term requirements for the thriving development needs of this area. Therefore, the Board has recommended the annual savings of the refunding be allocated towards future capital improvement projects.

Project planning for 2013 include: replacement of numerous water meters which were exposed to flooding during Superstorm Sandy; the installation of water mains to existing neighborhoods currently being served by aging private wells; a request to NJDEP to increase the current water allocation to meet the anticipated water demand needs of the Berkeley Township Master Plan and

the installation of a 500 foot deep well to provide the capacity of those same water demands. This well will be installed on property recently conveyed from Berkeley Township. The 2013 Budget continues to reflect the Board's emphasis to control costs, secure conservative investment income and to designate funds toward water tower painting and asset preservation.

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2012 as compared to the prior year. It should be read in conjunction with the accompanying financial statements.

Financial Statements

The financial statements included in this report are the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2012 and 2011.

The Statements of Net position shows the financial position of the Authority at December 31st of each year. Assets and deferred outflow of resources are compared with liabilities and net position is the result.

The Statements of Revenues, Expenses and Changes in Net Position measure performance for each year and how this performance impacts the net position of the Authority.

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the two years.

Financial Analysis

At December 31, 2012, the Authority had total assets of \$23,798,591 compared to \$24,376,104 at December 31, 2011. The decrease can be primarily attributed to the depreciation of assets.

At December 31, 2012, the Authority had total liabilities of \$11,444,501 compared to \$11,673,900 at December 31, 2011. This decrease is primarily attributable to the repayment of long-term debt.

At December 31, 2012, the Authority had total net position of \$12,354,987 compared to \$12,702,204 at December 31, 2011. The decrease is accounted for primarily from a decrease in long-term debt and expenses in excess of revenues for the year.

The Authority had a change in net position of (\$347,217) for the year ended December 31, 2012. This decrease resulted primarily from the decrease in connection fees and hydrant fees in 2012 when compared to 2011. Also, the Authority refunded bonds in 2012, resulting in debt issuance expense that the Authority did not have in 2011.

Prior to implementation of GASB Statement No. 65 in these financial statements, the Authority capitalized debt issuance costs in accordance with generally accepted accounting principles. GASB Statement No. 65 changed the way entities report issuance costs and loss on refunding. This caused a decrease in the Authority's net position for the year ended December 31, 2011 of (\$126,822) and caused the Authority to expense bond issuance costs of \$141,880 in the year ended December 31, 2012, which would have been capitalized prior to implementation of this Statement.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2012 and 2011 includes the following balances:

Financial Position:

	<u>2012</u>	<u>2011</u>
ASSETS		
Current unrestricted assets	\$ 3,032,714	\$ 3,044,876
Current restricted assets	1,619,414	1,590,161
Property, plant and equipment, net	19,079,370	19,740,170
Other assets	<u>67,093</u>	<u>897</u>
Total assets	<u>23,798,591</u>	<u>24,376,104</u>
DEFERRED OUTFLOW OF RESOURCES		
Loss on bond refunding, net	\$ <u>897</u>	\$ -
Total deferred outflow of resources	<u>897</u>	-
Total assets and deferred outflow of resources	<u>\$ 23,799,488</u>	<u>\$ 24,376,104</u>
LIABILITIES		
Current unrestricted liabilities	126,446	122,254
Current restricted liabilities	1,079,127	875,750
Long-term liabilities	<u>10,238,928</u>	<u>10,675,896</u>
Total liabilities	<u>11,444,501</u>	<u>11,673,900</u>
NET POSITION		
Net investments in capital assets	8,113,787	8,534,257
Restricted net position	993,448	1,171,744
Reserved by board designation	490,000	440,000
Unrestricted net position	<u>2,757,752</u>	<u>2,556,203</u>
Total net position	<u>12,354,987</u>	<u>12,702,204</u>
Total liabilities and net position	<u>\$ 23,799,488</u>	<u>\$ 24,376,104</u>

Other Financial Information

	<u>2012</u>	<u>2011</u>
Total revenues	\$ 1,987,972	\$ 2,325,463
Total expenses	<u>2,335,189</u>	<u>2,215,657</u>
Change in net position	<u>\$ (347,217)</u>	<u>\$ 109,806</u>
User charges	\$ 1,698,213	\$ 1,682,119
Bond & loan principal paid	\$ 6,379,863	\$ 547,245
Bonds & loan payable	\$ 10,817,433	\$ 11,177,296

Authority operating revenues had an unfavorable variance of (\$185,173) when compared to the budget for 2012 due primarily to no hydrant fees received in current year.

Authority operating expenses had a favorable variance of \$232,445 when compared to the budget for 2012 primarily due to management's continuing efforts to contain costs whenever possible resulting in various expenses being under budget.

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 42 Station Road, Bayville, New Jersey during business hours or can be viewed at the Authority's website www.Berkeleymua.org.

Respectfully submitted,



Michele Nugent
Executive Director

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Net Position
December 31, 2012 and 2011

ASSETS	2012	2011
Current unrestricted assets:		
Cash and cash equivalents	\$ 2,258,010	\$ 1,143,384
Investments	-	1,056,200
Interest receivable	2,616	4,553
Billed user fees receivable	606,360	609,610
Connection fee installment receivable	141,850	209,440
Other receivables	11,579	5,514
Prepaid expenses	12,299	16,175
Total current unrestricted assets	3,032,714	3,044,876
Current restricted assets:		
Cash and cash equivalents	1,618,528	392,692
Investments	-	1,190,422
Interest receivable	166	6,641
Other restricted receivables	720	406
Total current restricted assets	1,619,414	1,590,161
Property, plant and equipment	27,129,220	27,119,253
Less: accumulated depreciation	(8,049,850)	(7,379,083)
Property, plant and equipment, net	19,079,370	19,740,170
Other assets:		
Unamortized issuance costs, net of accumulated amortization	67,093	-
Bond discount, net of accumulated amortization	-	897
Total other assets	67,093	897
Total assets	23,798,591	24,376,104
DEFERRED OUTFLOW OF RESOURCES		
Loss on bond refunding, net of accumulated amortization	897	-
Total deferred outflow of resources	897	-
Total assets and deferred outflow of resources	\$ 23,799,488	\$ 24,376,104

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Net Position (continued)
December 31, 2012 and 2011

	2012	2011
LIABILITIES		
Current unrestricted liabilities:		
Accounts payable	\$ 13,497	\$ 14,363
Customer overpayments	2,093	3,108
Accrued expenses	49,670	41,197
Unearned revenue	434	279
Unearned connection fee revenue	60,752	63,307
Total current unrestricted liabilities	126,446	122,254
Current restricted liabilities:		
Current portion of bonds payable	603,701	324,434
Current portion of loans payable	190,047	206,480
Accrued interest payable	48,047	89,319
Developer deposits	237,332	255,517
Total current restricted liabilities	1,079,127	875,750
Long-term liabilities:		
Bonds payable - long-term	7,075,631	7,508,281
Loans payable - long-term	2,948,054	3,138,101
Bond premium, net of accumulated amortization	188,912	-
Loan premium, net of accumulated amortization	26,331	29,514
Total long-term liabilities	10,238,928	10,675,896
Total liabilities	11,444,501	11,673,900
NET POSITION		
Net investment in capital assets	8,113,787	8,534,257
Restricted net position:		
Debt service	713,448	911,744
Capital	280,000	260,000
Unrestricted net position:		
Reserved by board designation	490,000	440,000
Unreserved	2,757,752	2,556,203
Total restricted and unrestricted net position	4,241,200	4,167,947
Total net position	12,354,987	12,702,204
Total liabilities and net position	\$ 23,799,488	\$ 24,376,104

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Revenue, Expenses and Changes in Net Position
For the years ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
User charges	\$ 1,698,213	\$ 1,682,119
Connection fees	24,051	272,421
Interest earned on connection fees	6,048	6,025
Hydrant fees	-	108,800
Other operating revenue	1,175	1,960
Total operating revenues	1,729,487	2,071,325
Operating expenses:		
Cost of providing services	512,418	492,113
Administrative and general	491,487	495,115
Depreciation	698,659	697,658
Total operating expenses	1,702,564	1,684,886
Operating revenues over expenses	26,923	386,439
Non-operating revenues/(expenses):		
Water tower rental	232,765	224,692
Interest income	21,575	29,446
Interest expense	(402,198)	(429,325)
Township appropriation	(88,547)	(87,380)
Amortization premium/(bond costs), net	3,183	(11,100)
Debt issuance expense	(141,880)	-
Gain/(loss) on disposal of asset	962	(2,966)
Total non-operating revenue/(expenses)	(374,140)	(276,633)
Change in net position	(347,217)	109,806
Net position, January 1 (unadjusted)	12,702,204	12,719,220
Prior period adjustment	-	(126,822)
Net position, January 1 (adjusted)	12,702,204	12,592,398
Net position, December 31	\$ 12,354,987	\$ 12,702,204

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from service users	\$ 1,771,173	\$ 1,972,373
Cash paid to suppliers	(574,831)	(648,376)
Cash paid to employees	(417,591)	(386,663)
Cash received from others	1,175	1,960
	<u>779,926</u>	<u>939,294</u>
Cash flows from investing activities:		
Acquisition and construction of property, plant and equipment	(37,859)	(2,017)
Interest earned on investments	29,987	21,808
(Purchases)/maturities of investments	2,227,523	(584,722)
Grant proceeds	-	74,677
Township appropriation	(88,547)	(87,380)
Cash received from water tower rentals	232,765	224,692
	<u>2,363,869</u>	<u>(352,942)</u>
Cash flows from financing activities:		
Principal paid on long-term debt	(6,379,863)	(547,245)
Proceeds received from bond refunding	6,020,000	-
Reduction of debt from NJEIT	-	172,147
Interest paid	(443,470)	(434,909)
	<u>(803,333)</u>	<u>(810,007)</u>
Net change in cash	2,340,462	(223,655)
Unrestricted and restricted cash, January 1	1,536,076	1,759,731
Unrestricted and restricted cash, December 31	<u>\$ 3,876,538</u>	<u>\$ 1,536,076</u>
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 2,258,010	\$ 1,143,384
Current restricted assets:		
Cash and cash equivalents	1,618,528	392,692
Total cash and cash equivalents, December 31	<u>\$ 3,876,538</u>	<u>\$ 1,536,076</u>

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Cash Flows (continued)
For the years ended December 31, 2012 and 2011

	2012	2011
Reconciliation of operating revenue over expenses to cash flows from operating activities:		
Operating revenues over expenses	\$ 26,923	\$ 386,439
Items which did not use cash:		
Depreciation	698,659	697,658
Working capital changes which (used) provided cash:		
Billed user fees receivable	3,250	(9,640)
Connection fee installment receivable	67,590	(133,190)
Other receivables	(6,379)	54,313
Prepaid expenses	3,876	(7,889)
Accounts payable	(866)	(44,773)
Customer overpayments	(1,015)	1,504
Accrued expenses	8,473	4,851
Unearned revenue	155	(118)
Unearned connection fee revenue	(2,555)	2,993
Developer deposits	(18,185)	(12,854)
Cash flows from operating activities	\$ 779,926	\$ 939,294

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2012 and 2011

NOTE 1: ORGANIZATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Creation of Authority

Berkeley Township Municipal Utilities Authority (the "Authority"), a public body, corporate and politically organized and existing under the Municipal Utilities Authority Law, constituting Chapter 183 of the Pamphlet Laws of 1957, as amended and supplemented, was created by virtue of ordinance number 88-4-OAB of the Township of Berkeley (the "Township") in the County of Ocean, New Jersey, on January 18, 1988.

The Authority owns a water supply and distribution system which services portions of the Township within the franchise areas as more fully set forth in the Water Supply Master Plan as adopted by the Authority.

The Authority's basic financial statements include all accounts of the Authority's operations.

The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Government Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is a fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units. Based on the above criteria, the Authority is a component unit of the Township. The Authority issues separate financial statements from the Township. However, if the Township presented its financial statements in accordance with GAAP, these financial statements would be included with the Township's on a blended basis.

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

At December 31, 2012, the Authority has 3,247 users connected to the system.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles applicable to enterprise funds of governmental units. The Authority's basic financial statements are presented on the full accrual basis in accordance with the accounting principles generally accepted in the United States of America. The Authority applies all Government Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting (continued)

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets was renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Whereas the provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, the Authority has implemented this Statement for the year ended December 31, 2012 and retroactively for the year ended December 31, 2011.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB Statement No. 65 reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Although the provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, the Authority elected to early implement it in fiscal year 2012. The effect of this implementation resulted in a prior period adjustment described in Note 12 and the expensing of bond issuance costs in 2012 associated with the 2012 Bond Refunding.

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

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

B. Budgetary Accounting

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey authorities. The Authority is required to deposit funds in a public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect government units from a loss of funds on deposit with a failed banking institution in New Jersey. *N.J.S.A. 17:9-42* requires government units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public Funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of government units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the government units.

For the Statements of Cash Flows, the Authority combines the unrestricted cash with the restricted cash and cash equivalents. The Authority considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

D. Restricted Accounts

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	All revenue received by the Authority	Authorized operating expenses and expenses and transfers to the various accounts described below
Debt Service	Amount needed to pay maturing interest and principal	Principal and interest on the bonds
Construction	Proceeds of debt issued and construction	Construction costs of the water systems
Costs of Issuance	Proceeds of debt issued	Costs of issuing the debt
Capitalized Interest	Proceeds of debt issued	Interest on the bonds
Bond Reserve	Proceeds of debt issued	Principal and interest on bonds to the extent of deficiencies in the debt service fund

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Investments

Investments are carried at lower of cost or market plus accrued interest shown separately and consist of certificates of deposits.

F. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. The assets are then transferred to the appropriate capital assets account and depreciated on a straight-line basis over the asset's estimated useful life.

Depreciation is computed, as established by the Division of Local Government Services, Department of Community Affairs, State of New Jersey for Municipal Utilities Authorities, on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are:

Water plant	40 years
Water system improvements	40 years
Furniture and fixtures	5-7 years
Machinery and equipment	5-7 years
Vehicles	5 years

G. Unamortized Issuance Costs

Unamortized issuance costs incurred with the issuance of Bonds are being amortized over the life of the respective issue based on the effective interest method. Unamortized debt issuance costs at December 31, 2012 and 2011 are \$67,093 and \$-, respectively.

H. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

I. Compensated Absences

Authority employees are entitled to certain compensated absences for vacation and sick time. Unused sick time can be carried forward to the following year up to a maximum of thirty days. Accrued sick and vacation time at December 31, 2012 and 2011 are \$36,838 and \$29,434, respectively and is included in accrued expenses in the accompanying statements of net position.

J. Unearned Connections

Unearned connections are prepaid connection fees paid by vacant lot owners in the area serviced by the Water System.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue Recognition

The Authority recognizes revenue on the accrual basis as earned. The majority of the Authority's billings are subject to, in the event of nonpayment, local tax sale.

The Authority classifies all fees and charges to provide water services as operating revenue and all other income as non-operating revenue.

L. Contributions

Contributions received from various sources as grants are recorded in the period they become measurable. Developer financed construction is recorded in the period in which the system is donated to the Authority. Donated assets are recorded at fair market value at the date of the gift. All contributions and donations are recorded separately after non-operating revenues and expenses.

M. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following five components: net investments in capital assets; restricted for capital activity; restricted for debt service; reserved by board designation; and unreserved net position. Net investments in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Reserved by board designation consists of net position for which constraints are placed thereon by the board of commissioners. Unreserved net position consists of all other net position not included in the above categories.

N. Unearned Revenue

Unearned revenue consists of user charges which have not been earned by the Authority. When the user charges are earned and when owners in the service area are connected, revenue is recognized and unearned revenue is removed from the statement of net position.

O. Township Appropriation

The Township of Berkeley appropriates the Authority's net position to the maximum amount allowed by State law. The appropriation for 2012 and 2011 totaled \$88,547 and \$87,380, respectively, and is recorded as non-operating expenses.

P. Subsequent Events

The Authority has evaluated subsequent events occurring after December 31, 2012 through April 06, 2013, which is the date the financial statements were available to be issued.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 3: CASH AND CASH EQUIVALENTS

The Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2012 and 2011, and reported at fair value are as follows:

	<u>2012</u>	<u>2011</u>
Deposits:		
Demand deposits	\$ 2,042,213	\$ 777,159
Money market funds	<u>1,834,325</u>	<u>758,917</u>
Total deposits	<u>\$ 3,876,538</u>	<u>\$ 1,536,076</u>
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 2,258,010	\$ 1,143,384
Current restricted assets:		
Cash and cash equivalents	<u>1,618,528</u>	<u>392,692</u>
Total cash and cash equivalents	<u>\$ 3,876,538</u>	<u>\$ 1,536,076</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2012 and 2011, the Authority's bank balance of \$3,880,657 and \$1,551,177, respectively, was insured or collateralized as follows:

	<u>2012</u>	<u>2011</u>
Insured	\$ 500,000	\$ 500,000
Collateralized in the Authority's name under GUDPA (See Note 5)	<u>3,380,657</u>	<u>1,051,177</u>
Total	<u>\$ 3,880,657</u>	<u>\$ 1,551,177</u>

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. All of the Authority's investments are held in the name of the Authority and are collateralized by GUDPA.

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Authority has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 4: INVESTMENTS (continued)

C. Investment Credit Risk

The Authority has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or 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 obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Authority or bonds or other obligations of the local unit or units within which the Authority is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Authority;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

As of December 31, 2012, the Authority had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>2012</u>	<u>2011</u>
Certificates of Deposit	Various	Various	\$ -	\$ 2,246,622
Total investments			<u>\$ -</u>	<u>\$ 2,246,622</u>
Reconciliation to Statements of Net Position:				
Current unrestricted assets:				
Investments		\$	-	\$ 1,056,200
Current restricted assets:				
Investments			-	1,190,422
Total investments			<u>\$ -</u>	<u>\$ 2,246,622</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 4: INVESTMENTS (continued)

D. Fair Value of Investments

Investments are shown at fair value on the statement of net position with accrued interest shown under a separate caption. Investments are summarized as follows at December 31, 2011:

	Cost	Market
Certificates of Deposit collateralized in the Authority's name under GUDPA (See Note 5)	\$ 2,246,622	\$ 2,246,622
Total fair value of investments	\$ 2,246,622	\$ 2,246,622

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Authority has deposited cash in 2012 and 2011 with approved public fund depositories qualified under the provisions of the Governmental Unit Deposit Protection Act. In addition to savings and checking accounts, the Board invests monies in certificates of deposit.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236 was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the six month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average (balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the six month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by the FDIC or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA) (continued)

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months (June 30 and December 31) with the Commissioner of Banking. Any public depository which refuses or neglects to give any such information so requested may be excluded from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Authority should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

NOTE 6: PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment at December 31st consisted of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 90,108	\$ 90,108
Improvements other than building	22,102,258	22,102,258
Machinery and equipment	105,790	92,239
Furniture and fixtures	61,302	61,302
Water Plant	4,618,821	4,618,821
Vehicles	<u>150,941</u>	<u>154,525</u>
Property, plant and equipment, gross	27,129,220	27,119,253
Less: accumulated depreciation	<u>(8,049,850)</u>	<u>(7,379,083)</u>
Property, plant and equipment, net	<u>\$ 19,079,370</u>	<u>\$ 19,740,170</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 7: BONDS PAYABLE

Bonds payable at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
\$2,545,000 Water Revenue Bonds (Series 1993) due in annual principal installments of \$185,000 to \$195,000 through November 1, 2013, interest rate of 5.20%.	\$ 195,000	\$ 380,000
\$1,352,000 Water Revenue Bonds (Series 1995A) due in semi-annual installments of \$36,767 including interest through May 1, 2035, interest rate of 4.50%.	-	1,059,570
\$1,600,000 Water Revenue Bonds (Series 1995B) due in semi-annual installments of \$43,504 including interest through May 1, 2035, interest rate of 4.50%.	-	1,253,781
\$1,200,000 Water Revenue Bonds (Series 1999) due in semi-annual installments of \$32,628 including interest through May 1, 2039, interest rate of 4.50%.	-	1,023,464
\$1,150,000 Water Revenue Bonds (Series 2000) due in semi-annual installments of \$31,269 including interest through November 1, 2040, interest rate of 4.5%.	-	1,007,210
\$1,650,000 Water Revenue Bonds (Series 2003) due in semi-annual installments of \$38,031 including interest through May 1, 2043, interest rate of 3.25%.	1,464,332	1,492,176
\$1,500,000 Water Revenue Bonds (Series 2009A) due in semi-annual installments of \$30,714 including interest through May 1, 2049, interest rate of 4.375%.	-	1,127,016
\$500,000 Water Revenue Bonds (Series 2009B) due in semi-annual installments of \$13,120 including interest through May 1, 2049, interest rate of 4.25%.	-	489,498
\$6,020,000 Water Revenue Refunding Bonds (Series 2012) due in semi-annual installments including interest through November 1, 2048, interest rates of 2 to 4%.	<u>6,020,000</u>	<u>-</u>
Subtotal	7,679,332	7,832,715
Less: current portion	<u>(603,701)</u>	<u>(324,434)</u>
Bonds payable – long-term	<u>\$ 7,075,631</u>	<u>\$ 7,508,281</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 7: BONDS PAYABLE (continued)

Revenue bonds outstanding as of December 31, 2012 are shown as followed.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 603,701	\$ 219,762	\$ 823,463
2014	189,641	221,365	411,006
2015	195,612	217,193	412,805
2016	196,615	212,891	409,506
2017	202,651	206,905	409,556
2018-2022	1,110,021	943,658	2,053,679
2023-2027	1,276,509	778,320	2,054,829
2028-2032	1,488,505	563,924	2,052,429
2033-2037	1,371,971	287,477	1,659,448
2038-2042	758,040	107,732	865,772
2043-2047	241,066	29,274	270,340
2048	<u>45,000</u>	<u>1,519</u>	<u>46,519</u>
Total	<u>\$ 7,679,332</u>	<u>\$ 3,790,020</u>	<u>\$ 11,469,352</u>

On December 11, 2012, the Authority refunded debt with an issuance of \$6,020,000. Series 1995A, Series 1995B, Series 1999, Series 2000, Series 2009A and Series 2009B were refunded. Series 1993 was advanced refunded as well with redemption in January of 2013. The refunding resulted in a loss on refunding of \$897 in the current year; however, the refunding will produce a net savings of approx. \$1,548,000 for the Authority over the life of the new bond series.

NOTE 8: LOANS PAYABLE

Loans payable at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
The loan payable to NJ DEP is a 2% loan with repayment being made in equal semi-annual installments of \$27,686 including interest. Payments commenced on June 23, 1995 and the final maturity is June 23, 2012.	\$ -	\$ 26,579
The 2008 Series A loan payable to the NJEIT is due in annual principal installments of \$76,323 to \$155,000 through August 1, 2027, at interest rates ranging from 4.0% to 5.0%	1,740,000	1,816,323
The 2008 Series B loan payable to the NJEIT is due in semi-annual principal installments of \$40,953 to \$105,347 through August 1, 2026, at zero percent interest.	<u>1,398,101</u>	<u>1,501,679</u>
Subtotal	3,138,101	3,344,581
Less: current portion	<u>(190,047)</u>	<u>(206,480)</u>
Loans payable – long-term	<u>\$ 2,948,054</u>	<u>\$ 3,138,101</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 8: LOANS PAYABLE (continued)

Schedule of annual debt service for principal and interest for loans payable, over the next five years and five year increments thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 190,047	\$ 78,023	\$ 268,070
2014	188,130	75,048	263,178
2015	194,380	71,988	266,368
2016	199,702	67,487	267,189
2017	204,863	62,738	267,601
2018-2022	1,099,704	239,288	1,338,992
2023-2027	<u>1,061,275</u>	<u>96,513</u>	<u>1,157,788</u>
Total	<u>\$ 3,138,101</u>	<u>\$ 691,085</u>	<u>\$ 3,829,186</u>

NOTE 9: PENSION

A. Plan Description

Berkeley Township Municipal Utilities Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (PERS), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries.

The Public Employees' Retirement System (PERS) was established in January 1955 under the provisions of *N.J.S.A.43:15A* and significantly amended on May 21, 2010. Both plans were set up to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for PERS. As of July 1, 2011 the aggregate funded ratio and unfunded accrued liability for local PERS obligations was 77.3% and \$5.436 billion, respectively. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A* and *43.3B*. Employees are eligible for benefits based upon their date of hire, number of weekly hours worked and annual salary. Vesting for pension benefits occurs after 10 years of service. Members are eligible for retirement at age 60 for Tier 1 and Tier 2 employees, at age 62 for Tier 3 and Tier 4 employees and at age 65 for Tier 5 employees with an annual benefit generally determined to be 1/55th of the final average salary for Tier 1, 2 and 3 employees and 1/60th of the final average salary for Tier 4 and Tier 5 employees multiplied by the number of years of service. Early retirement is available to those under normal retirement age with 25 or more years of credited service, but at a reduced rate.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 9: PENSION (continued)

C. Significant Legislation

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and newly enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

D. Contribution Requirements

The contribution policy is set by *N.J.S.A.43:15A*, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and *N.J.S.A.18:66*, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation as defined. The rate will increase over the next seven years to 7.5%. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums.

Contributions to PERS for the years ended December 31st made by the employees and the Authority were as follows:

<u>Year Ending</u>	<u>Employees</u>	<u>Authority Required Contribution</u>	
		<u>Amount</u>	<u>Percentage</u>
12/31/2012	\$ 25,952	\$ 36,385	100%
12/31/2011	\$ 21,928	\$ 34,029	100%
12/31/2010	\$ 17,916	\$ 25,584	100%

NOTE 10: POST-RETIREMENT BENEFITS

The Authority participates in the New Jersey State Health Benefits Program ("the SHBP"), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" ("OPEB"). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

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

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 11: RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority is a member of the New Jersey Utilities Authorities Joint Insurance Fund (JIF). The joint insurance pool is both an insured and self-administered group of 80 authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The JIF will be self-sustaining through member premiums. The JIF participates in the Municipal Excess Liability Insurance program which has a contract for excess insurance. There were no settlements in excess of insurance coverage for 2012, 2011, or 2010.

NOTE 12: PRIOR PERIOD ADJUSTMENT

In accordance with GASB Statement No. 65, the Authority has elected to early implement this Statement in the financial statements for the years ended December 31, 2012 and 2011. The Authority removed the unamortized issuance costs of \$126,822 from the statement of net position in 2011 and recorded a prior period adjustment for the same amount.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Schedule of Operating Revenues and Costs Compared to Budget

For the year ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

	December 31, 2012			December 31, 2011				
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
Revenues:								
User charges	\$ 1,777,000	1,777,000	\$ 1,698,213	\$ (78,787)	\$ 1,672,000	1,672,000	\$ 1,682,119	\$ 10,119
Connection fees	27,000	27,000	24,051	(2,949)	22,000	22,000	272,421	250,421
Interest earned on connection fees	-	-	6,048	6,048	-	-	6,025	6,025
Hydrant fees	115,000	115,000	-	(115,000)	108,000	108,000	108,800	800
Other operating revenue	-	-	1,175	1,175	-	-	1,960	1,960
Water tower rentals	227,000	227,000	232,765	5,765	242,000	242,000	224,692	(17,308)
Interest income	23,000	23,000	21,575	(1,425)	50,000	50,000	29,446	(20,554)
Total operating revenues	2,169,000	2,169,000	1,983,827	(185,173)	2,094,000	2,094,000	2,325,463	231,463
Expenses:								
Cost of providing services:								
Salaries	225,000	225,000	225,998	(998)	217,000	217,000	206,184	10,816
Payroll taxes and fringe benefits	160,500	160,500	140,875	19,625	153,500	153,500	126,828	26,672
Utilities and natural gas	108,000	108,000	71,572	36,428	108,000	108,000	88,013	19,987
Plant and system expense	100,500	100,500	49,147	51,353	98,500	98,500	50,252	48,248
Permits and fees	20,000	20,000	13,210	6,790	16,000	16,000	13,620	2,380
Uniforms	4,000	4,000	2,667	1,333	4,000	4,000	2,575	1,425
Vehicle expense	10,000	10,000	8,949	1,051	10,000	10,000	4,641	5,359
Total cost of providing services	628,000	628,000	512,418	115,582	607,000	607,000	492,113	114,887
Administrative and general expenses:								
Salaries	188,750	188,750	191,593	(2,843)	183,750	183,750	180,479	3,271
Payroll taxes and fringe benefits	160,500	160,500	119,429	41,071	153,500	153,500	111,016	42,484
Office supplies and expenses	57,600	57,600	39,370	18,230	55,600	55,600	43,605	11,995
Advertising and printing	3,500	3,500	2,890	610	3,500	3,500	1,324	2,176
Telephone	10,000	10,000	8,772	1,228	10,000	10,000	8,506	1,494
Engineering fees	50,000	50,000	47,091	2,909	50,000	50,000	31,288	18,712
Legal fees	50,000	50,000	19,560	30,440	50,000	50,000	49,074	926

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Operating Revenues and Costs Compared to Budget
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	December 31, 2012			December 31, 2011				
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
Administrative and general expenses (continued):								
Accounting services	40,000	40,000	27,394	12,606	40,000	40,000	33,530	6,470
Trustee fees	17,000	17,000	10,624	6,376	17,000	17,000	11,646	5,354
Insurance	22,000	22,000	17,900	4,100	21,000	21,000	18,047	2,953
Postage and freight	9,000	9,000	6,864	2,136	9,000	9,000	6,600	2,400
Total administrative and general expenses	608,350	608,350	491,487	116,863	593,350	593,350	495,115	98,235
Non-operating expenses:								
Interest paid	414,243	414,243	443,470	(29,227)	434,952	434,952	434,909	43
Debt service	534,592	534,592	359,863	174,729	547,245	547,245	547,245	-
Township appropriation	88,547	88,547	88,547	-	87,380	87,380	87,380	-
Total non-operating expenses	1,037,382	1,037,382	891,880	145,502	1,069,577	1,069,577	1,069,534	43
Capital outlay and reserves:								
Renewal and replacement	20,000	20,000	20,000	-	20,000	20,000	20,000	-
Tower maintenance	50,000	50,000	-	50,000	50,000	50,000	-	50,000
Equipment/system upgrades	-	-	-	-	33,000	33,000	-	33,000
Meters	-	-	-	-	20,000	20,000	-	20,000
Total capital outlay and reserves	70,000	70,000	20,000	50,000	123,000	123,000	20,000	103,000
Total expenses	2,343,732	2,343,732	1,915,785	427,947	2,392,927	2,392,927	2,076,762	316,165
Excess operational revenues over expenses	\$ (174,732)	\$ (174,732)	68,042	\$ 242,774	\$ (298,927)	\$ (298,927)	248,701	\$ 547,628
Plus:								
Adjustment for interest accrual			41,272				5,584	
Debt service			359,863				547,245	
Capital outlay and reserves			20,000				20,000	
Less:								
Depreciation			(698,659)				(697,658)	
Amortization premium/(bond costs), net			3,183				(11,100)	
Debt issuance expense			(141,880)				-	
Gain/(Loss) on disposal of asset			962				(2,966)	
Change in net position per Statements of Revenue, Expenses and Changes in Net Position			\$ (347,217)				\$ 109,806	

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue, Expenses and Changes in Net Position - Unrestricted and Restricted
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	Unrestricted		Reserve for Debt Service	Restricted		Reserve for Capital	2012	2011
	Unreserved	Board Designated		Investments in Capital Assets, Net	Capital			
Operating revenues:								
User charges	\$ 1,698,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,698,213	\$ 1,682,119
Connection fees	24,051	-	-	-	-	-	24,051	272,421
Interest earned on connection fees	6,048	-	-	-	-	-	6,048	6,025
Hydrant fees	-	-	-	-	-	-	-	108,800
Other operating revenue	1,175	-	-	-	-	-	1,175	1,960
Total operating revenues	1,729,487	-	-	-	-	-	1,729,487	2,071,325
Operating expenses:								
Cost of providing services	512,418	-	-	-	-	-	512,418	492,113
Administrative and general	491,487	-	-	-	-	-	491,487	495,115
Depreciation	-	-	-	698,659	-	-	698,659	697,658
Total operating expenses	1,003,905	-	-	698,659	-	-	1,702,564	1,684,886
Operating revenues over expenses	725,582	-	-	(698,659)	-	-	26,923	386,439
Non-operating revenues/(expenses):								
Water tower rental	232,765	-	-	-	-	-	232,765	224,692
Interest income	6,150	-	11,747	-	3,678	-	21,575	29,446
Interest expense	(402,198)	-	-	-	-	-	(402,198)	(429,325)
Township appropriation	(88,547)	-	-	-	-	-	(88,547)	(87,380)
Amortization premium/(bond costs), net	-	-	-	3,183	-	-	3,183	(11,100)
Debt issuance expense	(141,880)	-	-	-	-	-	(141,880)	-
Gain/(loss) on disposal of asset	962	-	-	-	-	-	962	(2,966)
Total non-operating revenue/(expenses)	(392,748)	-	11,747	3,183	3,678	-	(374,140)	(276,633)
Change in net position before transfers	332,834	-	11,747	(695,476)	3,678	3,678	(347,217)	109,806
Transfers	(4,463)	50,000	(210,043)	148,184	16,322	-	-	-
Net position, January 1 (unadjusted)	2,429,381	440,000	911,744	8,661,079	260,000	260,000	12,702,204	12,408,043
Prior period adjustments	-	-	-	-	-	-	-	184,355
Net position, January 1 (adjusted)	2,429,381	440,000	911,744	8,661,079	260,000	260,000	12,702,204	12,592,398
Net position, December 31	\$ 2,757,752	\$ 490,000	\$ 713,448	\$ 8,113,787	\$ 280,000	\$ 280,000	\$ 12,354,987	\$ 12,702,204

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Unrestricted Accounts
For the year ended December 31, 2012
 (With comparative totals for the year ended December 31, 2011)

	2012	2011
Cash and Investments - January 1, 2012	\$ 50	\$ 2,013,809
Cash Receipts:		
Petty Cash	\$ 18,081	\$ -
Revenue Checking	\$ 241,524	\$ -
Escrow Checking	\$ 11,955	\$ -
Developers' Deposits	\$ -	\$ -
General Fund	\$ 1,927,974	\$ -
Revenue Fund	\$ -	\$ -
Total Cash Receipts	\$ 2,199,584	\$ 2,013,809
Cash Disbursements:		
Operating Checking	\$ 1,699,218	\$ -
Construction claims	\$ -	\$ 1,755,850
Township appropriation	\$ 24,051	\$ 108,800
NJ DEP loan payments	\$ 232,765	\$ 272,421
Transfers to restricted funds	\$ 1,175	\$ 224,692
Transfers from unrestricted funds	\$ -	\$ 2,223
Interest income	\$ 11	\$ 15,800
USDA grant received	\$ 6,048	\$ 6,025
NJ/EIT loan received	\$ -	\$ 74,677
Claims reimbursements and refunds	\$ -	\$ -
Transfers from unrestricted funds	\$ 175,048	\$ 11,113
Total Cash Disbursements	\$ 2,258,010	\$ 2,922,103
Total Cash and Investments Available	\$ 5,637,805	\$ 5,393,704
Cash Disbursements:		
Operating claims	\$ 816,121	\$ 956,311
Construction claims	\$ 45,041	\$ 79,983
Township appropriation	\$ 88,547	\$ 87,380
NJ DEP loan payments	\$ 27,686	\$ 55,372
Transfers to restricted funds	\$ 1,108,614	\$ 1,106,780
Transfers from unrestricted funds	\$ 1,293,786	\$ 2,922,103
Total Cash Disbursements	\$ 3,379,795	\$ 5,207,929
Cash and Investments - December 31, 2012	\$ 50	\$ 2,199,584

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments - Restricted Accounts
For the year ended December 31, 2012
(With comparative totals for the year ended December 31, 2011)

	Renewal & Replacement Account	Debt Service Account	Developers' Deposits	Bond Reserve Account	Developers' Escrows Checking	Revenue Fund	2012	2011
Cash and Investments - January 1, 2012	\$ 260,000	\$ 407,793	\$ 255,549	\$ 659,772	\$ -	\$ -	\$ 1,583,114	\$ 1,407,822
Cash Receipts:								
Developers' deposits	-	-	159,635	-	-	-	159,635	221,808
Interest income	3,678	2,413	-	9,334	-	20	15,445	13,646
Refunded disbursements	-	-	-	-	-	-	-	10,482
Transfers from restricted funds	20,000	589,429	-	-	167,806	13,012	790,247	245,111
Transfers from unrestricted funds	-	313,614	-	-	-	795,000	1,108,614	1,106,780
Total Cash Receipts	23,678	905,456	159,635	9,334	167,806	808,032	2,073,941	1,597,827
Total Cash and Investments Available	283,678	1,313,249	415,184	669,106	167,806	808,032	3,657,055	3,005,649
Cash Disbursements:								
Payments on behalf of developers	-	-	-	-	167,806	-	167,806	245,111
Operating disbursements	-	-	-	-	-	-	-	-
Bond and loan principal payments	-	503,228	-	-	-	-	503,228	491,875
Interest paid	-	402,198	-	-	-	-	402,198	429,325
Transfers to restricted funds	3,678	-	167,806	50,783	-	567,980	790,247	245,111
Transfers to unrestricted funds	-	-	10,001	-	-	165,047	175,048	11,113
Total Cash Disbursements	3,678	905,426	177,807	50,783	167,806	733,027	2,038,527	1,422,535
Cash and Investments - December 31, 2012	\$ 280,000	\$ 407,823	\$ 237,377	\$ 618,323	\$ -	\$ 75,005	\$ 1,618,528	\$ 1,583,114

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Board of Commissioners and Management
December 31, 2012

Patrick Pizzi..... Chairman
Lloyd G. Mullikin Vice Chairman
Karen Davis Treasurer
Charles Thiemer..... Secretary
Eric Sudia Commissioner
Michele Nugent..... Executive Director



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To the Board of Commissioners of the
Berkeley Township Municipal Utilities Authority
Bayville, New Jersey 08721

We have audited the financial accounts and transactions of the Berkeley Township Municipal Utilities Authority, a component unit of the Township of Berkeley, in the County of Ocean, State of New Jersey for the year ended December 31, 2012. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments and Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or 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 this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this 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 \$17,500 except by contract or agreement.

The Authority has a qualified purchasing agent on staff and therefore may award contracts up to \$36,000 without competitive bids.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Since computerized general ledgers do not provide for the aggregation of payments within categories for performance of work or furnishing of materials and supplies, we reviewed disbursements to determine whether any clear-cut violations of the bid and quote thresholds established by the Authority existed. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures did not reveal any individual payments, contracts or agreements in excess of \$5,400 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and we ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. There were no findings in the prior year.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

During our review, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions concerning our comments, please call us.



HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 06, 2013
Toms River, New Jersey