

**THE MOUNT HOLLY
MUNICIPAL UTILITIES AUTHORITY**

**INDEPENDENT AUDITOR'S REPORT
OF FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

THE MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY

TABLE OF CONTENTS

	PAGE
Board of Commissioners	1
Independent Auditor's Report	2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	5
Management's Discussion and Analysis	7
EXHIBITS	
Basic Financial Statements:	
Comparative Statement of Net Position	A-1 25
Comparative Statement of Revenue, Expenses & Changes in Net Position	A-2 27
Comparative Statement of Cash Flows	A-3 29
Notes to Financial Statements	30
SCHEDULES	
Required Supplementary Information:	
Schedule of Operating Revenues and Cost Funded by Operating Revenues Compared to Budget	1 56
General Comments & Recommendations:	
Report of Independent Auditors – Auditor's Management Report on Administrative Findings, Financial Compliance and Performance	59
Contracts and Agreements Required to be Advertised	60
Contracts and Agreements Requiring Solicitation of Quotations	61
Collection of Interest on Delinquent Service Fees	61
Examination of Bills	61
Payroll Fund	61
Property, Plant & Equipment	61

TABLE OF CONTENTS (continued):

	PAGE
General Ledger	61
Results of Verification Notices	61
Service Organization	61
Follow-Up of Prior Years' Findings	62
Acknowledgment	62

MOUNT HOLLY MUNICIPAL UTILITES AUTHORITY

BOARD OF COMMISSIONERS

AT DECEMBER 31, 2012

John R. Edwards
Chairman

Jules K. Thiessen
Vice Chairman

Tracey N. Giordano
Treasurer
Qualified Purchasing Agent

Debra E. Fortner
Secretary

William G. Dunn (Retired 12/31/12)
Joseph V. Rizzuto (Appointed 12/27/12)
Executive Director

Jacquelyn Dunphy Perinchief
Commissioner

Jason R. Carty
Commissioner

Robert C. Silcox
Commissioner

Richard A. Alaimo
Consulting Engineer

Stephen J. Mushinski
Solicitor

TD Bank
Trustee

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY

**INDEPENDENT AUDITOR'S REPORTS
OF FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of the
Mount Holly Municipal Utilities Authority
County of Burlington
Mount Holly, New Jersey 08060

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Mount Holly Municipal Utilities Authority, a component unit of the Township of Mount Holly, County of Burlington, 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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, of the Mount Holly Municipal Utilities Authority, a component unit of the Township of Mount Holly, County of Burlington, State of New Jersey as of December 31, 2012 and 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 22 and 56 through 57 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013, on our consideration of the Mount Holly Municipal Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mount Holly Municipal Utilities Authority's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

Medford, New Jersey
March 27, 2013

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Chairman and Members of the
Mount Holly Municipal Utilities Authority
County of Burlington
Mount Holly, New Jersey 08060

We have audited the financial statements of the Mount Holly Municipal Utilities Authority, a component unit of the Township of Mount Holly, County of Burlington, State of New Jersey, as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Holly Municipal Utilities 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 Mount Holly Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mount Holly Municipal Utilities Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We considered the deficiency described in the accompanying General Comments Section as Finding No: 2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mount Holly 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and which is described in the accompanying *General Comments* section as Finding No: 2012-01.

This report is intended solely for the information and use of the Mount Holly Municipal Utilities Authority's management and members, others within the entity, and the Division of Local Government Services, 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.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

Medford, New Jersey
March 27, 2013

REQUIRED SUPPLEMENTARY INFORMATION - PART I

Management's Discussion and Analysis

Management's Discussion and Analysis
for the Year Ended December 31, 2012

INTRODUCTION

The Mount Holly Municipal Utilities Authority, hereinafter referred to as the "MHMUA", presents their Annual Financial Report developed in accordance with the statement of Governmental Accounting Standard No. 34 entitled "Basic Financial Statement – Management's Discussion Analysis – for State and Local Governments", hereinafter referred to as GASB34, and related statements.

MISSION

The MHMUA's mission is to provide wastewater treatment services, which enhance environmentally sound community development and ensure public health through improved water quality. Services are provided cost efficiently to Mount Holly and adjoining service areas in compliance with Federal and State regulations.

Location: **Administrative Office:**

37 Washington Street, PO Box 486, Mt Holly, NJ 08060

Business Office:

29 Washington Street, PO Box 486, Mt. Holly, NJ 08060

Plant Facilities:

300 Rancocas Road, Mt Holly, NJ 08060

26 Maple Avenue, Lumberton, NJ 08048

Pump Stations:

Forty-two (42) Pump Stations are owned and operated/maintained by the MHMUA plus three (3) privately owned Pump Stations that are operated and maintained by the MHMUA.

Telephone: (609)267-0015 and Fax (609)261-4528

Web-Site: **www.MHMUA.com**

Board of Directors: John R. Edwards, Chairman
 Jules K. Theissen, Vice Chairman
 Robert C. Silcox, Commissioner
 Jacquelyn D. Perinchief, Commissioner
 Jason R. Carty, Commissioner
 Debra E. Fortner, Secretary
 Tracey N. Giordano, Treasurer

Executive Director: William G. Dunn, Sr. (Retired 12/31/12)
 Joseph V. Rizzuto appointed on 12/27/12

Deputy Director for Plant Operations: Joel Hervey

Deputy Director for Regulatory Affairs: Anthony G. Stagliano, Sr.

Deputy Director of Finance and Administration: Tracey N. Giordano

I. General

The MHMUA owns and operates/maintains forty-two (42) pumping stations in six townships (Mount Holly, Hainesport, Eastampton, Westampton, Lumberton, and Moorestown). Additionally, the MHMUA operates/maintains three (3) privately owned Pump Stations (Charley's Other Brother Restaurant, Hainesport School and Eastampton School). The MHMUA maintains more than 175 miles of sanitary (gravity and force) mains that collect and transfer wastewater to two (2) wastewater treatment facilities (the Rancocas Road Water Pollution Control Facility located in Mount Holly, and the Maple Avenue Water Pollution Control Facility located in Lumberton).

The MHMUA services approximately 15,000 residential customers (representing an estimated population of 50,000) in addition to approximately 600 commercial customers and approximately 30 industrial users. Industrial users are regulated by MHMUA's approved Industrial Pretreatment Program (IPP). The MHMUA is also a major receptor of liquid waste including sludge, septage, leachate, and miscellaneous wastewaters that are currently processed at both the Rancocas Road Water Pollution Control Facility and the Maple Avenue Water Pollution Control Facility under the direction of MHMUA's Hauled Wastes Program. The MHMUA's treatment facilities are the designated septage receiving facilities for Burlington County.

II. MHMUA's Rancocas Road Water Pollution Control Facility

A. General Description

The MHMUA's Rancocas Road Water Pollution Control Facility is a complex operation comprised of three individual but interconnected plants constructed at different times beginning in the late 1940s. Plant No. 1 was originally placed into operation in 1950 with a design capacity of 0.7 mgd; followed by Plant No. 2, which was placed into operation in 1960 with a design capacity of 1.3 mgd. Both plants provided secondary treatment using standard-rate trickling filters, and provided a combined design capacity of 2.0 mgd. The facility was expanded in 1981 to a design capacity of 5.0 mgd with the addition of Plant No. 3, which included additional primary clarification, powdered activated carbon/activated sludge (PAC/AS), secondary clarification, high-rate rapid sand filtration, chlorination/dechlorination, and post-aeration facilities.

In 1994, the rock media in the two (2) Plant No. 1 trickling filters and in the one (1) Plant No. 2 trickling filter was replaced with plastic media; thereby, upgrading these units to high-rate trickling filters. In 2010, the high-rate rapid sand filtration was replaced with discfilter filtration. Also in 2010, an existing Post Aeration Tank was converted into a Chlorine Contact Tank, and two (2) Cascade Aeration stages were added for effluent post aeration. In 2011, the PAC/AS process was converted into a simpler-to-operate completely mixed activated sludge process.

B. Wastewater Treatment Processes

Screening and Grit Removal – Debris and heavy inorganic solids (sand, gravel, etc.) are removed from the raw wastewater. Odorous air is removed from the influent channels and is treated in a Biological Odor Control Treatment System prior to discharge to the atmosphere.

Flow Equalization – A 1.5 million gallon Equalization Tank (Surge Tank No. 1) attenuates the flow and concentration peaks to achieve a relatively constant flow rate and loading to downstream treatment plant processes.

Primary Settling Tanks – Removes heavy organic solids from the raw wastewater, and settled biosolids from the Intermediate Settling Tanks through the use of four (4) Primary Settling Tanks, distributed between Plant No. 2 (two (2) tanks) and Plant No. 3 (two (2) tanks). The solids removed from these tanks are directed to the Sludge Blending and Storage Tank.

With the Maple Avenue Water Pollution Control Facility becoming operational in December 2010, and the wastewater flows being reduced to the Rancocas Road WWTP, the four (4) Plant No. 1 Primary Settling Tanks were removed from service in April 2011.

Trickling Filters and Intermediate Settling Tanks – The three (3) Trickling Filters (two (2) in Plant No. 1 and one (1) in Plant No. 2) provide reliable, inexpensive removal of biodegradable organics from the primary effluent of Plant No. 2. The settled biosolids from the two (2) Plant No. 2 Intermediate Settling Tanks are directed back to the head of the plant for removal in the Primary Settling Tanks.

With the Maple Avenue Water Pollution Control Facility becoming operational in December 2010, and the wastewater flows being reduced to the Rancocas Road WWTP, the two (2) Plant No. 1 Intermediate Settling Tanks were removed from service in April 2011.

Activated Sludge Process – With the Maple Avenue Water Pollution Control Facility becoming operational in December 2010, and the wastewater flows being reduced to the Rancocas Road WWTP, one (1) of the two (2) aeration tanks was removed from service in February 2011. In May 2011, carbon addition to the remaining aeration tank was stopped; thereby, converting the PAC/AS process into a simpler-to-operate completely mixed activated sludge process.

This variation of the activated sludge process utilizes suspended growth microorganisms in a completely mixed reactor to biologically remove ammonia and biodegradable organics from the wastewater. Additionally, non-biodegradable organic compounds are removed through absorption/adsorption onto the activated sludge floc. The completely mixed reactor provides a uniform oxygen demand and organic/ammonia loading throughout the tank.

B. Wastewater Treatment Processes (cont)

Secondary Settling Tanks – With the Maple Avenue Water Pollution Control Facility becoming operational in December 2010, and the wastewater flows being reduced to the Rancocas Road WWTP, one (1) of the two (2) secondary settling tanks was removed from service in February 2011. The remaining tank provides for the separation of the settled activated sludge solids from the clarified secondary effluent. The Return Activated Sludge is directed to the Scrubbing Mixing Chamber where it is mixed with primary effluent from Plant No. 3 prior to being returned back to the aeration tank. The Waste Activated Sludge is directed to the Sludge Blending and Storage Tank for sludge processing and disposal.

The Wet Air Regeneration reactor, which had been used to process the Waste Activated Sludge, was taken out of service in August 2011 (see the Wet Air Regeneration (WAR) process description below).

Discfilter Filtration – Three (3) discfilters provide for the tertiary removal of suspended solids from the combined effluent from both the Rancocas Road Water Pollution Control Facility and the Maple Avenue Water Pollution Control Facility. Following filtration, the dissolved oxygen content of the discharge from the discfilters is increased through two (2) stages of Cascade Aeration.

Disinfection – Following the second (2nd) Cascade Aeration stage, the filtered effluent is disinfected with Sodium Hypochlorite in three (3) Chlorine Contact Tanks. Following disinfection, the residual chlorine is removed by Sodium Bisulfite addition.

Post Aeration – The dissolved oxygen content in the treated effluent is further increased prior to discharge into the North Branch of the Rancocas Creek through the use of one (1) Post Aeration Tank equipped with a mechanical aerator followed by Cascade Aeration.

C. Sludge Treatment Processes

Wet Air Regeneration (WAR) – Due to high operating and maintenance costs, and the need for major mechanical refurbishment/replacement, the WAR process was removed from service in August 2011. The WAR process oxidized the Waste Activated Sludge from the PAC/AS process under high pressure (900-1000 psig) and high temperature (450°-500°F) to carbon dioxide, water, regenerated powdered carbon, ash, and soluble short chain organic acids.

Sludge Blending and Storage Tank – A 350,000 gallon Sludge Storage Tank is used to store and blend the settled solids from the Primary Settling Tanks, the Waste Activated Sludge from the Maple Avenue Water Pollution Control Facility, the Waste Activated Sludge from the Rancocas Road Water Pollution Control Facility (as of August 2011), and all other external miscellaneous trucked-in sludges, prior to solids processing. Odorous air is removed from this tank and treated in a Biological Odor Control Treatment System prior to discharge to the atmosphere.

C. Sludge Treatment Processes (cont)

Thickening – Sludge from the Sludge Blending and Storage Tank is transferred by chopper-type pumps to a Rotary Screw Thickener, which removes water and increases the solids content to approximately 4-5% Total Solids (TS) prior to Belt Filter Press dewatering. The filtrate from this process is recycled back to the head of the plant for additional treatment. Odorous air is removed from this operation and treated in a Biological Odor Control Treatment System prior to discharge to the atmosphere.

Dewatering – Thickened sludge from the Rotary Screw Thickener is directed to a 125,000 gallon Thickened Sludge Storage Tank, which stores the thickened sludge prior to dewatering with Belt Filter Presses. The Belt Filter Presses dewater the sludge to a solids content of approximately 20% TS. The combination of filtrate and wash water from this process is recycled back to Surge Tank No. 1 for additional treatment.

Disposal – All of the dewatered sludge is composted at the Burlington County Resource Recovery Complex. In an emergency, dewatered sludge may be incinerated at the Atlantic County Utilities Authority.

III. MHMUA's Maple Avenue Water Pollution Control Facility

A. General Description

The MHMUA's Maple Avenue Water Pollution Control Facility is a 3.0 mgd facility that was placed into operation in December 2010. The facility includes screening and grit removal with odor control, activated sludge with biological nitrogen and phosphorus removal, secondary clarification, effluent pumping, and disinfection of the utility water.

The facility treats wastewater flows from Hainesport, Moorestown, Lumberton and Mount Holly through three (3) separate force mains (the Hainesport Force Main, Lumberton Force Main, and the Madison Avenue Force Main). The facility also treats screened and degritted wastewater flows from the Rancocas Road Water Pollution Control Facility's Surge Tank No. 1 through a dedicated transfer pump utilizing the Hainesport Force Main (as of August 2011).

The secondary effluent discharged from this facility flows by gravity (the majority of the time) through a 20-inch diameter force main to the discfilters at the Rancocas Road Water Pollution Control Facility for effluent filtration. The Waste Activated Sludge from this facility also flows by gravity to the Sludge Blending and Storage Tank at the Rancocas Road Water Pollution Control Facility for sludge processing.

Facility control is through a SCADA (Supervisory Control and Data Acquisition) system, which allows for the remote monitoring of all of the facility's operational systems, and the control of a portion of the operational systems; thereby, minimizing the staffing requirements of the facility.

B. Wastewater Treatment Processes

Screening and Grit Removal – Debris and heavy inorganic solids (sand, gravel, etc.) are removed from the raw wastewater through the use of two (2) Headworks units. Odorous air is removed from these units and treated through two (2) Biological Odor Control Treatment Systems prior to discharge to the atmosphere.

Activated Sludge System with Biological Nutrient Removal – This variation of the activated sludge process utilizes suspended growth microorganisms in a plug flow reactor to biologically remove nitrogen, phosphorus, and biodegradable organics from the wastewater through the use of aerobic, anoxic, and anaerobic zones in a six (6) pass aeration tank. Additionally, non-biodegradable organic compounds are removed through absorption/adsorption onto the activated sludge floc.

High speed turbo blowers provide air through fine bubble air diffusers in the aerobic zones, while low speed submersible mixers are used in the anoxic and anaerobic zones.

Secondary Settling Tanks – Three (3) Secondary Settling Tanks provide for the separation of the settled activated sludge solids from the clarified secondary effluent. The Return Activated Sludge is directed back to the first pass of the aeration tank, while the Waste Activated Sludge is directed to the Sludge Blending and Storage Tank at the Rancocas Road Water Pollution Control Facility for solids processing.

The Waste Activated Sludge was designed to flow by gravity from the Maple Avenue Water Pollution Control Facility through an 8-inch diameter force main to the Sludge Blending and Storage Tank at the Rancocas Road Water Pollution Control Facility. When the discharge is unable to flow by gravity, one (1) pump has been provided to pump the Waste Activated Sludge to the Sludge Blending and Storage Tank.

Effluent Pump Station – Secondary effluent from the Maple Avenue Water Pollution Control Facility was designed to flow by gravity through a 20-inch diameter force main to the discfilters at the Rancocas Road Water Pollution Control Facility. When the discharge is unable to flow by gravity, three (3) pumps have been provided to pump the effluent to the discfilters.

Chlorine Contact Tank – A Chlorine Contact Tank is used to disinfect the utility water at the facility for the protection of the MHMUA's employees. The disinfection of the Maple Avenue Water Pollution Control Facility's effluent is provided at the Rancocas Road Water Pollution Control Facility, following filtration of the combined effluents from the two plants.

IV. Milestones

- 1946 Mount Holly Sewerage Authority (MHSA) established by local Ordinance.
- 1950 Plant No. 1 placed into operation with a design capacity of 0.7 mgd.
- 1956 – 1960 Sewer service initiated in non-sewered areas of the four Townships (Eastampton, Westampton, Lumberton, and Hainesport) adjacent to Mount Holly Township.
- 1960 Plant No. 2 placed into operation with a design capacity of 1.3 mgd, resulting in a combined design capacity of 2.0 mgd.
- 1962 William G. Dunn appointed as a MHSA Commissioner.
- 1969 Sewer Service Agreement updated between the MHSA and the Township of Eastampton to provide sewage collection and treatment service within the boundaries of the Township of Eastampton.
- 1980 William G. Dunn appointed as Executive Director of the MHSA.
- 1981 The facility was expanded to a design capacity of 5.0 mgd with the addition of Plant No. 3. First facility in the United States utilizing the Zimpro Wastewater Reclamation System.
- 1986 Purchased the Lumberton Municipal Utilities Authority.
- 1986 Sewer Service Agreement updated between the MHSA and the Township of Lumberton to provide sewage collection and treatment service within the boundaries of the Township of Lumberton.
- 1987 Purchased building at 37 Washington Street, Mount Holly, and moved MHSA's offices to this location.
- 1989 Sewer Service Agreement updated between the MHSA and the Township of Hainesport to provide sewage collection and treatment service within the boundaries of the Township of Hainesport.
- 1989 Sewer Service Agreement updated between the MHSA and Westampton Township to provide sewage collection and treatment service to a portion of the Township located within the MHSA Sewer Service Planning Area Boundary.

IV. Milestones (cont)

- 1992 Replaced the rock media in Plants No. 1 and 2 Trickling Filters with plastic media.
- 1993 Sewer Service Agreement updated between the MHSA and the Township of Moorestown to provide sewage collection and treatment service to a portion of the Township located within the MHSA Sewer Service Planning Area Boundary.
- 1994 Mount Holly Water Pollution Control Facility awarded “Zimpro Plant of the Year”.
- 1997 Mount Holly Sewerage Authority reorganized under the name Mount Holly Municipal Utilities Authority (MHMUA).
- 1998 Continuous Process Indirect Sludge Dryer placed into operation.
- 1998 Purchased building at 1 Park Drive, Mount Holly, for MHMUA Business Office.
- 1998 Purchased property on Maple Avenue in Lumberton for future plant expansion.
- 2002 Dedicated the MHMUA building on 37 Washington Street, Mount Holly, as the “William G. Dunn Administration Building”.
- 2003 Engaged the services of Metcalf & Eddy, Philadelphia, PA, to develop a Facility Plan to address current and future needs.
- 2005 Engaged the services of the Alaimo Group, Mount Holly, NJ, and Metcalf & Eddy (Now AECOM), Philadelphia, PA, to provide engineering services for additional treatment capacity and to rehabilitate the existing facility.
- 2005 MHMUA received the 2005 United States Environmental Protection Agency (USEPA) Region II 1st Place Clean Water Act Recognition Award for Operation and Maintenance Excellence for Medium-Size Advanced Treatment Plants.
- 2005 MHMUA received the 2005 USEPA National 1st Place Clean Water Act Recognition Award for Operations and Maintenance Excellence for Medium-Size Advanced Treatment Plants.
- 2010 Start-up of the new 3.0 mgd Maple Avenue Water Pollution Control Facility.

IV. Milestones (cont)

- 2011 The Plant No. 1 Raw Sewage Pumps, Primary Settling Tanks, and Intermediate Settling Tanks; and the Plant No. 3 Wet Air Regeneration System and Dual Packed Carbon Tower Odor Control System were taken out of service at the Rancocas Road Water Pollution Control Facility. Also, the Plant No. 3 PAC/AS process was converted into a completely mixed activated sludge process.
- 2012 MHMUA received The New Jersey Department of Environmental Protection's Environmental Stewardship Initiative for its voluntary and proactive measures taken to go beyond compliance in an effort to improve the environment and ensure a sustainable future.
- William G. Dunn, Sr. was recognized and commended for his fifty (50) years of devoted service to the Mount Holly Municipal Utilities Authority and The Township of Mount Holly and was wished a happy and healthy retirement.
- Joseph V. Rizzuto was appointed as the new Executive Director

V. Responsibility and Control

The MHMUA has retained Holman Frenia Allison, Certified Public Accountants, to prepare an independent audit of the financial statement for the year ending December 31, 2012. The MHMUA is responsible for furnishing financial statements and pertinent data for the auditor's review and analysis.

VI. MHMUA Plant Upgrade and Expansion Project

In 2004, the MHMUA engaged the services of Metcalf & Eddy (Now AECOM), Philadelphia, PA, to develop a Facility Plan in order to address current and future needs for the MHMUA's existing Rancocas Road Water Pollution Control Facility. The first step of the Facility Plan was to assess the condition and capacity of the existing facility. Among the key findings of this assessment was that the existing facility was currently at or near its actual treatment capacity of 5.0 mgd; and that despite excellent preventative maintenance, there were significant structural and process mechanical rehabilitation needs due to the age of the facility and the corrosive nature of wastewater.

The second step of the Facility Plan was then to evaluate alternatives for expansion of the existing plant from 5.0 mgd to 7.675 mgd, which is the capacity currently authorized by the MHMUA's New Jersey Pollutant Discharge Elimination System (NJPDES) Permit. Through this evaluation, it was determined that the construction of a new satellite treatment facility on property owned by the MHMUA in Lumberton Township, was the lowest cost approach of providing additional treatment capacity, instead of expanding at the existing facility's location.

VI. MHMUA Plant Upgrade and Expansion Project (cont)

Based upon the magnitude and complexity of this work, it was decided that the construction of a new satellite treatment facility in Lumberton Township, and the rehabilitation/upgrade of the existing facility should occur in four separate phases: Phases I, IA, II, and III. Phases I, IA and II represent the expansion and upgrade of treatment facilities necessary to treat an average wastewater flow of 6.0 mgd (which represents the total wastewater flow projection for 2025 based upon current zoning requirements); while Phase III represents an expansion to an average future flow capacity of 7.675 mgd (which represents the capacity authorized by the MHMUA's NJPDES permit).

In 2009, the MHMUA proceeded with Phases I and IA by awarding contracts to Allan A. Myers, Inc., Worcester, PA (Contract No. 2006-1: Base Contract Cost = \$27,596,550.00), and to T&T Commonwealth Construction Company, Jackson, NJ (Contract 2006-2: Base Contract Cost = \$2,977,268.00).

The Phase I work included: (1) The construction of a new 3.0 mgd treatment facility in Lumberton; (2) The construction of a force main from the Madison Avenue Pump Station in Mount Holly to the new facility in Lumberton; (3) The construction of a force main from the intersection of the Mount Holly Bypass and Marne Highway in Hainesport Township to the new facility in Lumberton; (4) The upgrade and rehabilitation of the Madison Avenue Pump Station in Mount Holly; and (5) The construction of effluent and sludge force mains from the new facility in Lumberton to the existing facility in Mount Holly.

The Phase IA work was performed concurrently with the Phase I work and included: (1) The replacement of the existing sand filters with new discfilters; (2) The construction of new Cascade Aeration structures in the existing Filter Building; (3) The expansion of the existing Sodium Hypochlorite disinfection process by converting an existing Post Aeration Tank into a baffled Chlorine Contact Tank; (4) The expansion of the sludge thickening process through the addition of a new Rotary Screw Thickener; and (5) Providing odor control for the existing facility's Headworks, Rotary Screw Thickener, Gravity Thickener Tank, Sludge Blending and Storage Tank, and Surge Tank No. 2.

The contract with Allan A. Myers involved the construction of the satellite treatment facility on property owned by the MHMUA in Lumberton Township (a portion of the Phase I work), as well as all of the Phase IA work. While the contract with T&T Commonwealth Construction Company involved the upgrade and rehabilitation of the Madison Avenue Pump Station in Mount Holly, as well as the construction of all of the force mains to the new facility in Lumberton Township, and the construction of all of the force mains between the new facility and the existing facility in Mount Holly (the remainder of the Phase I work).

The Phase II work includes: (1) Rehabilitation of the concrete structures at the existing facility; (2) Conversion of the existing PAC/AS system into a simpler-to-operate completely mixed activated sludge system (completed in 2011); and (3) Replacement of key process mechanical equipment including: influent bar screens, grit chamber blowers, main sewage pumps, recycle pumps, primary and intermediate clarifier sludge collectors and drives, aeration system blowers, and diffusers (aeration tank diffusers were replaced in 2011), etc.

VI. MHMUA Plant Upgrade and Expansion Project (cont)

Upon the completion of the Phase II work, the MHMUA does not intend to proceed with Phase III.

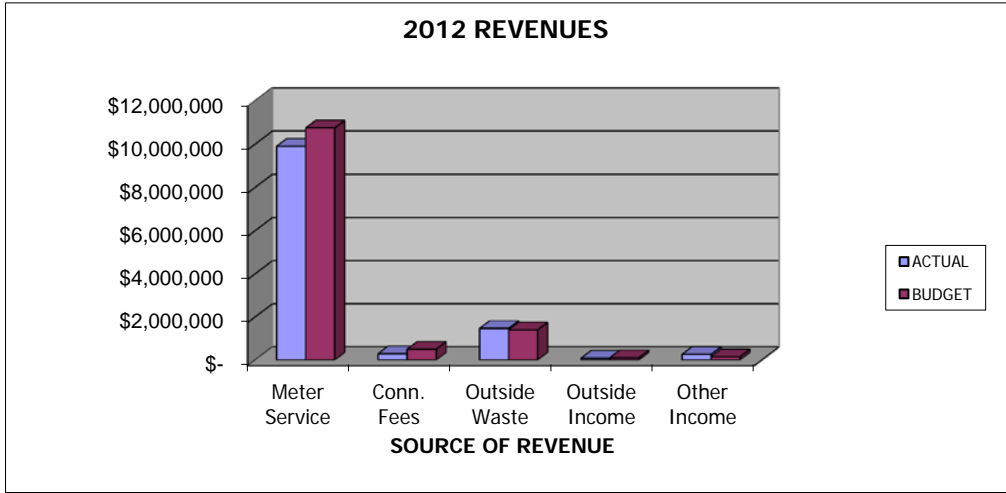
VII. MHMUA's Maple Avenue Wastewater Treatment Plant Solar Photovoltaic Energy Project

In November 2011, the MHMUA awarded Vanguard Energy Partners, LLC and Summit Global Management, Inc. a contract to construct, own and operate a solar photovoltaic generating facility at the Maple Avenue Wastewater Treatment Plant. Vanguard Energy Partners, LLC will be responsible for the design, operation and maintenance of the solar photovoltaic energy system for the entire term of the Solar Power Purchase Agreement and Solar License Agreement. Summit Global Management, Inc. will finance and own the solar photovoltaic energy system for the entire term of the Solar Power Purchase Agreement and Solar License Agreement. The MHMUA will purchase the solar electricity output from the solar photovoltaic generating facility over a 15 year Solar Power Purchase Agreement. Construction commenced January 2013 with an anticipated project completion date of spring 2013.

MT. HOLLY MUNICIPAL UTILITIES AUTHORITY - FINANCIAL ANALYSIS

The following discussion and analysis of the Mt. Holly Municipal Utilities Authority's financial performance during the year ending December 31, 2012 was prepared by the MUA's management team.

REVENUE ANALYSIS:



Meter Service:

Meter Service Revenue was less than budget for 2012 although revenue increased by \$177,330 from 2011. Consumption was higher due to the hottest July on record in 2012. This period is during high water usage. We had a loss of three Industrial Users.

Connection Fees:

Total Connection Fees recognized was \$294,876. \$26,107 Radwell Addition; \$37,117 Burlington County Library; \$12,374 Village Office were the three largest connections for 2012.

<u>By Town</u>	<u>FEES</u>	<u>UNITS</u>
Mt. Holly - 7%	20,173	6
Eastampton - 46%	134,424	22
Hainesport - 14%	41,663	8
Lumberton - 12%	35,209	5
Westampton - 21%	63,407	11
Moorestown	0	0
	\$ 294,876	52

<u>FEES</u>	<u>By Type</u>	<u>UNITS</u>
176,764	Residential - 60%	31
63,224	Business - 22%	11
54,888	Other - 18%	10
\$294,876		52

There is a commercial project in the works as well as two residential developments. This revenue should be recognized in the 2013-2014 budget years.

Outside Waste:

Overall income from outside waste (sludge, septage, leachate) increased \$68,091 over budgeted amount. The market variability and the economic impact is a major factor for this line item; However, the MHMUA provided assistance to other Authorities within the state during to Hurricane Sandy.

Outside Income:

Outside income consists of billings for gasoline and preparing lab testing for outside customers.

Other Income:

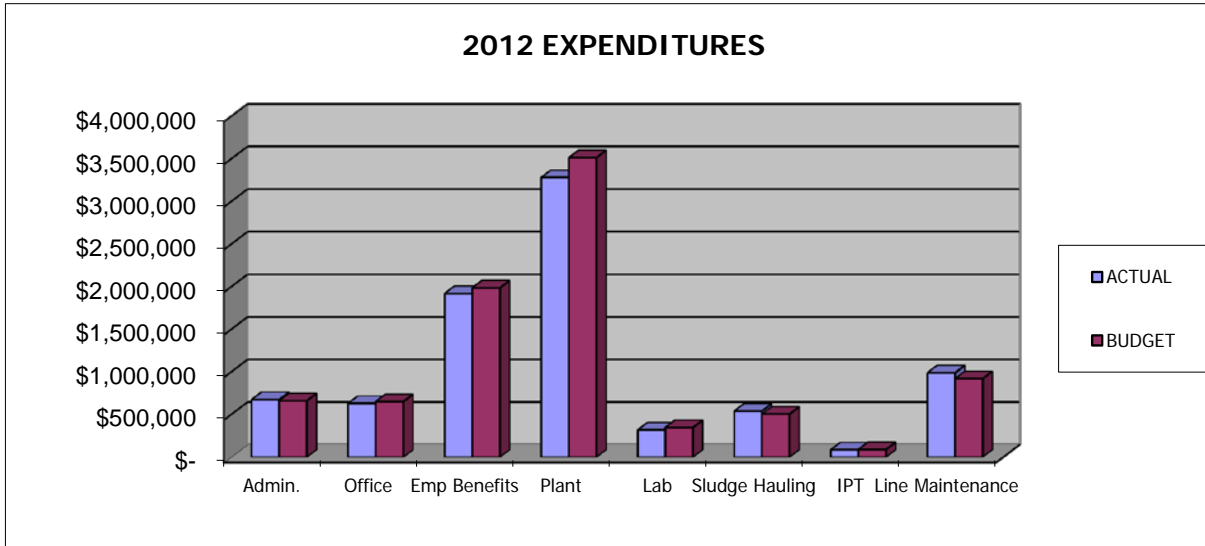
Other income consists of interest, copies, rental income, and other miscellaneous income.

Overall, the Operating Revenue Budget was \$12,910,000 and actual was \$12,012,684.

MT. HOLLY MUNICIPAL UTILITIES AUTHORITY - FINANCIAL ANALYSIS

The following discussion and analysis of the Mt. Holly Municipal Utilities Authority's financial performance during the year ending December 31, 2012 was prepared by the MUA's management team (cont.)

EXPENDITURES ANALYSIS:



Administration:

Expenditures for Administration was slightly higher than budget due to professional fees and small miscellaneous line items.

Office:

Office expenditures was under budget. Payments for lieu of taxes in this category amounts to \$240,150.

General - Employee Benefits:

Insurance was budgeted with an estimated 15% increase. Actual increase was 10%.

Plant:

Actual plant expenditures were under budget by \$233,194 due to a decrease in Chemicals, Utilities and Supplies.

Lab:

Total Lab expenditures were \$29,009 under budget.

Sludge Hauling:

Hauling was over budget by \$36,369 due to the increase in costs of disposal.

Industrial Pretreatment:

IPT was slightly under budget.

Line Maintenance:

Line Maintenance was over budget by \$68,998 due to: Salaries for overtime with Hurricane Sandy \$37,013; Electric costs by \$20,224; Other \$17,730 equipment rental for Bior Air System (which was purchased in 2012).

Overall, the Operating Budget was \$8,680,063 and actual expenditures were \$8,445,973.

MT. HOLLY MUNICIPAL UTILITIES AUTHORITY NET POSITION

ASSETS	<u>2012</u>	<u>2011</u>	<u>Change</u>
Current Assets	13,063,358	13,669,974	(\$606,616)
Other Assets	1,536,329	1,574,279	(\$37,950)
Capital Assets	<u>62,633,937</u>	<u>66,739,563</u>	<u>(\$4,105,626)</u>
Total Assets	<u>\$77,233,624</u>	<u>\$81,983,816</u>	<u>(\$4,750,192)</u>
 LIABILITIES			
Current Liabilities	3,441,011	3,526,320	(\$85,309)
Long-term Liabilities	<u>42,320,767</u>	<u>44,986,191</u>	<u>(\$2,665,424)</u>
Total Liabilities	<u>\$45,761,778</u>	<u>\$48,512,511</u>	<u>(\$2,750,733)</u>
 NET POSITION			
Invested in capital Assets (Net of Related Debt)	20,072,963	22,479,819	(\$2,406,856)
Restricted Net Position	8,319,347	8,086,269	\$233,078
Unrestricted Net Position	<u>3,079,536</u>	<u>2,905,216</u>	<u>\$174,320</u>
Total Net Position	<u>\$ 31,471,846</u>	<u>\$33,471,304</u>	<u>(\$1,999,459)</u>

Cash and Cash Equivalents decreased by \$970,106. \$375,118 was transferred from Renewal & Replacement to fund the Debt Service account that was under funded. Accounts Receivable was \$369,089 higher than 2011 due to delay of payments.

Capital Assets decreased by \$4,105,626. The breakdown is:

PPE Increases	253,262	Purchased in 2012 - Budgeted \$600,000
PPE Decreases	(4,999,722)	Sold Equipment on Gov Deals
Depreciation Adj	<u>640,834</u>	Depreciation for CY 2012 \$3,544,376; Disposals \$4,185,210
	<u>(\$4,105,626)</u>	Net Change for Capital Assets

Debt Service Payments for 2012: Principal \$2,000,989 and Interest \$1,628,948

NJEIT Loan for Project #S340817-04 was deobligated in the amount of \$399,363.

**MT. HOLLY MUNICIPAL UTILITIES AUTHORITY REVENUE, EXPENSES AND
CHANGES IN NET POSITION**

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating Revenues	12,012,684	\$12,137,469	(124,785)
Operating Expenses	<u>8,445,973</u>	<u>8,710,972</u>	<u>(264,999)</u>
Operating Income before other Operating Exp.	<u>3,566,711</u>	<u>3,426,497</u>	<u>140,214</u>
Depreciation	3,544,376	3,210,149	334,227
Nonoperating Revenue/(Expenses)	(2,021,793)	(1,751,333)	(270,460)
Net Income/(Loss) Before Transfers of Depreciation to Contributed Capital	(1,999,458)	(1,534,985)	(464,473)
Transfer of Depreciation to Cont Cap.	<u>1,709,042</u>	<u>1,753,015</u>	<u>(43,973)</u>
Net Income/(Loss) Before Operating Trans.	<u>(290,416)</u>	<u>218,030</u>	<u>(508,446)</u>
Net Position January 1	<u>16,421,046</u>	<u>16,203,016</u>	<u>218,030</u>
Net Position December 31	<u>16,130,630</u>	<u>16,421,046</u>	<u>(290,416)</u>
Contributed Capital - Net January 1	17,050,259	18,803,274	(1,753,015)
Less: Depreciation	<u>(1,709,043)</u>	<u>(1,753,015)</u>	<u>43,972</u>
Contributed Capital - Net December 31	<u>15,341,216</u>	<u>17,050,259</u>	<u>(1,709,043)</u>
Net Position - December 31	<u>\$31,471,846</u>	<u>\$33,471,305</u>	<u>(\$1,999,459)</u>

Operating Revenues decreased by \$124,785:

Metered Service	\$177,330
Connection Fees	(\$402,288)
Sludge & Septage	\$22,127
Other Misc Income	<u>\$78,045</u>
	<u>(\$124,786)</u>

Operating Expenses decreased by \$264,999:

Administration	\$138,202
Office Expense	(\$1,040)
General - Employee Benefits	(\$139,174)
Plant	\$200,453
Laboratory	\$14,150
Sludge Hauling	(\$1,724)
Industrial pretreatment	\$312
Line Maintenance	<u>\$53,820</u>
	<u>\$264,999</u>

Decrease in Net Position was due to decrease in Fixed Assets from sale on Gov Deals and decrease in Cash.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets:		
Unrestricted Assets:		
Cash & Cash Equivalents	\$ 2,448,197.16	\$ 2,664,122.94
Accounts Receivable	2,549,264.16	2,177,130.05
Unbilled Service Charges	1,519,430.73	1,522,475.60
Prepaid Expenses	1,910.68	1,838.02
Inventory - Treatment Materials & Fuel	<u>90,930.82</u>	<u>97,255.86</u>
Total Unrestricted Current Assets	<u>6,609,733.55</u>	<u>6,462,822.47</u>
Restricted Assets:		
Cash & Cash Equivalents	4,817,206.07	5,146,018.26
Cash on Hand with Fiscal Agent	108,196.00	532,484.00
Investments	1,517,279.73	1,518,359.86
Developers' Receivable	<u>10,943.01</u>	<u>10,288.92</u>
Total Restricted Current Assets	<u>6,453,624.81</u>	<u>7,207,151.04</u>
Property, Plant & Equipment (Note 6):		
Property, Plant & Equipment	122,683,542.17	127,430,002.11
Less: Accumulated Depreciation	<u>60,049,605.63</u>	<u>60,690,438.78</u>
Net Property, Plant & Equipment	<u>62,633,936.54</u>	<u>66,739,563.33</u>
Other Assets:		
Unamortized Bond Discount & Issuance Costs	<u>1,536,329.01</u>	<u>1,574,278.95</u>
Total Other Assets	<u>1,536,329.01</u>	<u>1,574,278.95</u>
Total Assets	<u>77,233,623.91</u>	<u>81,983,815.79</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011

LIABILITIES	2012	2011
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable - Operations	418,533.85	358,527.21
Accrued Liabilities	498,786.88	534,601.45
Payroll Taxes Payable	33,652.63	27,028.18
Sewer Overpayments	184.72	31.97
Deferred Connection Fees	115,796.19	115,796.19
Deferred Revenue	1,782.23	1,959.78
Total Current Liabilities Payable From Unrestricted Assets	1,068,736.50	1,037,944.78
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	1,183.00	104,441.42
Developers' & Employees' Deposits	90,661.40	80,719.83
Accrued Interest Payable	291,700.21	302,124.79
Bonds Payable - Current Portion	760,000.00	800,000.00
Loan Payable - Current Portion	1,220,023.15	1,200,989.45
Loan Payable - Summit Water Nexus - Current Portion	8,701.00	
Unamortized Bond Premiums - Current Portion	14,786.00	
Other Payables	5.25	99.77
Total Current Liabilities Payable From Restricted Assets	2,387,060.01	2,488,375.26
Long-Term Liabilities Payable From Unrestricted Assets		
Post Retirement Benefits Payable	95,291.57	516,269.86
Total Long-Term Liabilities Payable From Unrestricted Assets	95,291.57	516,269.86
Long-Term Liabilities Payable From Restricted Assets		
Bonds Payable	22,010,000.00	22,770,000.00
Loan Payable	19,840,456.42	21,459,842.60
Loan Payable - Summit Water Nexus	79,299.00	
Unamortized Bond Premiums	280,933.89	240,078.51
Total Long-Term Liabilities Payable From Restricted Assets	42,210,689.31	44,469,921.11
Total Liabilities	45,761,777.39	48,512,511.01
NET POSITION		
Invested in Capital Assets, Net of Related Debt	20,087,749.09	22,479,819.26
Restricted for:		
Future Debt Service	1,609,954.85	1,348,228.14
Debt Service Reserve	3,999,414.65	3,999,414.65
Renewal & Replacement	600,000.00	600,000.00
Operating Reserve	2,109,978.25	2,138,626.75
Unrestricted:		
Unreserved	3,064,749.68	2,905,215.98
Total Net Position	\$ 31,471,846.52	\$ 33,471,304.78

The accompanying Notes to the Financial Statements are an integral part of this Statement.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Meter Services	\$ 9,903,896.60	\$ 9,726,566.12
Connection Fees	294,875.83	697,163.34
Sludge & Septic Income	1,465,591.34	1,443,463.84
Interest Income	103,408.33	104,233.71
Unleaded Gas to Township	82,869.68	76,432.24
Other	<u>162,042.50</u>	<u>89,609.32</u>
Total Operating Revenues	<u>12,012,684.28</u>	<u>12,137,468.57</u>
Operating Expenses:		
Administrative	675,284.84	813,485.79
Office	630,633.91	629,594.79
General - Employee Benefits	1,921,082.58	1,781,907.97
Plant	3,281,908.28	3,482,361.08
Laboratory	319,596.52	333,745.71
Sludge Hauling	541,369.05	539,645.19
Industrial Pretreatment	86,049.80	86,362.19
Line Maintenance	<u>990,048.33</u>	<u>1,043,869.15</u>
Total Operating Expenses	<u>8,445,973.31</u>	<u>8,710,971.87</u>
Operating Income Before Other Operating Expenses	3,566,710.97	3,426,496.70
Other Operating Expenses:		
Depreciation	<u>3,544,376.00</u>	<u>3,210,149.27</u>
Operating Income/(Loss) After Other Operating Expenses	<u>22,334.97</u>	<u>216,347.43</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Nonoperating Revenue/(Expenses):		
Interest Income	71.53	19,833.23
Gain/(Loss) on Sale or Disposal of Assets	(756,549.08)	
Unemployment Reimbursement	(3,294.28)	
Interest Expense	(1,618,522.91)	(1,677,574.62)
Reserve for Future Unemployment	8,120.11	
Amortization of Original Issue Discount	(43,001.74)	(42,747.62)
Amortization of Debt Issue Costs	(50,589.58)	(50,843.71)
Revaluation of OPEB Liability	441,972.72	
	(2,021,793.23)	(1,751,332.72)
Net Income/(Loss) Before Transfers of Depreciation to Contributed Capital	(1,999,458.26)	(1,534,985.29)
Transfer of Depreciation to Contributed Capital	1,709,042.51	1,753,015.10
Net Income/(Loss) Before Operating Transfers	(290,415.75)	218,029.81
Net Position/(Deficit) - January 1	16,421,046.15	16,203,016.34
Net Position - December 31	16,130,630.40	16,421,046.15
Contributed Capital - Net January 1	17,050,258.63	18,803,273.73
Less: Depreciation	(1,709,042.51)	(1,753,015.10)
Contributed Capital - Net December 31	15,341,216.12	17,050,258.63
Net Position, December 31	\$ 31,471,846.52	\$ 33,471,304.78

The accompanying Notes to the Financial Statements are an integral part of this Statement.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Receipts From Service Users	\$ 11,643,118.50	\$ 12,463,579.37
Payments to Suppliers & Employees	<u>(8,417,525.68)</u>	<u>(9,488,835.07)</u>
Net Cash Provided/(Used) by Operating Activities	<u>3,225,592.82</u>	<u>2,974,744.30</u>
Cash Flows From Noncapital Financing Activities:		
Developers' Escrow Deposits	16,826.53	8,088.68
Payments for Engineering Fees From Developers' Escrow	(6,735.52)	(5,385.43)
Unemployment Contribution	<u>4,807.24</u>	<u>(10,085.11)</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	<u>14,898.25</u>	<u>(7,381.86)</u>
Cash Flows Capital & Related Financing Activities:		
Acquisition of Property, Plant & Equipment	(253,261.66)	(2,096,891.06)
Defease NJEIT Loan	(399,363.00)	
Principal Paid on Loan	(1,200,989.45)	(1,174,692.40)
Interest Paid on Loan	(500,497.50)	(524,097.47)
Interest Paid on Bonds	(1,128,450.02)	(1,166,456.28)
Principal Paid on Bonds	<u>(800,000.00)</u>	<u>(765,000.00)</u>
Net Cash Provided/(Used) by Capital & Related Financing Activities	<u>(4,282,561.63)</u>	<u>(5,727,137.21)</u>
Cash Flows From Investing Activities:		
Interest on Investments	14,001.09	40,095.62
Redeem/(Purchase) Discount Notes	1,080.13	1,022,242.52
Gain/(Loss) on Disposal of Fixed Assets	<u>57,963.37</u>	<u></u>
Net Cash Provided by Investing Activities	<u>73,044.59</u>	<u>1,062,338.14</u>
Net Increase in Cash & Cash Equivalents	(969,025.97)	(1,697,436.63)
Cash & Cash Equivalents at January 1	<u>8,342,625.20</u>	<u>10,040,061.83</u>
Cash & Cash Equivalents at December 1	<u>\$ 7,373,599.23</u>	<u>\$ 8,342,625.20</u>

Reconciliation on Net Income to Cash Provided/(Used) by Operating Activities:

Operating Income/(Loss)	\$ 22,334.97	\$ 216,347.43
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Operating Activities:		
Depreciation	3,544,376.00	3,210,149.27
(Increase)/Decrease in Assets :		
Accounts Receivable	(372,788.20)	122,749.55
Unbilled Service Charges	3,044.87	203,311.95
Prepaid Insurance	(72.66)	(117.03)
Inventory	6,325.04	23,511.64
Increase/(Decrease) in Liabilities:		
Accounts Payable	(26,627.53)	(938,691.51)
Accrued Liability	48,822.78	137,433.70
Deferred Revenue	<u>177.55</u>	<u>49.30</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$ 3,225,592.82</u>	<u>\$ 2,974,744.30</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the Mount Holly Municipal Utilities Authority have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established new financial reporting requirements for state and local governmental entities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The Authority has implemented these standards beginning with the year-ended December 31, 2004. With the implementation of GASB Statement 34, the Authority has prepared required supplementary information titled *Management’s Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Authority has implemented the following GASB Statements in the current fiscal year: Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*; Statement 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues*; Statement 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and Statement 38 – *Certain Financial Statement Note Disclosures*; Statement 40 – *Deposit and Investment Risk Disclosures* and Statements 43 & 45 – *Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*.

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.

The accompanying financial statements present the financial position of the Authority, the results of operations of the Authority and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2012, and for the year then ended.

A. Reporting Entity:

The Authority was created by an ordinance adopted July 11, 1946, by the Township Committee of the Township of Mount Holly under the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of the 1946 of the State of New Jersey, approved April 23, 1946 and as amended by Revised Statutes Title 40 Chapter 14A, Sections 1 to 37.

The Authority was established to provide for the public health and welfare, with all necessary or proper powers to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewerage or other wastes and to provide for sewerage services designed to relieve pollution of the waters in, bordering or entering the Township of Mount Holly and the Participants – Eastampton, Hainesport, Lumberton, Westampton and portions of Moorestown in compliance with the Sewer Authority Act, the Federal Water Pollution Control Act, the Authority’s covenants with bondholders and its regulations.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies (continued):

The 1978 Service Contract, as amended through 1994, with the Township of Mount Holly requires the Authority to perform its duties within the covenants of that contract and to pay an annual fee of \$33,400 to the Township for as long as the contract is in effect. In return the Township is obligated to advance payment for any deficiencies incurred by the Authority with respect to debt service requirements until such time as the Authority can make repayment.

The Authority is a component unit of the Township of Mount Holly as described in Governmental Accounting Standards Board Statement No. 14 due to the existence of a service contract between the Authority and the Township. These financial statements would be either blended or discreetly present as part of the Township's financial statements if the Township reported using generally accepted accounting principles applicable to governmental entities.

The New Jersey Department of Environmental Protection (DEP) in accordance with the New Jersey Water Pollution Control Act regulates the Authority. The Authority operates under a New Jersey Pollutant Discharge Elimination System Permit expiring on October 31, 2017. The Authority is operated in accordance with regulations of the State of New Jersey, Department of Community Affairs, Division of Local Government Services.

B. Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments.

The financial statements of 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 Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As permitted by accounting principles generally accepted in the United States of America, the Authority has elected to apply only Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (Statement No. 34). The Statement provides for the most significant change in financial reporting in over twenty years. The Authority implemented the requirements of Statement No. 34, effective January 1, 2004. The Authority has also implemented GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority has also adopted GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

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

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies (continued):

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.

The Authority prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the Authority's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

D. Budgetary Data:

The Mount Holly Municipal Utilities Authority must adopt an annual budget in accordance with *N.J.A.C.5:31-2*. *N.J.A.C.5:31-2* requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt not later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year.

The legal level of budgetary control is established at the detail shown on the statement of Revenues, Expenses and Changes in Fund Equity. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected.

E. Prepaid Items:

Prepaid balances are for payments made by the Authority in the current year for insurance coverage in the subsequent fiscal year.

F. Inventory:

Inventory consists of fuel and chemicals for the treatment of sewage and sludge and is stated at cost determined on a first-in, first-out basis.

G. Contributed Capital:

Contributed Capital consists primarily of sewer lines and pumping stations constructed by local developers and donated to the Authority. These items are recorded at estimated fair market value. The sewer lines and pumping stations are recorded as contributed capital in the period received.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies (continued):

The following is a reconciliation of the Contributed Capital account for 2012:

Balance at December 31, 2011	\$	47,633,899.54
2012 Additions to Contributed Capital		-
Total 2012 Additions		-
Balance at December 31, 2012		47,633,899.54
Accumulated Depreciation		(32,292,683.42)
Net Contributed Capital at December 31, 2012	\$	15,341,216.12

H. Property, Plant and Equipment:

Property, Plant and equipment owned by the Authority are recorded at cost or, if contributed property, at their fair market value at the time of contribution and includes certain infrastructure assets such as the sanitary sewerage lines. Repairs and maintenance are recorded as expenses. The Authority capitalized interest on significant capital projects that are expected to be under construction for more than one year.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Treatment Plants, Pumping Stations & Other Structures	20-50 years
Office Equipment	5-20 years
Rolling Equipment	5-20 years
Plant Equipment	10-20 years

Depreciation on assets acquired with contributed capital is recorded as a reduction of contributed capital.

I. Compensated Absences

Authority employees are granted vacation and sick leave in varying amounts under the Authority's personnel policies. In the event of termination, an employee is reimbursed for accumulated vacation at their current rate of pay. Payment for accumulated sick days is available to employees who reach retirement age under the state pension system. Upon retirement, an employee shall be reimbursed for fifty percent of accumulated unused sick leave up to a maximum payment of \$10,000 for union supervisors and \$7,500 for regular union workers. The Executive Director, under separate contract, is entitled to 100 days of paid sick leave upon retirement.

The total compensated absences liability is recorded as an expense. A current liability is recorded for the value of the accrual. The amount of accrual for compensated absences as of December 31, 2012, is as follows:

	Accrued <u>Salaries</u>	\$	Payroll <u>Taxes</u>	\$
Sick Time	\$ 5,141.63		\$ 393.33	
Vacation Time	152,122.56		11,637.38	
Total	\$ 157,264.19		\$ 12,030.71	

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies (continued):

J. Revenues and Unbilled Services:

Revenues include connection fees and user consumption charges payable by residential and commercial customers in the Townships of Mount Holly, Eastampton, Hainesport, Lumberton, Westampton and portions of Moorestown charged in accordance with the Service Agreements between the Townships and the Authority. Unbilled services are determined from metered and sludge sewerage services billed in the following year for services rendered through December 31 of the preceding year.

In accordance with the Authority's 1978 Service Contract with Mount Holly as amended as of June 16, 1986, five-sixths (5/6) of all connection fee income received by the Authority is applied solely to debt service on the Authority bonded debt. The remaining one-sixth (1/6) is allocated to unbonded system improvements.

K. Bond Discounts/Premiums/Debt Issuance Costs:

Bond discounts, premiums and issuance costs are deferred and amortized over the term of the bonds using the outstanding principal method. Bond discounts and premiums are presented as a reduction of the face amount of the revenue bonds payable whereas issuance costs are recorded as other assets. The following represents a summary of the amortization expense for the Bond discount and issuance costs at December 31, 2012:

	<u>2012</u> <u>Amortization</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Unamortized</u> <u>Balance</u>
1999 Sewer Revenue Bonds:			
Debt Issuance Costs	\$ 17,319.41	\$ 232,128.33	\$ 69,277.67
Bond Discount	17,231.53	247,684.89	68,926.11
1998 Sewer Revenue Bonds:			
Debt Issuance Costs	14,211.95	190,698.35	227,391.17
Bond Discount	10,239.45	157,101.85	163,831.15
2007 Sewer Revenue Bonds:			
Debt Issuance Costs	7,143.70	35,718.50	178,592.59
Bond Discount	8,616.86	43,084.30	215,421.50
2007 NJEIT Loan:			
Loan Issuance Costs	25,257.05	126,285.25	378,855.75
Loan Discount	3,843.68	19,218.40	57,655.20
Loan Premium	(13,034.69)	(65,173.45)	(195,520.29)
2009 Sewer Revenue Bonds:			
Reoffering Discount	1,314.83	5,259.32	34,185.48
Underwriter Discount	488.00	1,952.00	12,688.00
Cost of Issuance	1,443.47	5,773.88	37,530.37
2011 NJEIT Loan:			
Underwriter Discount	287.39	862.17	4,885.63
Loan Premium	(1,751.31)	(5,253.93)	(29,772.22)
DEP Fee	980.00	2,940.00	16,660.00

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 1. Summary of Significant Accounting Policies (continued):

L. Net Position:

Net Position is distributed into the following two categories:

Restricted – represents earnings that are set aside as required by the Authority’s Bond Resolution. Reserved net assets include amounts set aside for renewals and replacements, debt service reserve, future debt service, operating reserve and future arbitrage payments.

Unrestricted – represents cumulative earnings that are currently available and may be appropriated for any lawful purpose.

M. Unrestricted and Restricted Accounts

In accordance with the bond resolution, the Authority has established the following funds:

1. **Revenue Fund** – All revenues collected by the Authority are to be deposited daily, if practical, in the name of the trustee in this fund.
2. **Operating Fund** – Transfers are to be made from the revenue fund to the operating fund to pay all necessary amounts for the operating, maintenance, or repair of the water and sewer systems. The balance in the operating fund shall not be less than three whole months or more than six whole months of the Annual Budget adopted by the Authority.
3. **Debt Service Fund** – To accumulate funds for the payment of principal and interest on bonds coming due during the current fiscal year.
4. **Debt Reserve Fund** – To accumulate funds to equal the greatest amount of each respective debt service due in any future year. The current bond reserve requirement is \$3,999,414.65.

N. Subsequent Events

The Mount Holly Municipal Utilities Authority has evaluated subsequent events occurring after December 31, 2012 through the date of March 27, 2013, which is the date the financial statements were available to be issued.

Note 2. 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 reported at fair value are as follows:

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 2. Cash and Cash Equivalents (continued):

<u>Type</u>	<u>Carrying Value</u>
Deposits:	
Demand Deposits	\$ 7,373,599.23
Total Deposits	<u>\$ 7,373,599.23</u>
Reconciliation of Statement of Comparative Balance Sheets:	
Current:	
Unrestricted Assets:	
Cash & Cash Equivalents	\$ 2,448,197.16
Restricted Assets:	
Cash & Cash Equivalents	4,817,206.07
Cash on Hand with Fiscal Agent	<u>108,196.00</u>
Total	<u>\$ 7,373,599.23</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, the Authority's bank balance of \$7,416,954.13 was insured or collateralized as follows:

Insured	\$ 608,196.00
Collateralized in the Authority's Name Under GUDPA (See Note 4)	<u>6,808,758.13</u>
Total	<u>\$ 7,416,954.13</u>

Note 3. 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.

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 3. Investments (continued):

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. Maturities of investments held at December 31, 2012, are provided in the above schedule.

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>Fair Value</u>
Government Obligations	5/29/2013	N/A	<u>\$ 1,517,279.73</u>
Total			<u><u>\$ 1,517,279.73</u></u>

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 4. Governmental Unit Deposit Protection Act (GUDPA)

The Authority has deposited cash in 2012 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act. In addition to savings and checking accounts the Authority invests monies in certificates of deposits.

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 6 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 6 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 F.D.I.C. 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 the 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 the 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 such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner 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.

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 4. Governmental Unit Deposit Protection Act (GUDPA) (continued):

The Authority should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

Note 5. Accounts Receivable

Accounts receivable at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Accounts Receivable - Customers	\$ 2,493,634.82	\$ 2,139,003.25
Unbilled Service Charges	1,519,430.73	1,522,475.60
Other Receivables	55,629.34	38,126.80
Total	<u>\$ 4,068,694.89</u>	<u>\$ 3,699,605.65</u>

Note 6. Property, Plant and Equipment

The following is a summary of changes in the Authority's property, plant and equipment for the year ended December 31, 2012:

	Balance December 31, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2012</u>
Land	\$ 908,612.00			\$ 908,612.00
Buildings & Improvements	116,091,114.73	\$ 201,199.86	\$ (4,979,770.53)	111,312,544.06
Equipment	2,384,294.14	52,061.80	(19,951.07)	2,416,404.87
Engineering & Other Costs	8,045,981.24			8,045,981.24
Total Property, Plant & Equipment	127,430,002.11	253,261.66	(4,999,721.60)	122,683,542.17
Less: Accumulated Depreciation	<u>(60,690,438.78)</u>	<u>(3,544,376.00)</u>	<u>4,185,209.15</u>	<u>(60,049,605.63)</u>
Net Property, Plant & Equipment	<u>\$ 66,739,563.33</u>	<u>\$ (3,291,114.34)</u>	<u>\$ (814,512.45)</u>	<u>\$ 62,633,936.54</u>

Note 7. Long-Term Debt

Outstanding Debt

The following is a summary of long-term debt at December 31, 2012:

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 7. Long-Term Debt (continued):

	Balance December 31, <u>2011</u>	<u>Issued</u>	<u>Retired</u>	Balance December 31, <u>2012</u>	Due Within One <u>Year</u>
Bonds Payable	\$ 23,570,000.00		\$ 800,000.00	\$ 22,770,000.00	\$ 760,000.00
Unamortized Bond Premium	240,078.51	\$ 55,641.38		295,719.89	55,641.38
Post Retirement Benefits	516,269.86	20,994.43	441,972.72	95,291.57	
Loan Payable - PSE&G		88,000.00		\$ 88,000.00	8,701.00
Loan Payable	22,660,832.05		1,600,352.48	21,060,479.57	1,220,023.15
Total	\$ 46,987,180.42	\$ 164,635.81	\$ 2,842,325.20	\$ 44,309,491.03	\$ 2,044,365.53

A. 1998 Sewer Revenue Bonds – Series of 1998:

The Authority determined to abandon that portion of the construction project related to the advanced wastewater pretreatment facility and has used the unexpended proceeds of the 1998 Bonds previously deposited to the Construction Fund, together with other available funds, to defease \$9,560,000 of the outstanding 1998 Bonds. The defeasance was completed pursuant to Section 12.01 of the bond resolution. An escrow deposit agreement between the Authority and TD Bank N.A. was executed. The refunded bonds have been discharged and satisfied, and such defease refunded bonds are deemed to have been paid and are no longer outstanding. The remaining payment schedule is as follows:

<u>Issue</u>	Initial Date of <u>Issue</u>	Date of Final <u>Maturity</u>	Interest <u>Rate</u>	Original Issue <u>Amount</u>	Principal Balance <u>Outstanding</u>
1998 Sewer Revenue Bonds	12/30/1998	12/1/2028	4.00% to 5.00%	\$ 15,725,000.00	\$ 4,525,000.00

The following summary detailing the schedule of outstanding bonds by year and the annual debt principal requirements for each:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Rate of Interest</u>
2013 - Serial Bonds	\$ 85,000.00	5.000%
2018 - Term Bonds	1,135,000.00	4.750%
2028 - Term Bonds	3,305,000.00	4.750%
Total	<u>\$ 4,525,000.00</u>	

Mandatory Sinking Fund Redemption

The Bonds maturing December 1, 2018 and December 1, 2028, respectively, are subject to mandatory redemption prior to maturity, by operation of a sinking fund in accordance with the provisions of the Resolution on December 1 of the years set forth below in the respective amounts listed opposite each year, at a price equal to 100% of the principal thereof, plus accrued interest thereon to the date fixed for such redemption.

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 7. Long-Term Debt (continued):

<u>Bonds Maturing December 1, 2018</u>			<u>Bonds Maturing December 1, 2018</u>		
<u>Year</u>		<u>Installment Sinking Fund</u>	<u>Year</u>		<u>Installment Sinking Fund</u>
2014	\$	85,000.00	2019	\$	215,000.00
2015		85,000.00	2020		225,000.00
2016		555,000.00	2021		235,000.00
2017		205,000.00	2022		245,000.00
2018		205,000.00	2023		255,000.00
			2024		270,000.00
			2025		280,000.00
			2026		295,000.00
			2027		310,000.00
			2028		975,000.00

Annual Requirements to Retire Debt Obligation - 1998 Sewer Revenue Bonds

<u>Year Ending December 31,</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$	85,000.00	\$	215,150.00	\$	300,150.00
2014		85,000.00		210,900.00		295,900.00
2015		85,000.00		206,862.50		291,862.50
2016		555,000.00		202,825.00		757,825.00
2017		205,000.00		176,462.50		381,462.50
2018		205,000.00		166,725.00		371,725.00
2019		215,000.00		156,987.50		371,987.50
2020		225,000.00		146,775.00		371,775.00
2021		235,000.00		136,087.50		371,087.50
2022		245,000.00		124,925.00		369,925.00
2023		255,000.00		113,287.50		368,287.50
2024		270,000.00		101,175.00		371,175.00
2025		280,000.00		88,350.00		368,350.00
2026		295,000.00		75,050.00		370,050.00
2027		310,000.00		61,037.50		371,037.50
2028		975,000.00		46,312.50		1,021,312.50
Total	\$	4,525,000.00	\$	2,228,912.50	\$	6,753,912.50

B. 1999 Sewer Revenue Refunding Bonds

On December 30, 1998, the Utilities Authority entered into a Bond Purchase Agreement with First Union Capital Markets that provides, subject to certain conditions, for the issuance by the Authority and the purchase by First Union of all, but not less than all of the outstanding 1989 Sewer Revenue Bonds. The amount of the Refunding Bonds sold was \$8,650,000.00 and the bonds were delivered September 7, 1999.

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 7. Long-Term Debt (continued):

The following summary detailing the schedule of outstanding bonds by year and the annual debt principal requirements for each:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	Rate of <u>Interest</u>
2013	\$ 665,000.00	\$ 142,250.00	\$ 807,250.00	5.000%
2014	695,000.00	109,000.00	804,000.00	5.000%
2015	725,000.00	74,250.00	799,250.00	5.000%
2016	760,000.00	38,000.00	798,000.00	5.000%
Total	\$ 2,845,000.00	\$ 363,500.00	\$ 3,208,500.00	

C. 2007 Series C Sewer Revenue Bonds

On November 29, 2007, the Authority issued Series 2007 C Sewer Revenue Bonds that will be used to (i) Finance a portion of the costs of various capital improvements to the Authority’s sewerage collection and treatment facilities, including construction of a new treatment facility, design of force mains, the upgrade and rehabilitation of an existing pump station and various improvements and integrations to connect the new treatment facility with the existing facility; (ii) Fund the debt service reserve requirement for the Series 2007 C Bonds through the deposit of a surety bond; and (iii) Pay certain costs associated with the issuance of the Series 2007 C Bonds, including the payment of the premium for the Bond Issuance Policy (collectively, the “2007 Project”). The amount of the Sewer Revenue Bonds was \$13,000,000.00 and the Bonds were delivered December 13, 2007.

<u>Issue</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Balance Outstanding</u>
2007 Series C Sewer Revenue Bonds	12/13/2007	12/1/2037	4.00% to 5.00%	<u>\$ 13,000,000.00</u>	<u>\$ 12,960,000.00</u>

The following summary detailing the schedule of outstanding bonds by year and the annual debt principal requirements for each:

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 7. Long-Term Debt (continued):

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Rate of</u> <u>Interest</u>
2013	\$ 10,000.00	\$ 570,762.50	\$ 580,762.50	4.000%
2014	10,000.00	570,362.50	580,362.50	4.000%
2015	10,000.00	569,962.50	579,962.50	4.000%
2016	10,000.00	569,562.50	579,562.50	4.000%
2017	310,000.00	569,162.50	879,162.50	5.000%
2018	335,000.00	553,662.50	888,662.50	5.000%
2019	350,000.00	536,912.50	886,912.50	4.000%
2020	360,000.00	522,912.50	882,912.50	4.000%
2021	380,000.00	508,512.50	888,512.50	4.000%
2022	395,000.00	493,312.50	888,312.50	4.150%
2023	410,000.00	477,018.76	887,018.76	4.150%
2024	430,000.00	460,106.26	890,106.26	4.250%
2025	445,000.00	441,831.26	886,831.26	4.250%
2026	465,000.00	422,918.76	887,918.76	4.250%
2027	485,000.00	403,156.26	888,156.26	4.375%
2028	1,000,000.00	381,937.50	1,381,937.50	4.375%
2029	700,000.00	338,187.50	1,038,187.50	4.375%
2030	730,000.00	307,562.50	1,037,562.50	4.375%
2031	765,000.00	275,625.00	1,040,625.00	4.500%
2032	800,000.00	241,200.00	1,041,200.00	4.500%
2033	835,000.00	205,200.00	1,040,200.00	4.500%
2034	870,000.00	167,625.00	1,037,625.00	4.500%
2035	910,000.00	128,475.00	1,038,475.00	4.500%
2036	950,000.00	87,525.00	1,037,525.00	4.500%
2037	995,000.00	44,775.00	1,039,775.00	4.500%
Total	\$ 12,960,000.00	\$ 9,848,268.80	\$ 22,808,268.80	

Optional Redemption

The Series 2007 C Bonds maturing on or after December 1, 2018 are subject to redemption prior to maturity at the option of the Authority on December 1, 2016 and on any date thereafter, as a whole, or in part from such maturities as the Authority shall determine and by lot within a single maturity, at a redemption price equal to the principal amount to be redeemed (together with interest accrued thereon to the date fixed for such redemption).

Sinking Fund

The Series 2007 C Bonds maturing on December 1, 2037 are subject to mandatory redemption by operation of a sinking fund provided for in the Resolution at a redemption price equal to the principal amount thereof in the following principal amounts on December 1 in each of the years set forth below:

<u>Year</u>	<u>Principal</u>
2027	\$ 485,000.00
2028	1,000,000.00
2029	700,000.00
2030	730,000.00

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 7. Long-Term Debt (continued):

<u>Year</u>	<u>Principal</u>
2031	\$ 765,000.00
2032	800,000.00
2033	835,000.00
2034	870,000.00
2035	910,000.00
2036	950,000.00
2037 (Maturity)	995,000.00

D. 2009 Series A Taxable Sewer Revenue Bonds

On July 9, 2009, the authority issued 2009 Series A Taxable Sewer Revenue Bonds that will be used to (i) fund a required deposit to the Debt Reserve Fund under the resolution; (ii) pay certain costs associated with the issuance of the 2009 Series A Bonds. The amount of the Taxable Revenue Bonds was \$2,440,000 and the Bonds were delivered July 9, 2009.

<u>Issue</u>	<u>Initial Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Principal Balance Outstanding</u>
2009 Series A Taxable Bonds	7/09/2009	12/1/2038	6.00% to 6.75%	\$ 2,440,000.00	\$ 2,440,000.00

The following summary details the schedule of outstanding bonds by year and the annual debt principal requirements for each:

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 7. Long-Term Debt (continued):

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	Rate of <u>Interest</u>
2013		\$ 160,400.00	\$ 160,400.00	6.000%
2014		160,400.00	160,400.00	6.000%
2015		160,400.00	160,400.00	6.000%
2016		160,400.00	160,400.00	6.000%
2017	\$ 400,000.00	160,400.00	560,400.00	6.000%
2018		136,400.00	136,400.00	6.000%
2019		136,400.00	136,400.00	6.000%
2020		136,400.00	136,400.00	6.000%
2021		136,400.00	136,400.00	6.000%
2022		136,400.00	136,400.00	6.000%
2023		136,400.00	136,400.00	6.000%
2024		136,400.00	136,400.00	6.000%
2025		136,400.00	136,400.00	6.000%
2026		136,400.00	136,400.00	6.000%
2027		136,400.00	136,400.00	6.000%
2028		136,400.00	136,400.00	6.000%
2029	1,040,000.00	136,400.00	1,176,400.00	6.625%
2030		67,500.00	67,500.00	6.625%
2031		67,500.00	67,500.00	6.625%
2032		67,500.00	67,500.00	6.625%
2033		67,500.00	67,500.00	6.625%
2034		67,500.00	67,500.00	6.625%
2035		67,500.00	67,500.00	6.625%
2036		67,500.00	67,500.00	6.625%
2037		67,500.00	67,500.00	6.625%
2038	1,000,000.00	67,500.00	1,067,500.00	6.750%
Total	\$ 2,440,000.00	\$ 3,046,300.00	\$ 5,486,300.00	

E. New Jersey Environmental Infrastructure Trust and Fund Loan – Construction Project

The Authority has determined there exists a need within its service area to undertake various capital improvements to its System, including reconstruction of its central treatment plant and rehabilitation of various water mains, all as more particularly describe in the report prepared therefore by the Authority's Consulting Engineer as further defined in that certain Loan Agreement to be entered into between the Authority and the New Jersey Wastewater Treatment Trust and that certain Loan Agreement to be entered into between the Authority and the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection, all pursuant to the 2007 New Jersey Environmental Infrastructure Trust financing program; and on November 9, 2006, the Authority adopted a note resolution pursuant to which the Authority has heretofore issued its Project Notes, Series 2006 to temporarily finance a portion of the 2007 Project; and on July 12, 2007, the Authority adopted a note resolution pursuant to which the Authority will issue its Project Notes, Series 2007 to temporarily finance a portion of the 2007 Project; and the Authority has determined to finance a portion of the acquisition, construction, renovation or installation of the 2007 Project with the proceeds of a loan to be made by each of the Trust and the State pursuant to the Trust Loan Agreement and the Fund Loan Agreement, respectively.

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 7. Long-Term Debt (continued):

The following summary details the schedule of outstanding loans by year and the annual loan principal requirement for each:

<u>NJEIT Trust Loan</u>			<u>NJEIT Fund Loan</u>		<u>Total</u>
<u>Principal</u>	<u>Interest</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Principal</u>	
\$ 500,000.00	\$ 464,157.50	3.500%	\$ 625,277.40	\$ 1,125,277.40	
520,000.00	446,657.50	3.600%	626,898.71	1,146,898.71	
535,000.00	427,937.50	5.000%	624,486.20	1,159,486.20	
565,000.00	401,187.50	5.000%	626,593.90	1,191,593.90	
590,000.00	372,937.50	5.000%	624,486.20	1,214,486.20	
620,000.00	343,437.50	5.000%	624,810.46	1,244,810.46	
650,000.00	312,437.50	4.000%	624,161.94	1,274,161.94	
680,000.00	286,437.50	4.000%	626,756.03	1,306,756.03	
705,000.00	259,237.50	5.000%	625,329.28	1,330,329.28	
740,000.00	223,987.50	5.000%	625,167.15	1,365,167.15	
780,000.00	186,987.50	4.250%	627,112.71	1,407,112.71	
810,000.00	153,837.50	4.500%	625,069.87	1,435,069.87	
850,000.00	117,387.50	4.500%	627,372.13	1,477,372.13	
885,000.00	79,137.50	4.500%	625,264.43	1,510,264.43	
925,000.00	39,312.50	4.250%	625,378.16	1,550,378.16	
<u>\$ 10,355,000.00</u>	<u>\$ 4,115,077.50</u>		<u>\$ 9,384,164.57</u>	<u>\$ 19,739,164.57</u>	

F. New Jersey Environmental Infrastructure Trust and Fund Loan – Edward Street Pump Station

On March 10, 2011, the Authority borrowed \$1,950,000 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$1,470,000, was issued with no interest rate. The remaining Bonds mature semi-annually from August 1, 2011 through August 1, 2029 at maturities ranging from \$49,830.50 to \$74,746.00. On May 24, 2012, \$399,363.00 was deobligated by the State of New Jersey from the NJEIT Fund Loan.

The “Loan” (State Funds) portion of the Bond Issue, \$480,000, the remaining bonds mature annually from August 1, 2011 through 2029 at annual maturities ranging from \$15,000 to \$35,000 and bear interest at rates ranging from 3.00% to 5.00%.

The following summary details the schedule of outstanding loans by year and the annual loan principal requirement for each:

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 7. Long-Term Debt (continued):

<u>Year</u>	<u>NJEIT Trust Loan</u>			<u>NJEIT Fund Loan</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Rate of Interest</u>	<u>Principal</u>		<u>Principal</u>
2013	\$ 20,000.00	\$ 19,100.00	5.000%	\$ 74,745.75	\$	94,745.75
2014	20,000.00	18,100.00	3.600%	74,745.75		94,745.75
2015	20,000.00	17,100.00	5.000%	74,745.75		94,745.75
2016	20,000.00	16,100.00	5.000%	74,745.75		94,745.75
2017	20,000.00	15,100.00	5.000%	74,745.75		94,745.75
2018	25,000.00	14,100.00	5.000%	74,745.75		99,745.75
2019	25,000.00	12,850.00	4.000%	74,745.75		99,745.75
2020	25,000.00	11,850.00	5.000%	74,745.75		99,745.75
2021	25,000.00	10,600.00	3.000%	74,745.75		99,745.75
2022	25,000.00	9,850.00	4.000%	74,745.75		99,745.75
2023	30,000.00	8,850.00	4.000%	74,745.75		104,745.75
2024	30,000.00	7,650.00	4.000%	49,111.75		79,111.75
2025	30,000.00	6,450.00	4.000%			30,000.00
2026	30,000.00	5,250.00	3.500%			30,000.00
2027	35,000.00	4,200.00	4.000%			35,000.00
2028	35,000.00	2,800.00	4.000%			35,000.00
2029	35,000.00	1,400.00	4.000%			35,000.00
Total	\$ 450,000.00	\$ 181,350.00		\$ 871,315.00	\$	1,321,315.00

G. Loan Payable – Summit Water Nexus

On September 13, 2012, the Authority entered into loan agreement to finance a portion of additional expenditures needed to upgraded utilities owned by Public Service Electric & Gas in order to properly operate the solar energy system as part of the Solar Power Purchase Agreement. The total cost of the upgrade was \$246,000, and the cost was to be split equally between the Authority, Vanguard Energy Partners LLC and Summit Water Nexus, Mount Holly, LLC. The payments are to be made to Summit Water Nexus as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,701.00	\$ 220.00	\$ 8,921.00
2014	8,723.00	198.00	8,921.00
2015	8,745.00	176.00	8,921.00
2016	8,767.00	155.00	8,922.00
2017	8,789.00	133.00	8,922.00
2018	8,811.00	111.00	8,922.00
2019	8,833.00	89.00	8,922.00
2020	8,855.00	67.00	8,922.00
2021	8,877.00	44.00	8,921.00
2022	8,899.00	22.00	8,921.00
Total	\$ 88,000.00	\$ 1,215.00	\$ 89,215.00

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 8. Pension Note

A. Plan Description

The Mount Holly Municipal Utilities Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (P.E.R.S.), 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 State of New Jersey P.E.R.S. program was established as of January 1, 1955. The program was established under the provisions of *N.J.S.A.43:15A*, which assigns authority to establish and amend, benefit provisions to the plan's board of trustees. P.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625, or calling (609) 984-1684.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A* and *43.3B*. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Note 8C below.

C. Significant Legislation

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the District's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS were reduced.

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 8. Pension Note (continued):

New Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and 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”.

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

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 provide 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 cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums.

The Authority’s contributions to P.E.R.S. for the years ending December 31, 2012, 2011 and 2010 were \$371,336, \$361,657 and \$283,122, respectively, equal to the required contributions for each year.

Note 9. Joint Insurance Fund

The Mount Holly Municipal Utilities Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (NJUA). The NJUA Fund provides lines of coverage to the Mount Holly Municipal Utilities Authority as follows:

	<u>MUA</u> <u>Deductible</u>		<u>JIF</u>		<u>MEL</u>		<u>Excess</u> <u>Coverage</u>
(A) Worker's Compensation (each claim)	None	\$	200,000	\$	200,000	\$	1,800,000
(B) Property Coverage (each loss)	\$ 1,000		25,000				150,000,000
(C) Boiler & Machinery (each loss)	1,000		5,000				Up to \$150,000,000
(D) General Liability (each occurrence)	None		200,000		800,000		10,000,000
(E) Auto Liability (each occurrence)	None		200,000		800,000		10,000,000
(F) Public Officials/Employment Practices	Varies				2,000,000		3,000,000
(G) Employee Dishonesty & Faithful Performance (Retention \$50,000)	1,000		50,000				Up to \$1,000,000

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 10. Retiree Health Benefit Coverage

The Authority provides health care benefits to its eligible retired employees. In order for a retiree to be eligible to receive retirement benefits from the Authority the following conditions must be met:

- A. Retire with 30 or more years of service with the Authority.
- B. Retiree must be 55 years or older at the time of retirement.

Eligible retirees meeting the above requirements cannot have hospitalization insurance from another source. Retiree health benefits terminate when the retired employee is eligible for Medicare or dies. Employees receiving retiree health benefits must notify the Authority in writing, with proof of enrollment, when they become eligible for Medicare Parts A and B. The maximum contribution by the Authority for retiree health benefits is \$7,000 for union supervisors and \$7,000 for regular union workers per year per retiree.

As a result of implementing GASB statement No.'s 43 and 45 *Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans ("OPEB")* the Authority has hired an independent actuarial firm to calculate their annual OPEB costs and unfunded accrued liability as required by GASB 45. The Authority's annual Other Post-Employment Benefit cost is calculated based on the Annual Required Contribution. The actuarial cost method used to determine the Plan's funding requirements is the "Projected Unit Credit" method. Under this method, an actuarial accrued liability is determined as the present value of the portion of projected benefits, which is allocated to service before the current plan year. In addition, a normal cost is determined as the actuarial present value of the portion of projected benefits, which is allocated to service in the current plan year for each active participant under the assumed retirement age. The normal cost amount is expected to increase annually at the discount rate, currently 5%. The Plan is currently unfunded. The unfunded actuarial liability is amortized over a period not to exceed 30 years. The following table shows the changes in the Authority's annual Other Post-Employment Benefit cost for the year, the amount actually contributed to the Plan and changes in the Authority's net Other Post-Employment Benefit obligation to the plan:

Annual Required Contribution	\$	26,994.43
Payments to Retirees		<u>(6,000.00)</u>
Increase in Other Post-Employment Benefit Obligation		<u>20,994.43</u>
Net Other Post-Employment Benefit, Beginning of Year		516,269.86
Revaluation of OPEB Liability		<u>(441,972.72)</u>
Net Other Post-Employment Benefit, End of Year		<u><u>\$ 95,291.57</u></u>

The Authority's annual Other Post-Employment Benefit cost, the percentage of annual Other Post-Employment Benefit cost contributed to the Plan, and the net Other Post Employment Benefit obligation (OPEB) for the year ending December 31, 2012 is as follows:

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011**

Note 10. Retiree Health Benefit Coverage (continued):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2012	\$ 20,994.43	0.00%	\$ 95,291.57

Actuarial assumptions were used to value the post-retirement medical liabilities. Actuarial assumptions were based on the actual experience of the covered group, to the extent that creditable experience data was available, with an emphasis on expected long-term future trends rather giving undue weight to recent past experience. The reasonableness of each actuarial assumption was considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions. In accordance with Local 2008-15 issued by the New Jersey Department of Community Affairs, we used demographic and health care assumptions consistent with the assumptions used by New Jersey Division of Pensions and Benefits and the State Health Benefits Plan as reported in their July 1, 2006 Actuarial Valuation to value the GASB obligations, except where it was appropriate to use different assumptions.

Two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that are being partially funded. We assumed a discount rate of 5.0 percent for purposes of developing the liabilities and Annual Required Contribution on the basis that the Plan would not be funded. The valuation projects the cost to the Authority of providing medical benefits to employees who remain in the medical plan after retirement (post-employment coverage). Mt. Holly MUA contributes a maximum amount towards the health plan per employee per year based on the employee’s position. We elected to use for this valuation the maximum contribution costs based on 100% of future retirees participating in the post-employment benefit plan.

As per State requirements, the Authority will need to update their net Other Post-Employment Benefit Obligation every three years. For the year ending December 31, 2014, the Authority will need to have another actuarial performed in order to update their net Other Post-Employment Benefit.

The Authority currently has one eligible retired employee receiving retirement benefits. The net Other Post-Employment Benefit obligation to the Authority to provide benefits to the retirees for the year ended December 31, 2012 was \$95,291.57. The Authority has paid out \$6,000 in 2012 for retiree health benefits.

Note 11. Mount Holly Municipal Utilities Authority Plant Upgrade and Expansion Project

In 2004, the MHMUA engaged the services of Metcalf & Eddy (Now AECOM), Philadelphia, PA, to develop a Facility Plan in order to address current and future needs for the MHMUA’s existing Rancocas Road Water Pollution Control Facility. The first step of the Facility Plan was to assess the condition and

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 11. Mount Holly Municipal Utilities Authority Plant Upgrade and Expansion Project (continued):

capacity of the existing facility. Among the key findings of this assessment was that the existing facility was currently at or near its actual treatment capacity of 5.0 mgd; and that despite excellent preventative maintenance, there were significant structural and process mechanical rehabilitation needs due to the age of the facility and the corrosive nature of wastewater.

The second step of the Facility Plan was then to evaluate alternatives for expansion of the existing plant from 5.0 mgd to 7.675 mgd, which is the capacity currently authorized by the MHMUA's New Jersey Pollutant Discharge Elimination System (NJPDES) Permit. Through this evaluation, it was determined that the construction of a new satellite treatment facility on property owned by the MHMUA in Lumberton Township, was the lowest cost approach of providing additional treatment capacity, instead of expanding at the existing facility's location.

Based upon the magnitude and complexity of this work, it was decided that the construction of a new satellite treatment facility in Lumberton Township, and the rehabilitation/upgrade of the existing facility should occur in four separate phases: Phases I, IA, II, and III. Phases I, IA and II represent the expansion and upgrade of treatment facilities necessary to treat an average wastewater flow of 6.0 mgd (which represents the total wastewater flow projection for 2025 based upon current zoning requirements); while Phase III represents an expansion to an average future flow capacity of 7.675 mgd (which represents the capacity authorized by the MHMUA's NJPDES permit).

In 2009, the MHMUA proceeded with Phases I and IA by awarding contracts to Allan A. Myers, Inc., Worcester, PA (Contract No. 2006-1: Base Contract Cost = \$27,596,550.00), and to T&T Commonwealth Construction Company, Jackson, NJ (Contract 2006-2: Base Contract Cost = \$2,977,268.00).

The Phase I work included: (1) The construction of a new 3.0 mgd treatment facility in Lumberton; (2) The construction of a force main from the Madison Avenue Pump Station in Mount Holly to the new facility in Lumberton; (3) The construction of a force main from the intersection of the Mount Holly Bypass and Marne Highway in Hainesport Township to the new facility in Lumberton; (4) The upgrade and rehabilitation of the Madison Avenue Pump Station in Mount Holly; and (5) The construction of effluent and sludge force mains from the new facility in Lumberton to the existing facility in Mount Holly.

The Phase IA work was performed concurrently with the Phase I work and included: (1) The replacement of the existing sand filters with new discfilters; (2) The construction of new Cascade Aeration structures in the existing Filter Building; (3) The expansion of the existing Sodium Hypochlorite disinfection process by converting an existing Post Aeration Tank into a baffled Chlorine Contact Tank; (4) The expansion of the sludge thickening process through the addition of a new Rotary Screw Thickener; and (5) Providing odor control for the existing facility's Headworks, Rotary Screw Thickener, Gravity Thickener Tank, Sludge Blending and Storage Tank, and Surge Tank No. 2.

The contract with Allan A. Myers involved the construction of the satellite treatment facility on property owned by the MHMUA in Lumberton Township (a portion of the Phase I work), as well as all of the Phase IA work. While the contract with T&T Commonwealth Construction Company involved the upgrade and rehabilitation of the Madison Avenue Pump Station in Mount Holly, as well as the construction of all of the force mains to the new facility in Lumberton Township, and the construction of

MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued):
DECEMBER 31, 2012 AND 2011

Note 11. Mount Holly Municipal Utilities Authority Plant Upgrade and Expansion Project (continued):

all of the force mains between the new facility and the existing facility in Mount Holly (the remainder of the Phase I work).

The Phase II work includes: (1) Rehabilitation of the concrete structures at the existing facility; (2) Conversion of the existing PAC/AS system into a simpler-to-operate completely mixed activated sludge system (completed in 2011); and (3) Replacement of key process mechanical equipment including: influent bar screens, grit chamber blowers, main sewage pumps, recycle pumps, primary and intermediate clarifier sludge collectors and drives, aeration system blowers, and diffusers (aeration tank diffusers were replaced in 2011), etc. Upon the completion of the Phase II work, the MHMUA does not intend to proceed with Phase III.

As of December 31, 2011, the new treatment facility (Maple Avenue Water Pollution Control Facility) was fully operational, and both contracts had been substantially completed, with only minor work items and punch-list items remaining.

Note 12. Service Organization's SSAE 16 Requirement (formally SAS 70 & 88)

The Authority utilizes New Jersey American Water Company to provide consumption data of the Authority's customers' water usage. This data is used to bill the customers of the Authority, as sewer charges for commercial customers are based on the amount of water consumed. Statement of Auditing Standards (SAS) 70 and 88 requires the Authority to receive an internal control report from service organizations providing such services mentioned above. For periods ending on or after June 15, 2011, Statement on Standards for Attestation Engagements No. 16 (SSAE No. 16) became effective and became the new standard for reporting on controls at service organizations, essentially replacing SAS 70. SSAE No. 16 now requires that management of the service organization (American Water Company) to provide a description of its "system" along with a written statement of assertion.

The Authority has requested an internal control report from New Jersey American Water Company but they have not provided the Authority with the report.

Note 13. Change in Accounting Estimate

The Authority changed its method of estimating the accrued Other Post-Employment Benefits (OPEB) liability. The change had no cumulative effect on prior years' net income, but did increase current year net income by \$441,972.72. The Authority had previously recorded the entire unfunded actuarial accrued liability of \$516,269.86 per original interpretation of GASB #45. The Authority has revised its application of GASB #45 and has adjusted the estimated OPEB liability balance to be \$95,291.57 at December, 31, 2012. Further explanation of the OPEB liability calculation and retiree health benefit coverage is previously presented in Note 10.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2012**

	2012 BUDGET			2011 BUDGET		
	ORIGINAL BUDGET	AFTER TRANSFERS	ACTUAL	ORIGINAL BUDGET	AFTER TRANSFERS	ACTUAL
Revenues:						
Meter Services	\$ 10,746,400.00	\$ 10,746,400.00	\$ 9,903,896.60	\$ 10,763,500.00	\$ 10,763,500.00	\$ 9,726,566.12
Connection Fees	500,000.00	500,000.00	294,875.83	450,000.00	450,000.00	697,163.34
Sludge & Septic Income	1,397,500.00	1,397,500.00	1,465,591.34	1,542,898.00	1,542,898.00	1,443,463.84
Interest Income	100,637.00	100,637.00	103,408.33	98,000.00	98,000.00	104,233.71
Unleaded Gas to Township	110,000.00	110,000.00	82,869.68	100,000.00	100,000.00	76,432.24
Other	55,463.00	55,463.00	162,042.50	70,505.00	70,505.00	89,609.32
Total Revenues	12,910,000.00	12,910,000.00	12,012,684.28	13,024,903.00	13,024,903.00	12,137,468.57
Operating Expenses:						
Administrative:						
Salaries	\$500,000.00	500,000.00	503,603.66	500,000.00	500,000.00	636,018.00
Professional Fees	62,500.00	62,500.00	73,037.04	62,000.00	62,000.00	80,841.24
Trustee Fees	13,800.00	13,800.00	11,550.00	10,000.00	10,000.00	2,250.00
Computer Expenses	18,000.00	18,000.00	21,928.36	15,000.00	15,000.00	29,007.01
Travel	7,000.00	7,000.00	3,864.81	10,000.00	10,000.00	5,737.07
Other Expenses	60,320.00	60,320.00	61,300.97	61,000.00	61,000.00	59,632.47
Total Administrative Expense	661,620.00	661,620.00	675,284.84	658,000.00	658,000.00	813,485.79
Office:						
Salaries	299,000.00	299,000.00	298,485.92	310,500.00	310,500.00	294,824.80
Contracted Services	40,500.00	40,500.00	18,681.39	41,600.00	41,600.00	25,840.59
Payment In-Lieu of Taxes	240,150.00	240,150.00	240,150.00	240,150.00	240,150.00	240,150.00
Utility Expenses	20,750.00	20,750.00	21,930.47	20,750.00	20,750.00	17,494.18
Telephone Expenses	10,000.00	10,000.00	10,828.34	12,150.00	12,150.00	10,413.06
Repair and Maintenance	3,000.00	3,000.00	348.00	5,000.00	5,000.00	2,104.87
Supplies	10,000.00	10,000.00	12,239.40	20,000.00	20,000.00	11,752.36
Small Tools/Equipment	500.00	500.00	966.57	500.00	500.00	200.47
Postage	28,000.00	28,000.00	27,003.82	30,000.00	30,000.00	26,814.46
Total Office Expense	651,900.00	651,900.00	630,633.91	680,650.00	680,650.00	629,594.79
General - Employee Benefits:						
Employee Taxes	337,300.00	337,300.00	313,718.21	331,600.00	331,600.00	306,680.59
Pension	371,336.00	371,336.00	371,336.00	361,657.00	361,657.00	361,657.00
Insurance Expenses	234,500.00	234,500.00	212,508.05	234,500.00	234,500.00	214,687.04
Health Benefits	1,044,100.00	1,044,100.00	1,023,520.32	1,034,400.00	1,034,400.00	898,883.34
Total General-Employee Benefits	1,987,236.00	1,987,236.00	1,921,082.58	1,962,157.00	1,962,157.00	1,781,907.97
Plant:						
Salaries	2,220,000.00	2,220,000.00	2,072,431.87	1,975,000.00	1,975,000.00	2,045,458.97
Professional Fees	33,000.00	33,000.00	46,526.47	40,600.00	40,600.00	38,408.33
Contracted Services	15,000.00	15,000.00	59,313.84	50,000.00	50,000.00	89,509.88
Utilities Expense	686,902.00	686,902.00	600,838.94	896,000.00	896,000.00	667,658.02
Telephone Expense	4,000.00	4,000.00	17,389.76	18,000.00	18,000.00	20,095.29
Repair & Maintenance	85,000.00	85,000.00	74,852.28	122,000.00	122,000.00	104,499.22
Supplies	78,700.00	78,700.00	41,431.69	43,000.00	43,000.00	63,190.36
Other Expenses	29,500.00	29,500.00	47,930.51	39,000.00	39,000.00	55,918.09
Travel	15,000.00	15,000.00	12,715.27	10,000.00	10,000.00	13,192.21
Small Tools/Equipment	28,500.00	28,500.00	30,312.86	31,000.00	31,000.00	50,603.07

**MOUNT HOLLY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	2012 BUDGET			2011 BUDGET		
	ORIGINAL BUDGET	AFTER TRANSFERS	ACTUAL	ORIGINAL BUDGET	AFTER TRANSFERS	ACTUAL
Operating Expenses (continued):						
Plant (continued):						
License Fees	33,000.00	33,000.00	28,569.09	25,000.00	25,000.00	26,013.02
Chemicals	241,500.00	241,500.00	203,432.11	243,000.00	243,000.00	273,034.02
Hauling Expense	45,000.00	45,000.00	46,163.59	45,000.00	45,000.00	34,780.60
Total Plant Expenses	3,515,102.00	3,515,102.00	3,281,908.28	3,537,600.00	3,537,600.00	3,482,361.08
Laboratory:						
Salaries	270,000.00	270,000.00	264,217.49	275,000.00	275,000.00	270,536.27
Contracted Services	35,000.00	35,000.00	17,612.96	35,000.00	35,000.00	22,869.10
Repair & Maintenance	4,000.00	4,000.00	3,381.35	4,000.00	4,000.00	1,292.90
Supplies	28,500.00	28,500.00	30,012.46	28,500.00	28,500.00	34,314.61
Other Expenses	7,105.00	7,105.00	1,492.61	31,750.00	31,750.00	1,051.92
Travel	750.00	750.00	550.00	750.00	750.00	525.00
Small Tools/Equipment	1,750.00	1,750.00	972.65	1,250.00	1,250.00	2,034.91
License Fees	1,500.00	1,500.00	1,357.00	1,500.00	1,500.00	1,121.00
Total Laboratory Expenses	348,605.00	348,605.00	319,596.52	377,750.00	377,750.00	333,745.71
Sludge Hauling:						
Hauling Expense	505,000.00	505,000.00	541,369.05	500,000.00	500,000.00	539,645.19
Total Sludge Hauling Expense	505,000.00	505,000.00	541,369.05	500,000.00	500,000.00	539,645.19
Industrial Pretreatment:						
Salaries	88,000.00	88,000.00	84,742.56	85,000.00	85,000.00	85,545.36
Utilities Expense				4,500.00	4,500.00	
Telephone Expense	550.00	550.00	387.38	500.00	500.00	421.10
Other Expenses	500.00	500.00	730.86	500.00	500.00	275.73
Travel	500.00	500.00	189.00	500.00	500.00	120.00
Total Industrial Pretreatment Expenses	89,550.00	89,550.00	86,049.80	91,000.00	91,000.00	86,362.19
Line Maintenance:						
Salaries	500,000.00	500,000.00	537,013.47	575,000.00	575,000.00	571,686.64
Contracted Services	20,000.00	20,000.00	33,292.84	20,000.00	20,000.00	29,089.48
Utilities Expense	264,850.00	264,850.00	285,073.62	227,500.00	227,500.00	288,957.27
Telephone Expense	16,000.00	16,000.00	16,609.99	16,500.00	16,500.00	15,316.51
Repair & Maintenance	57,000.00	57,000.00	54,350.76	78,000.00	78,000.00	82,128.21
Supplies	500.00	500.00	191.63	500.00	500.00	112.50
Other Expenses	8,500.00	8,500.00	26,230.54	7,500.00	7,500.00	17,793.44
Travel	2,000.00	2,000.00	3,946.00	2,500.00	2,500.00	2,639.00
Small Tools/Equipment	10,500.00	10,500.00	6,869.85	1,000.00	1,000.00	10,608.19
License Fees	1,700.00	1,700.00	458.00	2,500.00	2,500.00	1,972.00
Chemicals	40,000.00	40,000.00	26,011.63	45,000.00	45,000.00	23,565.91
Total Line Maintenance Expenses	921,050.00	921,050.00	990,048.33	976,000.00	976,000.00	1,043,869.15
Total Operating Expenses	8,680,063.00	8,680,063.00	8,445,973.31	8,783,157.00	8,783,157.00	8,710,971.87
Operating Income Before Other Operating Expenses						
Operating Expenses	\$ 4,229,937.00	\$ 4,229,937.00	\$ 3,566,710.97	\$ 4,241,746.00	\$ 4,241,746.00	\$ 3,426,496.70

GENERAL COMMENTS AND RECOMMENDATIONS

**REPORT OF INDEPENDENT AUDITORS
AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS, FINANCIAL COMPLIANCE AND PERFORMANCE**

Honorable Chairman and Commissioners of the
Mount Holly Municipal Utilities Authority
Mount Holly, New Jersey 08057

We have audited, in accordance with generally accepted audit standards and *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Mount Holly Municipal Utilities Authority in the County of Burlington as of and for the year ended December 31, 2012, and have issued our report thereon dated March 27, 2013.

As part of our audit, we performed procedures required by the New Jersey Department of Community Affairs, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended for the information of the Mount Holly Municipal Utilities Authority's management and the New Jersey Department of Community Affairs. However, this report is a matter of public record and its distribution is not limited.

HOLMAN FRENIA ALLISON, P. C.
Certified Public Accountants

Medford, New Jersey
March 27, 2013

To the Chairman and Commissioners
of the Mount Holly Municipal Utilities Authority
Mount Holly, New Jersey 08060

We have audited the financial accounts and transactions of the Mount Holly Municipal Utilities Authority in the County of Burlington 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

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 bids were requested by public advertising for the following items:

Demolition and debris removal of concrete pads and retaining walls, and supply, installation and start-up of one new or used Ecopure Mini System.

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*.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. 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*).

Collection of Interest on Delinquent Service Fees

Sewer usage is billed in four cycles on a quarterly basis, with one cycle billed monthly. Bills not paid within four weeks of the billing date are considered delinquent. Delinquent accounts are charged interest of eighteen percent (18%) per annum on the total amount due.

It appears from an examination of the billing records that interest was collected in accordance with the Authority's policy.

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 ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

General Ledger

The general ledger was complete with the required journal entries.

Service Organization

***Finding 2012-01:**

The Authority is not provided with a Statement on Standards for Attestation Engagements No. 16 report from the New Jersey American Water Company. Due to the services provided by the New Jersey

American Water Company, it is very important that the Authority have an understanding of the internal controls used by the service organization.

Recommendation:

That the Authority takes immediate steps to assure themselves of the strength of internal controls within New Jersey American Water Company.

* Prior Year Finding

Follow-Up of Prior Years' Findings

In accordance with government auditing standards we have included a review of the prior year finding. Corrective action has not been taken on the finding noted above with an asterisk (*).

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.

The problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions concerning our comments or recommendations, or should you desire any assistance in implementing our recommendations, please call me.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

Medford Office
March 27, 2013