

WARREN COUNTY (PEQUEST RIVER)
MUNICIPAL UTILITIES AUTHORITY
COUNTY OF WARREN
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2011

	<u>Page</u>
<u>PART I - INTRODUCTORY SECTION</u>	
Letter of Transmittal	1-3
Organizational Chart	4
Roster of Officials	5
 <u>PART II - FINANCIAL SECTION</u>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-7
 <u>Financial Statements</u>	
Comparative Statement of Net Assets	8-9
Comparative Statement of Revenue, Expenses and Changes in Net Assets	10
Comparative Statement of Cash Flows	11
 Notes to Financial Statements	 12-29
	<u>Schedule</u>
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenue, Expenses and Changes in Net Assets - Restricted and Unrestricted	1
Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	2
Schedule of Wastewater Revenue Bonds Payable	3
Schedule of New Jersey Environmental Infrastructure Loans Payable - Trust Loan - Belvidere Wastewater Treatment Plant Upgrade	4
Schedule of New Jersey Environmental Infrastructure Loans Payable - Fund Loan - Belvidere Wastewater Treatment Plant Upgrade	5
 <u>PART III - GOVERNMENT AUDITING STANDARDS SECTION</u>	
Notes to Schedules of Expenditures of Federal and State Awards (Not Applicable)	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-2
Schedule of Findings and Responses	3
Summary Schedule of Prior Audit Findings	4
 <u>PART IV - COMMENTS AND RECOMMENDATIONS</u>	
Comments and Recommendations	5-6
Summary of Recommendations	7

Warren County (Pequest River) Municipal Utilities Authority

199 Foul Rift Road, P.O. Box 159
Belvidere, New Jersey 07823

Tel. (908) 475-5412
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March 16, 2012

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Belvidere, NJ

Dear Authority Members:

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

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

REPORTING ENTITY AND ITS SERVICES:

The Warren County (Pequest River) Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey governed by nine members appointed by the Warren County Board of Chosen Freeholders.

The Authority was created in 1969 and reorganized in 1978 under and pursuant to the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183).

The Warren County (Pequest River) Municipal Utilities Authority was created to provide for the acquisition, construction, maintenance, operation and improvement of facilities for the collection, treatment, purification or disposal of sewage or other wastes for the purpose of relieving waters of pollution within the Authority's area of service. The Authority is authorized to collect service charges for connection with, and for use of, the Authority services and products. The Authority bills the customers for such usage under their respective service contracts.

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

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2
March 16, 2012

REPORTING ENTITY AND ITS SERVICES: (Cont'd)

Governmental Accounting Standards Board Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Although the Freeholders of Warren County initially appoint the governing members of the Authority and the County has secured the payment of the Authority's bonds and loans, the Authority is autonomous from the County in all other pertinent matters concerning oversight responsibility. Accordingly, the Authority is not considered a component unit of the County of Warren.

General Trends and Significant Events

During 2011, the Authority experienced the following:

- Both sewer plants operated without any major breakdowns or violations.
- During 2011, the Authority is still working on initiating efforts towards the required upgrade of the Oxford WWTF. A Preliminary Design and Feasibility Study was authorized which will ultimately provide the information necessary for the Board of Commissioner's to make an informed decision on the most cost effective treatment technology to meet the Facilities current and anticipated future discharge requirements. The Authority also authorized the preparation and submission of an Eligibility Application to the US Department of Agriculture - Rural Development Loan and Grant Program to obtain a determination on whether the project will be eligible for grants and loans from the USDA.
- The Warren County Pollution Control Financing Authority (" the PCFA") completed construction of its leachate pretreatment plant in late summer 2009. The PCFA began discharging the effluent from the facility into the Authority's Oxford Treatment plant in October. The flow from the PCFA plant will generate significant revenue for the PRMUA in the ensuing years. PCFA is still discharging into the Oxford WWTF.

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

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

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 3
March 16, 2012

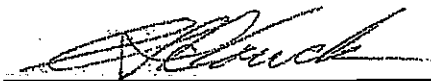
OTHER INFORMATION:

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

ACKNOWLEDGEMENTS:

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

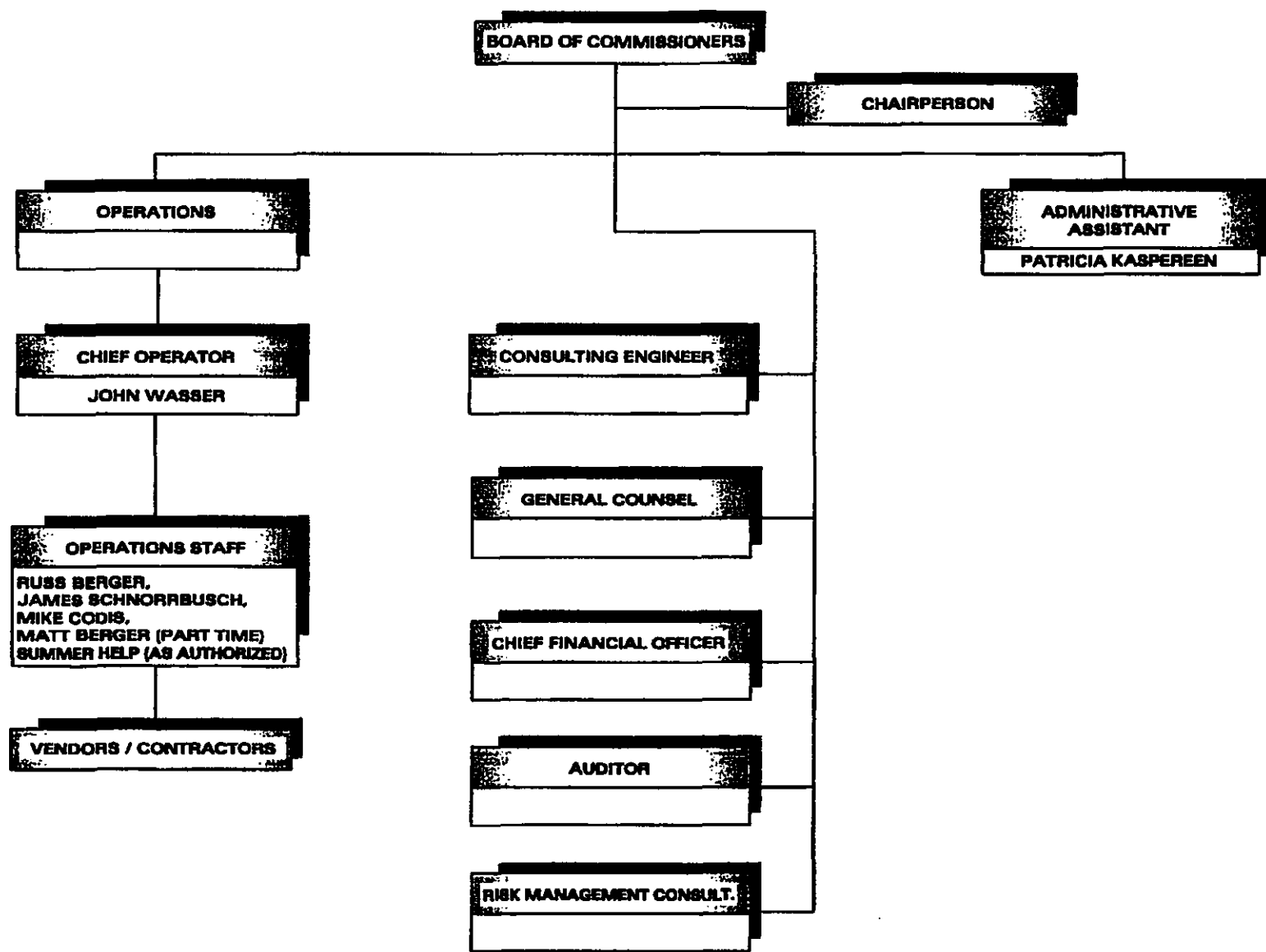
Respectfully submitted,



Charles Houck
Authority's Chief Financial Officer



E. Chad Chamberlain
Chairman



**WARREN COUNTY (PEQUEST RIVER) MUA
ORGANIZATIONAL STRUCTURE**

REVISED - DECEMBER 2011



CERENZIO & PANARO, P.C.
CONSULTING ENGINEERS

115 DEMAREST RD., SUITE A • SPARTA, N.J. 07871
(973) 300-8003 • FAX: 300-4003

ROSTER OF OFFICIALS

DECEMBER 31,

Commissioners

E. Chad Chamberlain	Chairperson
Morris Scott Jr.	Vice Chairperson
Laurel Napolitani	Secretary
Robert Piazza	Treasurer
Philip Rosenberg	Board Member
Angelo Accetturo	Board Member
Everdina O'Connor	Board Member
Michael Walsh	Board Member
Drew Kiszonak	Board Member

Other Officials

James Bale	Acting Supervisor
Charles L. Houck	Authority's Chief Financial Officer

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia LLP
Mt. Arlington, NJ

ATTORNEYS

Brian Tipton
Florio, Perrucci, Steinhardt & Fader, LLC
Phillipsburg, NJ

CONSULTING ENGINEER

Cerenzo & Panaro, P.C.
Sparta, NJ

FINANCIAL SECTION



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Belvidere, NJ

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the 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* and should be considered in assessing the results of our audits.

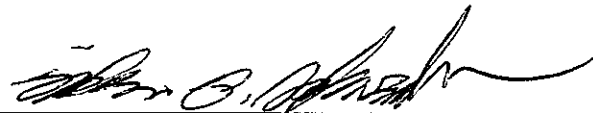
The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Mt. Arlington, New Jersey
March 16, 2012

NISIVOC CIA LLP



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

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

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

Financial Highlights

Management believes the Authority's financial position to be strong for a small county utility. The Authority is functioning within its stringent financial policies and guidelines set forth by the Authority members. Following is a list of key highlights for 2011:

- The Authority reduced the principal outstanding on the 2003 revenue refunding bonds by \$430,000, leaving a balance of \$2,405,000.
- The principal paid on the 2002 trust loan was \$95,000, and the balance is \$1,381,397. The principal paid on the 2002 fund loan was \$111,953, and the balance is \$1,238,119. The principal paid on the 2003 trust loan was \$45,000, and the balance is \$760,000. The principal paid on the 2003 fund loan was \$50,477 and the balance is \$489,642.
- Sewer charges increased \$107,425 in 2011 or 4.17%. This increase is mainly due to higher flow rates from participating entities. Sewer Connection Fees increased \$63,760 or 100% due to the increase in the construction industry and the effect of the development restrictions imposed by recent legislation.

Overview of Annual Financial Report

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

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. In addition, there are several supplementary information schedules.

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

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

Overview of Annual Financial Report (Cont'd)

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

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

The *supplementary information schedules* provide detailed comparison of budget to actual expenses, as well as important debt coverage data.

Financial Conditions

The Authority is in excellent shape to meet future financial demands.

The Authority's total net assets increased from the prior year by \$.79 million. The analysis below focuses on the Authority's net assets (Table I) and changes in net assets (Table II) during the year.

Table I
Condensed Statement of Net Assets

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 6,408,528	\$ 6,224,885	\$ 183,643	2.95%
Capital Assets	8,616,563	8,767,259	(150,696)	-1.72%
Total Assets	<u>15,025,091</u>	<u>14,992,144</u>	<u>32,947</u>	0.22%
Current Liabilities	885,244	876,117	9,127	1.04%
Long-Term Liabilities	5,653,230	6,419,234	(766,004)	-11.93%
Total Liabilities	<u>6,538,474</u>	<u>7,295,351</u>	<u>(756,877)</u>	-10.37%
Invested in Capital Assets, Net of Debt	2,214,055	1,568,595	645,460	41.15%
Unrestricted Net Assets	4,784,022	4,663,225	120,797	2.59%
Restricted Net Assets	<u>1,488,540</u>	<u>1,464,973</u>	<u>23,567</u>	1.61%
Total Net Assets	<u>\$ 8,486,617</u>	<u>\$ 7,696,793</u>	<u>\$ 789,824</u>	10.26%

Total net assets increased 10.26%. This was mainly a result of normal business operations and reduction of debt associated with capital assets.

Financial Conditions (Cont'd)

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

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

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Operating Revenue	\$ 2,806,656	\$ 2,612,781	\$ 193,875	7.42%
Nonoperating Revenue	22,197	28,675	(6,478)	-22.59%
Total Revenue	2,828,853	2,641,456	187,397	7.09%
Operating Expenses:				
Cost of Providing Services	1,163,549	1,181,331	(17,782)	-1.51%
Administrative and General Expenses	158,844	147,575	11,269	7.64%
	<u>1,322,393</u>	<u>1,328,906</u>	<u>(6,513)</u>	<u>-0.49%</u>
Depreciation	452,187	478,413	(26,226)	-5.48%
Nonoperating Expenses	264,449	284,436	(19,987)	-7.03%
Total Expenses	2,039,029	2,091,755	(52,726)	-2.52%
Change in Net Assets	789,824	549,701	240,123	43.68%
Beginning Net Assets	7,696,793	7,147,092	549,701	7.69%
Ending Net Assets	\$ 8,486,617	\$ 7,696,793	\$ 789,824	10.26%

Results of Operations

Operating Revenues: The increase in operating revenues is primarily due to sewer charges increasing 4.17% from 2010. Nonoperating revenue decreased due to lower interest income as a result of lower interest rates.

Expenses: Operating expenses decreased 0.49% over 2010. The Authority maintains its policy of careful spending to stay within the budget.

Budgetary Highlights: Over the course of the year, the Authority's Board of Directors did not make any amendments to the original budget.

Results of Operations (Cont'd)

Capital Assets: As of December 31, 2011, the Authority had \$8.6 million invested in capital assets, including land, vehicles and two 500,000 gallons per day wastewater treatment plants, four pumping stations and a sewer collection system infrastructure. This amount represents a decrease of \$.151 million from the prior year.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2011. These changes are presented in detail in Note 2 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Land	\$ 52,000	\$ 52,000		
Plant, Equipment and Vehicles	20,692,391	20,688,341	\$ 4,050	0.02%
Construction in Progress	1,199,791	902,349	297,442	32.96%
Total	<u>21,944,182</u>	<u>21,642,690</u>	301,492	1.39%
Less:				
Accumulated Depreciation	<u>13,327,618</u>	<u>12,875,431</u>	452,187	3.51%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,616,564</u>	<u>\$ 8,767,259</u>	<u>\$ (150,695)</u>	-1.72%

Long-term Debt: At year-end, the Authority had \$6,274,158 in debt outstanding – a decrease of \$732,430 from last year – as shown in Table IV. (More detailed information about the Authority's long-term liabilities is presented in Note 5 to the financial statements.)

Table IV
Outstanding Long-Term Debt

	Dec. 31, 2011	Dec. 31, 2010	(Decrease) from 2010	Percent of Decrease
Wastewater Revenue Bonds Payable	\$ 2,405,000	\$ 2,835,000	\$ (430,000)	-15.17%
NJ Environmental Infrastructure Trust Loan Payable	2,141,397	2,281,397	(140,000)	-6.14%
NJ Environmental Infrastructure Fund Loan Payable	<u>1,727,761</u>	<u>1,890,191</u>	<u>(162,430)</u>	-8.59%
	<u>\$ 6,274,158</u>	<u>\$ 7,006,588</u>	<u>\$ (732,430)</u>	-10.45%

Results of Operations (Cont'd)

Cash Flow Activity: The Cash and cash equivalents at year-end 2011 increased by \$230,041 from the previous year. The Authority maintains an adequate cash balance to meet future emergencies and capital requirements.

Final Comments: During 2011 the Authority's agreed to extend the contract with the engineering firm for plant management and still have shared services with Warren County.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, AND

ASSETS

Current Assets:		
Unrestricted Cash and Cash Equivalents	\$ 2,048,382	\$ 2,019,807
Restricted Cash and Cash Equivalents:		
Construction Account	588,006	587,997
Bond Service Account	179,036	220,602
Bond Reserve Account	578,536	578,534
Renewal and Replacement Account	910,005	840,970
General Account	1,282,848	1,268,617
Revenue Account	580,751	420,996
Total Cash and Cash Equivalents	<u>6,167,564</u>	<u>5,937,523</u>
Sewer Rents Receivable	24,842	33,706
Other Accounts Receivable	263	210
Total Current Assets	<u>6,192,669</u>	<u>5,971,439</u>
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation	8,564,563	8,715,259
Land	52,000	52,000
Total Capital Assets, Net of Depreciation and Land	<u>8,616,563</u>	<u>8,767,259</u>
Unamortized Debt Issue Costs - Wastewater Revenue Bonds	56,039	67,247
Unamortized Debt Issue Costs - NJ Environmental Infrastructure Loans	60,089	65,096
Unamortized Loss on Bond Refunding	99,731	121,103
Total Noncurrent Assets	<u>8,832,422</u>	<u>9,020,705</u>
<u>TOTAL ASSETS</u>	<u>\$ 15,025,091</u>	<u>\$ 14,992,144</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010
(Continued)

<u>LIABILITIES</u>	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Accounts Payable - Vendors	\$ 53,912	\$ 70,114
Payroll Deductions Payable	2,032	1,606
Accrued Wages Payable	13,812	6,545
Accrued Interest Payable	53,039	57,254
Accrued Compensated Absences Payable	6,305	6,305
Developers' Escrow Payable	6,866	6,863
Wastewater Revenue Bonds Payable	435,000	430,000
NJ Environmental Infrastructure Trust Loan Payable	150,000	135,000
NJ Environmental Infrastructure Fund Loan Payable	164,278	162,430
Total Current Liabilities	<u>885,244</u>	<u>876,117</u>
Noncurrent Liabilities:		
Wastewater Revenue Bonds Payable	1,970,000	2,405,000
NJ Environmental Infrastructure Trust Loan Payable	1,991,397	2,146,397
NJ Environmental Infrastructure Fund Loan Payable	1,563,483	1,727,761
Unamortized Loan Premium	91,240	98,843
Unamortized Gain on Bond Refunding	37,110	41,233
Total Noncurrent Liabilities	<u>5,653,230</u>	<u>6,419,234</u>
Total Liabilities	<u>6,538,474</u>	<u>7,295,351</u>
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	2,214,055	1,620,595
Unrestricted	4,784,022	4,611,225
Total Unrestricted Net Assets	<u>6,998,077</u>	<u>6,231,820</u>
Restricted for:		
Debt Service	<u>1,488,540</u>	<u>1,464,973</u>
Total Net Assets	<u>\$ 8,486,617</u>	<u>\$ 7,696,793</u>

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Sewer Charges	\$ 2,712,826	\$ 2,604,247
Sewer Connection Fees	63,760	
Other Revenue	21,547	8,079
Other Revenue-Grey Water	8,523	455
Total Operating Revenue	<u>2,806,656</u>	<u>2,612,781</u>
Operating Expenses:		
Cost of Providing Services	1,163,549	1,181,331
Administrative and General Expenses	158,844	147,575
Depreciation	452,187	478,413
Total Operating Expenses	<u>1,774,580</u>	<u>1,807,319</u>
Operating Income	<u>1,032,076</u>	<u>805,462</u>
Nonoperating Revenue (Expenses):		
Interest Income	10,471	16,385
Amortization of Debt Issue Costs - Wastewater Revenue Bonds	(11,208)	(11,208)
Amortization of Debt Issue Costs - NJ Environmental Infrastructure Loans	(5,008)	(5,007)
Amortization of Bond Premium	7,603	7,604
Amortization of Loss on Bond Refunding	(21,372)	(21,368)
Amortization of Gain on Bond Refunding	4,123	4,123
Prior Year Accounts Payable Cancelled		563
Interest Expense	(226,861)	(246,853)
Total Nonoperating Revenue (Expenses)	<u>(242,252)</u>	<u>(255,761)</u>
Change in Net Assets	789,824	549,701
Net Assets, Beginning of Year	<u>7,696,793</u>	<u>7,147,092</u>
Net Assets, End of Year	<u>\$ 8,486,617</u>	<u>\$ 7,696,793</u>

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,785,451	\$ 2,271,230
Other Receipts	30,017	8,324
Cash Paid to Suppliers and Employees (Including Grant Expenditures)	<u>(1,330,901)</u>	<u>(1,338,807)</u>
Net Cash Provided by Operating Activities	<u>1,484,567</u>	<u>940,747</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(4,049)	(16,516)
Construction in Progress	(297,442)	(225,428)
Principal Paid on Revenue Bonds	(430,000)	(415,000)
Principal Paid on NJ Environmental Infrastructure Fund Loan	(302,430)	(297,931)
Interest Expense	<u>(231,076)</u>	<u>(250,414)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,264,997)</u>	<u>(1,205,289)</u>
Cash Flows from Noncapital Financing Activities:		
Transfer In	19,812	261,676
Transfers Out	<u>(19,812)</u>	<u>(261,676)</u>
Net Cash Used for Noncapital Financing Activities		
Cash Flows from Investing Activities:		
Interest on Investments	<u>10,471</u>	<u>16,385</u>
Net Cash Provided by Investing Activities	<u>10,471</u>	<u>16,385</u>
Net Increase (Decrease) in Cash and Cash Equivalents	230,041	(248,157)
Cash and Cash Equivalents - Beginning of Year	<u>5,937,523</u>	<u>6,185,680</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,167,564</u>	<u>\$ 5,937,523</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	1,032,076	805,462
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	452,187	478,413
Prior Year Accounts Payable Cancelled		563
Changes in Net Assets:		
(Increase)/ Decrease in Sewer Rents Receivable	8,864	(31,175)
(Increase) Decrease in Other Accounts Receivable	(53)	(210)
Increase (Decrease) in Accounts Payable	(16,202)	(2,867)
Increase (Decrease) in Payroll Deductions Payable	425	(1,145)
Increase (Decrease) in Accrued Wages Payable	7,267	(6,168)
Increase (Decrease) in Overpayments - Sewer Charges		(301,842)
Increase (Decrease) in Developers' Escrow Payable	3	(284)
Total Adjustments and changes in Net Assets	<u>452,491</u>	<u>135,285</u>
Net Cash Provided By Operating Activities	<u>\$ 1,484,567</u>	<u>\$ 940,747</u>

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note 1 - Organization and Summary of Significant Accounting Policies

The Warren County (Pequest River) Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey governed by nine members appointed by the Warren County Board of Chosen Freeholders.

The Authority was created in 1969 and reorganized in 1978 under and pursuant to the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183).

The Warren County (Pequest River) Municipal Utilities Authority was created to provide for the acquisition, construction, maintenance, operation and improvement of facilities for the collection, treatment, purification or disposal of sewage or other wastes for the purpose of relieving waters of pollution within the Authority's area of service. The Authority is authorized to impose and to collect service charges for connection with, and for use of, the Authority services and products. The Authority bills the customers for such usage under their respective service contracts.

A. Basis of Presentation and Accounting

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

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

A. Basis of Presentation and Accounting (Cont'd)

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

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Authority is a legally separate organization. Financial transactions are processed and accounted for by the Authority's financial administration. Although the Freeholders of Warren County initially appoint the governing members of the Authority and the County has secured the payment of the Authority's bonds and loans, the Authority is autonomous from the County in all other pertinent matters concerning oversight responsibility. Accordingly, the Authority is not considered a component unit of the County of Warren under the provisions of Governmental Accounting Standards Boards, Codification Section 2100.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

B. Grants

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

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

C. Inventories

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

D. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

E. Investments

Investments are stated at cost which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. The Authority's investments are limited by the 1993 and 2003 Bond Resolutions to obligations of or guaranteed by the federal government and bank certificates of deposit.

F. Use of Estimates

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

G. Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. The balance as of December 31, 2011 was \$6,305, which is included on the Statement of Net Assets as a current liability.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

H. Revenue Recognition

The Authority has service agreements with several other local government agencies. Customers are billed quarterly based on estimates resulting from prior years actual usage. First quarter bills each year are adjusted, if necessary, for actual usage of the prior year. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

I. Net Assets

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

- 1) Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds and loans that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted – consists of constraints placed on net asset use through external constraints imposed by the 1993 and 2003 Bond Resolutions.
- 3) Unrestricted - all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

J. Allowance for Uncollectible Accounts

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

K. Restricted Accounts

In accordance with the 1993 and 2003 Bond Resolutions, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which Restricted</u>
Construction	Proceeds of debt issued and construction grants-in-aid	Construction cost of the system.
Revenue	All revenue received by the Authority	Authorized operating expenses and, as of the first day of each month, transfers to the various accounts described below.
Sinking	Amount needed to equal Sinking Fund requirement	For purchase or the redemption of the Bonds for which the account is maintained.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

K. Restricted Accounts (Cont'd)

<u>Account</u>	<u>Amount</u>	<u>Use for which Restricted</u>
Bond Service (Current Debt)	Amount needed to pay matured principal interest plus principal and interest due on or before the following January 1st	Principal and interest on the Bonds.
Bond Reserve (Future Debt Service)	Amount needed to equal the greatest amount of debt service due in any year.	Transfers to meet the minimum levels required in the Bond Service or Sinking Accounts. Any excess may be transferred into the Revenue Account.
Renewal and Replacement	Amount needed to increase the balance to equal the renewal and replacement requirements as defined by the resolution.	Transfers to meet minimum levels required in the Bond Service, Sinking or Bond Reserve Accounts or major repairs, renewal and extensions of the system.
General	To any extent	Transfer into the Bond Reserve Account the amount needed to increase the amount in the account so that it equals such Bond Reserve requirement.

Note 2 - Capital Assets

Capital assets are recorded at cost and consisted of the following, as of December 31, 2010 and 2011:

	<u>Dec. 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2011</u>
Capital Assets to be depreciated				
Plant and Equipment	\$20,505,399	\$ 4,050		\$20,509,449
Vehicles	182,942			182,942
Construction-in-Progress	902,349	297,442		1,199,791
Total Capital Assets to be depreciated	<u>21,590,690</u>	<u>301,492</u>		<u>21,892,182</u>
Capital Assets not to be depreciated				
Land	52,000			52,000
Total Capital Assets	21,642,690	301,492		21,944,182
Accumulated Depreciation	<u>(12,875,431)</u>	<u>(452,187)</u>		<u>(13,327,618)</u>
Capital Assets (Net)	<u>\$ 8,767,259</u>	<u>\$ (150,695)</u>	<u>\$ -0-</u>	<u>\$ 8,616,564</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 2 - Capital Assets (Cont'd)

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

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

Vehicles	6 Years
Land Improvements	20 Years
Buildings	45 Years
Communications, Business and Computer Equipment	2-15 Years
Machinery and Tools	15 Years
Appliances	10 Years
Lab/Science/Engineering Equipment	10 Years
Furniture and Accessories	20 Years
Grounds and Agricultural Equipment	15 Years
Sewer/Water/Electric Equipment	30 Years

Construction-in-Progress

As of December 31, 2011, the Authority continues to move forward with plans to upgrade its Oxford water treatment facilities, as well as conducting a leachate study and interceptor evaluation with cumulative costs totaling \$1,199,791.

Note 3 - Pension

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

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 3 - Pension (Cont'd)

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

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Effective with the first payroll to be paid on or after October 1, 2011 the employee contributions for PERS went from 5.5% to 6.50% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in the Fund. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to PERS amounted to \$45,382, \$35,894, and \$30,880 for 2011, 2010, and 2009, respectively.

Note 4 - Unamortized Debt Issue Costs - Bonds

Debt issue costs related to the 2003 Bond refunding totaled \$145,702. Deferred debt issue costs are being amortized over the life of the issue. \$11,208 and \$11,208 was amortized in 2011 and 2010 respectively. The unamortized debt issue costs balance is \$56,039 at December 31, 2011. The unamortized debt issue costs on the New Jersey Environmental Infrastructure Loans are discussed in Note 5.

Note 5 - Long-Term Debt

NJ Environmental Infrastructure Bonds or Loans

The Authority issued \$5,550,000 NJ Environmental Infrastructure Refunding Bonds, Series 2003 on September 16, 2003. The bonds are being issued to provide funds: (1) to currently refund a portion of the principal amount of NJ Environmental Infrastructure Refunding Bonds, Series 1993, which have been issued by the Authority for or with respect to the Authority's sewerage system (the "System") and which are presently outstanding, and (2) to pay the costs and expenses incurred by the Authority in connection with the authorization, issuance and delivery of the bonds.

The 2003 Bonds are general obligations of the Authority payable from revenues derived by the Authority from its ownership and operation of the sewerage system, including all service charges, fees, rents and charges and other income. Substantially all revenues are derived by imposing service charges under the terms of separate service contracts with certain customers, for sewer services provided by the Authority. The Authority also has entered into a contract (the "Deficiency Advance Contract") with the County of Warren (the "County") in which the County will pay the Authority an amount (the "Deficiency Advance") equal to the deficiency between its expenses and its revenues.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 5 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Bonds or Loans (Cont'd)

The Authority has no power to levy or to collect taxes, and the Bonds are not a debt or a liability of the County, of the State or any political subdivision thereof, except the Authority.

Maturity Schedule Giving Effect to the
"NJ Environmental Infrastructure Refunding Bonds, Series 2003"

<u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.500%	\$ 435,000	\$ 101,493	\$ 536,493
2013	4.000%	455,000	81,919	536,919
2014	4.250%	475,000	63,719	538,719
2015	4.125%	535,000	43,531	578,531
2016	4.250%	505,000	21,462	526,462
		<u>2,405,000</u>	<u>312,124</u>	<u>2,717,124</u>
Less: Short-Term Portion		<u>435,000</u>	<u>(117,081)</u>	<u>317,919</u>
Long-Term Portion		<u>\$ 1,970,000</u>	<u>\$ 429,205</u>	<u>\$ 2,399,205</u>

On October 15, 2002, the Authority entered into two loan agreements with the State of New Jersey, acting by and through the NJ Department of Environmental Protection Fund (the "Fund"), and the NJ Environmental Infrastructure Trust (the "Trust"), in the aggregate amount of \$4,300,000, which represents direct obligations of the Authority. The loan agreements were obtained to finance the cost of the Belvidere wastewater treatment plant upgrade.

Principal payments to the Fund amounted to \$111,953 in 2011, and will continue on a semiannual basis over the next 16 years at zero interest. Principal payments to the Trust amounted to \$95,000 in 2011, and will continue on an annual basis over the remaining 11 years.

On October 15, 2003, the Authority entered into two supplemental loan agreements with the State of New Jersey, acting by and through the NJ Department of Environmental Protection Fund (the "Fund"), and the NJ Environmental Infrastructure Trust (the "Trust"), in the aggregate amount of \$2,054,515, which represents direct obligations of the Authority. The loan agreements were obtained to finance the additional costs of the Belvidere wastewater treatment plant upgrade.

The NJ Environmental Infrastructure Trust Fund receivable balance was \$0 at December 31, 2011. Principal payments amounted to \$50,477 in 2011, will continue on a semi-annual basis over the next 11 years at zero interest. Principal payments to the Trust amounted to \$45,000 in 2011, and will continue on an annual basis over 11 years.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 5 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Bonds or Loans (Cont'd)

The Trust loans were issued at a premium totaling \$159,670 and is being amortized over the life of the loan on the straight-line basis. \$7,603 was amortized in 2011 and \$7,604 for 2010. The unamortized loan premium balance was \$91,240 at December 31, 2011. Debt issue costs incurred with the loans totaled \$105,155 and are being amortized over the life of the loan. \$5,008 was amortized for 2011 and \$5,007 was amortized for 2010. The unamortized debt issue costs balance was \$60,089 at December 31, 2011.

The New Jersey Environmental Infrastructure Trust, NJ Environmental Infrastructure Refunding Bonds, Series 2007B were issued to refund the New Jersey Environmental Infrastructure Trust 2002A. The gain on the current refunding of \$53,650 is being amortized over the life of the issue of 13 years on a straight-line basis. \$4,123 and \$4,123 was amortized in 2011 and 2010. The unamortized loan premium balance was \$37,110 at December 31, 2011.

<u>Purpose</u>	<u>Maturities of Loans</u>		<u>Interest Rate</u>	<u>Balance Dec. 31, 2011</u>
	<u>Outstanding Dec. 31, 2011</u>			
	<u>Date</u>	<u>Amount</u>		
Trust Loan - 2002/ Refunding- 2007A	8/1/2012	\$ 100,000	5.00%	\$ 1,381,397
	8/1/2013	105,000	5.25%	
	8/1/2014	110,000	5.25%	
	8/1/2015	109,760	5.00%	
	8/1/2016	119,112	5.00%	
	8/1/2017-8/1/2021	680,365	5.00%	
	8/1/2022	157,160	4.75%	
Trust Loan - 2003	8/1/2012	50,000	5.00%	760,000
	8/1/2013	50,000	5.00%	
	8/1/2014	55,000	5.00%	
	8/1/2015	55,000	4.00%	
	8/1/2016	60,000	4.00%	
	8/1/2017	60,000	4.20%	
	8/1/2018-8/1/2022	350,000	4.5%- 5%	
	8/1/2023	80,000	4.75%	
				2,141,397
	Less: Short-Term Portion			150,000
	Long-Term Portion			\$ 1,991,397

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 5 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Bonds or Loans (Cont'd)

<u>Purpose</u>	<u>Maturities of Loans</u>		<u>Interest Rate</u>	<u>Balance Dec. 31, 2011</u>
	<u>Outstanding Dec. 31, 2011</u>			
	<u>Date</u>	<u>Amount</u>		
Fund Loan - 2002	2/1/2012	\$ 23,442	-0-%	\$ 1,238,119
	8/1/2012	88,673		
	2/1/2013	21,811		
	8/1/2013	90,304		
	2/1/2014	20,014		
	8/1/2014	91,767		
	2/1/2015	18,130		
	8/1/2015	93,145		
	2/1/2016	16,255		
	8/1/2016	97,793		
	2/1/2017-2/1/2021	452,766		
	2/1/2021-8/1/2022	224,019		

<u>Purpose</u>	<u>Maturities of Loans</u>		<u>Interest Rate</u>	<u>Balance Dec. 31, 2011</u>
	<u>Outstanding Dec. 31, 2011</u>			
	<u>Date</u>	<u>Amount</u>		
Fund Loan - 2003	2/1/12	\$ 10,761	-0-%	\$ 489,642
	8/1/12	41,402		
	2/1/13	9,995		
	8/1/13	40,636		
	2/1/14	9,229		
	8/1/14	42,934		
	2/1/15	8,386		
	8/1/15	42,091		
	2/1/16	7,712		
	8/1/16	44,481		
	2/1/2017-2/1/21	232,015		
	Less: Short-Term Portion		<u>164,278</u>	
	Long-Term Portion		<u>\$ 1,563,483</u>	

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 6 - Cash and Cash Equivalents and Investments

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

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

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

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

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

Deposits:

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

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

The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository must provide collateral having market value at least equal to 100% of the amount exceeding 75%.

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

As of December 31, 2011, cash and cash equivalents and investments of the Warren County (Pequest River) Municipal Utilities Authority consisted of the following:

<u>Account</u>	<u>Cash and Cash Equivalents</u>			<u>Totals</u>
	<u>Cash on Hand and Checking Accounts</u>	<u>Money Market Funds</u>	<u>Investments Certificate of Deposits</u>	
Unrestricted	\$ 189,536		\$ 1,858,846	\$ 2,048,382
Restricted:				
General		\$ 1,282,848		1,282,848
Bond Service		179,036		179,036
Bond Reserve		578,536		578,536
Revenue	27,129	553,622		580,751
Renewal and Replacement Construction		910,005 588,006		910,005 588,006
	<u>\$ 216,665</u>	<u>\$ 4,092,053</u>	<u>\$ 1,858,846</u>	<u>\$ 6,167,564</u>

The carrying amount of the Authority's cash and cash equivalents and investments at December 31, 2011, was \$6,167,564, and the bank balance was \$6,160,694. The Authority did not hold any investments other than certificates of deposits.

Note 7 - Amounts Required by Bond Resolutions

The following cash and investment accounts are required by the Authority's bond resolutions:

Bond and Service Account	\$ 179,036
Cash and Investments on Hand	<u>179,036</u>
Excess	<u>\$ -0-</u>
Bond Reserve Account	\$ 578,535
Cash and Investments on Hand	<u>578,535</u>
Excess	<u>\$ -0-</u>
Renewal and Replacement Account	\$ 910,005
Cash and Investments on Hand	<u>910,005</u>
Excess	<u>\$ -0-</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 8 - Loss on Current Refunding

During 2003, the Authority issued Wastewater Revenue Refunding Bonds, Series 2003 for \$5,550,000 with interest rates ranging from 2.00% to 4.50%. These bonds were issued to provide funds: (1) to currently refund \$5,365,000 of the outstanding principal amount of Wastewater Revenue Refunding Bonds, Series 1993 maturing in the years 2005 to 2016, which were originally issued by the Authority to permanently finance a portion of the cost of the System, including two wastewater treatment plants, interceptor sewers and other facilities in the Service Area (the "Refunding Project"), and (2) to pay the costs and expenses incurred by the Authority in connection with the authorization, issuance and delivery of the bonds. The net proceeds of \$5,404,298 (after payment of \$145,702 in underwriting fees and other issuance costs) shall be deposited by the Trustee into a special fund or account (the "Escrow Fund") created under the Escrow Deposit Agreement. This amount when invested in direct, non-callable United States Treasury Obligations will produce sufficient funds when needed, to pay the principal of, redemption premium and interest on, the refunded bonds. As a result, the 1993 Bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

Although the current refunding resulted in the recognition of an accounting loss of \$277,823 for the year ended December 31, 2003, the Authority reduced its aggregate debt service payments by approximately \$397,000 over the next 13 years, and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$299,500.

The loss on the current refunding of \$277,823 is being amortized over the remaining life of the issue of 13 years on a straight-line basis. Amortization of the loss for 2011 was \$21,372 and for 2010 was \$21,368. The unamortized loss on bond refunding balance was \$99,731 at December 31, 2011.

Note 9: Risk Management

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

The Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund (the "Fund"). The Fund is both an insured and self-administered group of local utility authorities established for the purpose of providing low-cost insurance coverage for the members in order to keep local user fees and charges at a minimum for the local utility authorities who form the membership of the joint insurance fund.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 9: Risk Management (Cont'd)

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

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

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

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

The December 31, 2011 audit report of the Fund is not filed as of the date of this audit. Selected, summarized financial information for the Fund as of December 31, 2010 is as follows:

	NJ Utility Authorities Joint Insurance Fund Dec. 31, 2010
Total Assets	\$ 12,410,396
Net Assets	\$ 6,078,299
Total Revenue	\$ 9,032,712
Total Expenses	\$ 7,739,611
Change in Net Assets	\$ 400,194
Net Assets Distribution to Participating Members	\$ -0-

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
 (Continued)

Note 9: Risk Management (Cont'd)

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

New Jersey Utility Authorities Joint Insurance Fund

PERMA Risk Management Services
 250 Pehle Ave, Suite 701
 Saddle Brook, NJ 07662
 (201) 587-0555

New Jersey Unemployment Compensation Insurance

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Contributory Method". Under this plan, the Authority is required to remit employee withholdings to the State on a quarterly basis. All of the Authority's claims are paid by the State.

Note 10: Post-Retirement Benefits

The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP.

Rules governing the operations and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/ substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body by statute to be responsible for the operations of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. The report may be obtained in writing to:

State of New Jersey Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf>.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 10: Post-Retirement Benefits (Cont'd)

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on the pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health benefits of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget.

The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget. During 2011, the Authority had 1 employee who met eligibility requirements and recognized expenses of approximately \$10,115. In 2010, the Authority had 1 employee who met eligibility requirements and recognized expenses of approximately \$10,115.

Note 11: Intraentity and Interfund Transfers

In the normal course of business, the Authority will from time to time authorize advances between accounts. During 2011, the Authority transferred \$19,812 among restricted and unrestricted accounts based on the bond provisions. There were no advances outstanding as of December 31, 2011.

Note 12: Contractual Commitments

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

- The Authority has a three year contract with Russell Reid for transportation of liquid sludge for ultimate disposal. The cost for this service is \$0.0484 per gallon.
- The Authority has an ongoing contract with Passaic Valley Sewerage Commissioners for disposal services of residual sludge waste. The cost of this service is \$0.04 per gallon from the Belvidere plant, and \$0.04 per gallon from the Authority's Oxford plant.
- The Authority has a contract with Univar USA Inc. for chemicals used in the process of treating wastewater
- The Authority has sewer service agreements with other local government agencies, namely;
 1. The Town of Belvidere
 2. Oxford Township
 3. The County of Warren
 4. Pollution Control Financing Authority of Warren County
 5. White Township
- The Authority holds sewer service agreements with several private entities, namely;
 1. Country View Village
 2. Windtryst Apartments

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 13: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

	<u>2011</u>	<u>2010</u>
Vendors	\$ 53,912	\$ 70,114
Payroll Deductions Payable	2,032	1,606
Accrued Wages Payable	13,812	6,545
Accrued Interest Payable	53,039	57,254
Accrued Compensated Absences Payable	6,305	6,305
Developers' Escrow Payable	6,866	6,863
Total	<u>\$ 135,966</u>	<u>\$ 148,687</u>

Note 14: Environmental Matters

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

Note 15: Contingencies

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

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

SUPPLEMENTARY INFORMATION

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

	Unrestricted	Restricted				Totals (Memo)	
		Bond Reserve Account	Bond Service Account	Renewal and Replacement Account	General Account	For the Years Ended December 31, 2011	2010
Operating Revenue:							
Sewer Charges	\$ 2,712,826					\$ 2,712,826	\$ 2,604,247
Sewer Connection Fees	63,760					63,760	
Other Revenue	21,547					21,547	8,079
Other Revenue-Grey Water	8,523					8,523	455
Total Operating Revenue	2,806,656					2,806,656	2,612,781
Operating Expenses:							
Costs of Providing Services	1,163,549					1,163,549	1,181,331
Administrative and General	158,844					158,844	147,575
Depreciation	452,187					452,187	478,413
Total Operating Expenses	1,774,580					1,774,580	1,807,319
Operating Income	1,032,076					1,032,076	805,462
Nonoperating Revenue (Expenses):							
Interest Income	6,716	\$ 809	\$ 22	\$ 4	\$ 2,920	10,471	16,385
Interest Expense	(226,861)					(226,861)	(246,853)
Amortization of Debt Issue Costs - Wastewater Revenue Bonds	(11,208)					(11,208)	(11,208)
Amortization of Debt Issue Costs - NJ Environmental Infrastructure Loans	(5,008)					(5,008)	(5,007)
Amortization of Bond Premium	7,603					7,603	7,604
Amortization of Loss on Bond Refunding	(21,372)					(21,372)	(21,368)
Amortization of Gain on Loan Refunding	4,123					4,123	4,123
Prior Year Accounts Payable Cancelled							563
Income (Loss) Before Transfers	786,069	809	22	4	2,920	789,824	549,701

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
RESTRICTED AND UNRESTRICTED
YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

	<u>Unrestricted</u>	<u>Restricted</u>			<u>Totals (Memo)</u>			
		<u>Bond Reserve Account</u>	<u>Bond Service Account</u>	<u>Renewal and Replacement Account</u>	<u>General Account</u>	<u>For the Years Ended December 31,</u>	<u>2011</u>	<u>2010</u>
Transfers:								
Designated per Bond Sale Provisions	\$ (19,812)	\$ (808)	\$ (45,491)	\$ 69,031	\$ (2,920)			
Increase/(Decrease) in Net Assets	766,257	1	(45,469)	69,035		\$ 789,824	\$ 549,701	
Net Assets, Beginning of Year	6,231,820	578,534	45,469	840,970		7,696,793	7,147,092	
Net Assets, End of Year	\$ 6,998,077	\$ 578,535	\$ -0-	\$ 910,005	\$ -0-	\$ 8,486,617	\$ 7,696,793	

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY
OPERATING REVENUE COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010

	2011 Budget	Budget After Modification	2011 Actual	Excess or Deficit	2010 Actual
Revenue:					
User Charges and Fees					
(Sewer Treatment Service)	\$ 2,605,401	\$ 2,605,401	\$ 2,712,826	\$ 107,425	\$ 2,297,736
Interest on Investments and Deposits	13,760	13,760	10,471	(3,289)	11,077
Connection Fees			63,760	63,760	
Other Revenue	10,000	10,000	21,547	11,547	20,584
Other Income-Grey Water			8,523	8,523	455
Total Revenue	<u>2,629,161</u>	<u>2,629,161</u>	<u>2,817,127</u>	<u>187,966</u>	<u>2,329,852</u>
Expenses:					
Operating Expenses:					
Salary and Wages- General Administration	82,725	82,725	81,128	1,597	80,573
Salary and Wages- Operations	274,286	274,286	281,838	(7,552)	262,970
Alarm System	2,500	2,500	985	1,515	1,170
Chemicals	42,840	42,840	39,579	3,261	35,007
Electricity Expenses	230,000	230,000	199,082	30,918	208,238
Employee Training	3,000	3,000	234	2,766	33
Employer Social Security and Medicare Contribution	27,490	27,490	26,317	1,173	26,231
Employer PERS Contribution	45,382	45,382	45,382		35,894
Engineering Expenses	55,000	55,000	59,255	(4,255)	66,529
Contracted Equipment			295	(295)	
Fuel and Gasoline	10,500	10,500	10,353	147	7,595
Garbage Disposal	200	200		200	
Employer Disability Contribution	2,250	2,250	1,440	810	1,338
Insurance	22,500	22,500	18,899	3,601	17,904
Lab Expenses	45,000	45,000	31,647	13,353	33,946
Maintenance Expenses	120,000	120,000	100,449	19,551	81,687
Miscellaneous Consultant Services	96,500	96,500	54,523	41,977	91,816
Miscellaneous	4,500	4,500	690	3,810	3,497
Trustee Fees	20,000	20,000	12,473	7,527	16,002
Permits	20,000	20,000	10,941	9,059	12,347
Postage	1,500	1,500	990	510	902
Sludge Disposal	204,000	204,000	161,344	42,656	173,179
Telephone	7,500	7,500	7,258	242	6,923
Uniforms, Shoes. etc.	5,200	5,200	2,776	2,424	3,279
Vehicle Expense	3,000	3,000	1,311	1,689	416
Workmans Compensation	14,234	14,234	14,234		13,741
Renewal and Replacement	100,000	100,000		100,000	
Water	250	250	126	124	114
Total Operating Expenses	<u>1,440,357</u>	<u>1,440,357</u>	<u>1,163,549</u>	<u>276,808</u>	<u>1,181,331</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY
OPERATING REVENUE COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

	<u>2011</u> <u>Budget</u>	<u>Budget</u> <u>After</u> <u>Modification</u>	<u>2011</u> <u>Actual</u>	<u>Excess or</u> <u>Deficit</u>	<u>2010</u> <u>Actual</u>
Expenses: (Cont'd):					
Administrative and General Expenses:					
Advertising	\$ 4,600	\$ 4,600	\$ 945	\$ 3,655	\$ 876
Hospitalization Insurance	126,898	126,898	114,100	12,798	111,735
Legal and Accounting	40,000	40,000	41,204	(1,204)	32,284
Office Supplies	3,800	3,800	2,595	1,205	2,680
Contingency	50,000	50,000		50,000	
Total Administrative and General Expenses	<u>225,298</u>	<u>225,298</u>	<u>158,844</u>	<u>66,454</u>	<u>147,575</u>
Debt Service:					
Bond and Loan Principal	732,430	732,430	732,430		712,931
Interest on Bonds and Loans	231,076	231,076	231,076		250,414
Total Debt Service Expenses	<u>963,506</u>	<u>963,506</u>	<u>963,506</u>		<u>963,345</u>
Total Costs Funded by					
Operating Revenue	<u>2,629,161</u>	<u>2,629,161</u>	<u>2,285,899</u>	<u>343,262</u>	<u>2,292,251</u>
Operating Excess (Deficit) Anticipated	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 531,228</u>	<u>\$ 531,228</u>	<u>\$ 37,601</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF WASTEWATER REVENUE BONDS PAYABLE

	Original		Interest Rate	Maturities of Bonds Outstanding Dec. 31, 2011		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
2003 Issue	09/16/03	\$ 5,550,000	4.500%	12/01/12	\$ 435,000	\$ 2,835,000	\$ 430,000	\$ 2,405,000
			4.000%	12/01/13	455,000			
			4.250%	12/01/14	475,000			
			4.125%	12/01/15	535,000			
			4.250%	12/01/16	505,000			
						<u>\$ 2,835,000</u>	<u>\$ 430,000</u>	<u>\$ 2,405,000</u>
Balance Comprised of:								
Short-Term Portion						\$ 430,000	\$ 5,000	\$ 435,000
Long-Term Portion						<u>2,405,000</u>	<u>(435,000)</u>	<u>1,970,000</u>
						<u>\$ 2,835,000</u>	<u>\$ (430,000)</u>	<u>\$ 2,405,000</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - TRUST LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

	Original		Interest Rate	Maturities of Loans Outstanding Dec. 31, 2011		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
Issue of 2002/ Refunding Series 2007A	10/15/02	\$ 2,100,000	5.00%	08/01/12	\$ 100,000	\$ 1,476,397	\$ 95,000	\$ 1,381,397
			5.25%	08/01/13	105,000			
			5.25%	08/01/14	110,000			
			5.00%	08/01/15	109,760			
			5.00%	08/01/16	119,112			
			5.00%	08/01/17	123,638			
			5.00%	08/01/18	128,423			
			5.00%	08/01/19	137,970			
			5.00%	08/01/20	142,770			
			5.00%	08/01/21	147,564			
			4.75%	08/01/22	157,160			

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - TRUST LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

Continued

	Original		Interest Rate	Maturities of Loans Outstanding Dec. 31, 2011		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
Issue of 2003	10/15/03	\$ 1,050,000	5.00%	08/01/12-13	\$ 50,000	\$ 805,000	\$ 45,000	\$ 760,000
			5.00%	08/01/14	55,000			
			4.00%	08/01/15	55,000			
			4.00%	08/01/16	60,000			
			4.20%	08/01/17	60,000			
			4.25%	08/01/18	65,000			
			5.00%	08/01/19	65,000			
			5.00%	08/01/20	70,000			
			4.50%	08/01/21	75,000			
			4.75%	08/01/22	75,000			
			4.75%	08/01/23	80,000			
						<u>\$ 2,281,397</u>	<u>\$ 140,000</u>	<u>\$ 2,141,397</u>
Balance Comprised of:								
Short-Term Portion						\$ 135,000	\$ 15,000	\$ 150,000
Long-Term Portion						2,146,397	(155,000)	1,991,397
						<u>\$ 2,281,397</u>	<u>\$ (140,000)</u>	<u>\$ 2,141,397</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - FUND LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

	Original		Interest Rate	Maturities of Loans Outstanding Dec. 31, 2011		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
Issue of 2002	10/15/02	\$ 2,200,000	0.00%	2/1/12	\$ 23,442	\$ 1,350,072	\$ 111,953	\$ 1,238,119
				8/1/12	88,673			
				2/1/13	21,811			
				8/1/13	90,304			
				2/1/14	20,014			
				8/1/14	91,767			
				2/1/15	18,130			
				8/1/15	93,145			
				2/1/16	16,255			
				8/1/16	97,793			
				2/1/17	14,216			
				8/1/17	99,016			
				2/1/18	12,096			
				8/1/18	100,158			
				2/1/19	9,895			
				8/1/19	104,479			
				2/1/20	7,530			
				8/1/20	105,376			
				2/1/21	5,084			
				8/1/21	106,192			
				2/1/22	2,556			
				8/1/22	110,187			

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - FUND LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

Continued

	Original		Interest Rate	Maturities of Loans Outstanding Dec. 31, 2011		Balance Jan. 1, 2011	Matured	Balance Dec. 31, 2011
	Date	Amount		Date	Amount			
Issue of 2003	10/15/03	\$ 1,004,515	0.00%	2/1/12	\$ 10,761	\$ 540,119	\$ 50,477	\$ 489,642
				8/1/12	41,402			
				2/1/13	9,995			
				8/1/13	40,636			
				2/1/14	9,229			
				8/1/14	42,934			
				2/1/15	8,386			
				8/1/15	42,091			
				2/1/16	7,712			
				8/1/16	44,481			
				2/1/17	6,977			
				8/1/17	43,746			
				2/1/18	6,205			
				8/1/18	46,038			
				2/1/19	5,358			
				8/1/19	45,191			
				2/1/20	4,362			
				8/1/20	47,259			
				2/1/21	3,290			
				8/1/21	23,589			
						<u>\$ 1,890,191</u>	<u>\$ 162,430</u>	<u>\$ 1,727,761</u>
Balance Comprised of:								
Short-Term Portion						\$ 162,430	\$ 1,848	\$ 164,278
Long-Term Portion						<u>1,727,761</u>	<u>(164,278)</u>	<u>1,563,483</u>
						<u>\$ 1,890,191</u>	<u>\$ (162,430)</u>	<u>\$ 1,727,761</u>

GOVERNMENTAL AUDITING STANDARDS



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax
 Lawrence Business Park
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6899 | 973-383-6555 Fax

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

The Honorable Chairman and Members
 of the Warren County (Pequest River)
 Municipal Utilities Authority
 Belvidere, NJ

We have audited the financial statements of the Pequest River Municipal Utilities Authority in the County of Warren (the "Authority") as of, and for the years ended, December 31, 2011 and 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 16, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2

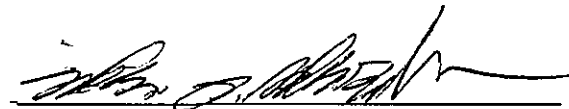
Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Chairman and Members of the Pequest River Municipal Utilities Authority, others within the Authority and to meet the requirements for filing with the Division of Local Government Services, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mount Arlington, New Jersey
March 16, 2012

NISIVOC CIA LLP



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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Summary of Auditors' Results:

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

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

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

The Authority had no findings during the prior year.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
OTHER COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

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

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

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

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(CONTINUED)

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq. (Cont'd)

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

There are no recommendations.
