Pennsauken Sewerage Authority

Report of Audit

With Supplementary Information

For The Years Ending December 31, 2012 and 2011

PENNSAUKEN SEWERAGE AUTHORITY
Table of Contents
For the Year Ended December 31, 2012

PENNSAUKEN SEWERAGE AUTHORITY
Roster of Officials
As of December 31, 2012

MEMBERS	POSITION
Oren Lutz	Chairman
Gregory E. Schofield	Vice-Chairman
Roy Bundy	Member
James Pennestri	Member
James Cummings	Member

OFFICERS	
William Orth	Secretary/Executive Director
Robin Fair	Treasurer/Office Manager

	CONSULTANTS
David Luthman	Solicitor
T & M Associates, Inc	Engineer
Remington & Vernick Engineers	Engineer
CES Consulting	Engineer
US Bank	Trustee
Parker McCay	Bond Counsel
Connor Strong Companies, Inc.	Insurance Broker

PENNSAUKEN SEWERAGE AUTHORITY

PART I

FINANCIAL SECTION

FOR THE YEARS ENDED
DECEMBER 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

The Chairman and Members of
The Pennsauken Sewerage Authority
Pennsauken, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Pennsauken Sewerage Authority, in the County of Camden, State of New Jersey, a component unit of the Township of Pennsauken, as of and for the years ending December 31, 2012 and 2011 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in compliance with the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Pennsauken Sewerage Authority, in the County of Camden, State of New Jersey as of December 31, 2012 and 2011, and the respective 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.

Emphasis of Matter

As discussed in Note 9 to the financial statements, in 2012, the Authority adopted new accounting guidance GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement 65 Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents and are not a required part of the basic financial statements.

The accompanying supplementary schedules as 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Voorhees New Jersey
April 15, 2013

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

INDEPENDENT AUDITORS' REPORT

The Chairman and Members of
The Pennsauken Sewerage Authority
Pennsauken, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Pennsauken Sewerage Authority (Authority), in the County of Camden, State of New Jersey, a component unit of the Township of Pennsauken, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 15, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 and the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
April 15, 2013

PENNSAUKEN SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012 AND 2011

The Pennsauken Sewerage Authority (the Authority) is a public agency providing wastewater services to Pennsauken Township, the Borough of Merchantville and a small section of Cherry Hill Township. This section of the Authority's annual financial report provides a discussion and analysis of the financial performance for the years ending December 31, 2012, 2011 and 2010. The entire annual financial report consists of four parts; Independent Auditor's Reports, the management's discussion and analysis, the basic financial statements and supplemental schedules.

FINANCIAL HIGHLIGHTS

- **Total Assets** - Total assets as of December 31, 2012 were $8,044,911.59 after deducting liabilities of 1,364,088.00, net position equals $6,680,823.59.
- **Total Operating Revenue**- Revenues for the year ending December 31, 2012 totaling $3,485,020.97 were down from last year's ending amount of $3,670,809.06 mainly due to a decrease in commercial usage.
- **Total Operating Expenses** – Operating expenses for the year ending December 31, 2012 of $3,859,037.48 were down 1.3% from last year's amount of $3,909,896.64.
- **Interest Income** – As of December 31, 2012, the Authority generated $6,113.80 in interest income from investments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The comparative statement of net position includes all of the Authority's assets and liabilities. As the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statement of revenues, expenses, & changes in net position regardless of when cash is received or paid. Net position – the difference between the Authority's assets and liabilities – are a measure of the Authority's financial health or position.

The comparative statement of revenues, expenses and changes in net position provides a breakdown of the various areas of revenues and expenses encountered during the current year.

The comparative statement of cash flows provides a breakdown of the various sources of cash flow, categorized into four areas: Cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position was $6,680,823.59 on December 31, 2012. Total assets, total liabilities and total net position are detailed below.

A significant portion of the Authority's net position (86.33%) represents its investment in capital assets (i.e. sewer lines, buildings, improvements and equipment); less the related debt outstanding used to acquire those capital assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Authority's net position (8.26%) represents resources that are subject to external restrictions on how they can be used under the Bond Resolution covenants. The remaining unrestricted net position (5.41%) may be used by the Authority for any legal purpose.

Statement of Net Position
As of December 31, 2012, 2011 and 2010

	Dec. 31, 2012	Dec. 31, 2011 (Restated)	Dec. 31, 2010 (Restated)
Assets			
Current Assets	$ 1,610,758.18	$ 1,750,728.57	$ 2,149,485.00
Capital Assets	6,434,153.41	6,770,609.93	6,815,365.74
Total Assets	**$ 8,044,911.59**	**$ 8,521,338.50**	**$ 8,964,850.74**
Liabilities			
Current Liabilities	$ 488,370.56	$ 550,033.75	$ 724,095.00
Long Term Liabilities	875,717.44	909,937.09	966,060.00
Total Liabilities	**$ 1,364,088.00**	**$ 1,459,970.84**	**$ 1,690,155.00**
Net Position			
Net Investment in Capital Assets	$ 5,767,256.07	$ 6,014,670.58	$ 5,975,083.74
Restricted	551,833.34	551,833.34	673,000.00
Unrestricted	361,734.18	494,863.74	656,127.00
Total Position	**$ 6,680,823.59**	**$ 7,061,367.66**	**$ 7,304,210.74**

FINANCIAL ANALYSIS OF THE AUTHORITY (CONT'D)

Statement of Revenues, Expenses and Changes in Net Position
For the Year ended December 31, 2012, 2011 and 2010

	Dec. 31, 2012	Dec. 31, 2011 (Restated)	Dec. 31, 2010 (Restated)
Operating Revenues:			
Service Fees	$ 3,390,394.69	$ 3,574,395.54	$ 3,480,872.48
Connection Fees	62,004.72	21,392.89	11,396.00
Other Operating Revenues	32,621.56	75,020.63	21,251.98
Total Operating Revenues	**$ 3,485,020.97**	**$ 3,670,809.06**	**$ 3,513,520.46**
Operating Expenses:			
Administration	$ 988,423.52	$ 1,096,128.93	$ 977,526.33
Cost of Providing Services	2,434,879.23	2,437,028.83	2,262,537.72
Depreciation	435,734.73	376,738.88	376,165.41
Total Operating Expenses	**$ 3,859,037.48**	**$ 3,909,896.64**	**$ 3,616,229.46**
Net Non-Operating Income (Expenses)	**$ (6,527.56)**	**$ (3,755.50)**	**$ (5,332.93)**
Change in Net Position	**(380,544.07)**	**(242,843.08)**	**(108,041.93)**
Net Position - Beginning - Before Cumulative Effects of Changes in Accounting Principles	**7,061,367.66**	**7,304,210.74**	**7,452,150.23**
Cumulative Effects of Changes in Accounting Principles			**(39,897.56)**
Net Position - Beginning - As Adjusted for Cumulative Effects of Changes in Accounting Principles			**7,412,252.67**
Net Position - Ending	**$ 6,680,823.59**	**$ 7,061,367.66**	**$ 7,304,210.74**

OVERALL ANALYSIS

Overall the Authority is in a sound financial position and Pennsauken continues to be a desirable location for residential and commercial users. Future projects the Township has planned will bring additional revenue to the Authority without additional expense. Several projects currently in motion are the redevelopment of the grounds that the Pennsauken Mart once occupied, and development of Pennsauken's waterfront property to include residential and commercial development.

Service charges billed to our customers were raised January 1, 2013 from $174.00 to $180.00 a year per unit for residential users. The increase to commercial/industrial users went from $168.00 to $174.00 minimum plus $1.63 to $1.69 per hundreds of cubic

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

OVERALL ANALYSIS (CONT'D)

feet or $2.17 to $2.25 per thousands of gallons. The Authority held a rate hearing on November 20, 2012.

BUDGET VARIANCES

As the original budget was formulated in October 2011, certain actual events during the year caused the Authority to go over budget for minor amounts in a couple of line items. The Authority adopted a resolution at its December meeting to authorize a transfer of funds between line items to amend the FY 2012 budget. The Authority did not overspend the budget as a whole.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During FY 2012, the Authority expended $102,856.50 for capital activities. $93,692.98 was classified as capital assets. The remaining $9,163.52 was capitalized as Construction in Progress.

The proposed five-year Capital Programs are $820,000. The major line items making up a portion of the Capital Budget are:

1. Upgrades to Pumps and Controls
2. Operations Equipment/Maintenance
3. Kaign Ave Station Rehabilitation

The Authority has not experienced any change in its credit rating, nor does it anticipate any. The Authority does not operate under any debt limitations; it is required to receive approval from the Township and the Local Finance Board prior to issuing of debt.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide Pennsauken Township residents, investors, clients and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Treasurer, Pennsauken Sewerage Authority, 1250 John Tipton Blvd., Pennsauken, NJ 08110 or by phone at 856-663-5542

BASIC FINANCIAL STATEMENTS

Exhibit A

PENNSAUKEN SEWERAGE AUTHORITY
Statements of Net Position
As of December 31, 2012 and 2011

ASSETS	2012	2011 (Restated)
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	$ 642,072.99	$ 613,649.82
Investments	21,744.01	27,213.02
Investment Income Receivable	2,430.14	2,059.66
Service Fees Receivable (Net of an Allowance for Doubtful Accounts of $33,195.68 for 2012 and $69,743.12 for 2011)	429,740.58	451,598.88
Intergovernmental Receivables	5,601.29	4,295.66
Prepaid Expense		12,400.00
Other Accounts Receivable (Net of an Allowance for Doubtful Accounts of $22,033.89 for 2012 and $0 for 2011)	18,516.80	109,465.93
Total Unrestricted Assets	1,120,105.81	1,220,682.97
Restricted Assets:		
Cash and Cash Equivalents	300,000.00	252,165.44
Investments	7,469.38	17,810.89
Investment Income Receivable	781.99	1,810.27
NJEIT Receivable	182,401.00	258,259.00
Total Restricted Assets	490,652.37	530,045.60
Total Current Assets	1,610,758.18	1,750,728.57
Property, Plant and Equipment:		
Completed (Net of Accumulated Depreciation)	6,372,394.38	6,342,309.45
Construction in Progress	61,759.03	428,300.48
Total Property, Plant and Equipment	6,434,153.41	6,770,609.93
Total Assets	8,044,911.59	8,521,338.50

(Continued)

PENNSAUKEN SEWERAGE AUTHORITY
Statements of Net Position
As of December 31, 2012 and 2011

LIABILITIES	2012	2011 (Restated)
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	$ 116,760.86	$ 135,516.63
Overpaid Service Charges	35,307.92	19,636.10
Other Liabilities	15,596.42	7,389.17
Compensated Absences		13,639.60
Total Current Liabilities Payable from Unrestricted Assets	167,665.20	176,181.50
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	3,686.41	3,892.93
Accounts Payable	23,350.24	126,810.57
Current Portion of Loans Payable	45,542.36	45,542.36
OPEB Liability	248,126.35	197,606.39
Total Current Liabilities Payable from Restricted Assets	320,705.36	373,852.25
Total Current Liabilities	488,370.56	550,033.75
Long-term Liabilities:		
Compensated Absences	104,475.22	92,997.10
Long-term Portion of Loans Payable	771,242.22	816,939.99
Total Long-term Liabilities	875,717.44	909,937.09
Total Liabilities	1,364,088.00	1,459,970.84
NET POSITION		
Net Investment in Capital Assets	5,767,256.07	6,014,670.58
Restricted	551,833.34	551,833.34
Unrestricted	361,734.18	494,863.74
Total Net Position	$ 6,680,823.59	$ 7,061,367.66

See the accompanying Notes to Financial Statements.

PENNSAUKEN SEWERAGE AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended December 31, 2012 and 2011

	2012	2011 (Restated)
Operating Revenues:		
Service Fees	$ 3,185,556.45	$ 3,372,106.32
Intergovernmental Service Fees	204,838.24	202,289.22
Connection Fees	62,004.72	21,392.89
Other Operating Revenues	32,621.56	75,020.63
Total Operating Revenues	3,485,020.97	3,670,809.06
Operating Expenses:		
Administration:		
Salaries and Wages	477,960.08	515,596.60
Employee Benefits	330,918.11	327,835.31
Other Expenses	179,545.33	252,697.02
Total Administration	988,423.52	1,096,128.93
Cost of Providing Service:		
Salaries and Wages	1,088,967.81	1,120,226.38
Employee Benefits	666,456.64	631,667.97
Other Expenses	679,454.78	685,134.48
Total Cost of Providing Service	2,434,879.23	2,437,028.83
Depreciation	435,734.73	376,738.88
Total Operating Expenses	3,859,037.48	3,909,896.64
Operating (Loss)	(374,016.51)	(239,087.58)
Non-operating Income (Expenses):		
Investment Income	6,113.80	10,546.34
Interest on Bonds	(9,063.07)	(14,301.84)
Loss on Disposal of Capital Assets	(3,578.29)	
Net Non-operating Income (Expenses)	(6,527.56)	(3,755.50)
Change in Net Position	(380,544.07)	(242,843.08)
Net Position - Beginning - Before Cumulative Effects of Changes in Accounting Principles		7,333,725.88
Cumulative Effects of Changes in Accounting Principles		(29,515.14)
Net Position - Beginning - As Adjusted for Cumulative Effects of Changes in Accounting Principles	7,061,367.66	7,304,210.74
Net Position - Ending	$ 6,680,823.59	$ 7,061,367.66

See the accompanying Notes to Financial Statements.

PENNSAUKEN SEWERAGE AUTHORITY
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Receipts from Customers and Users	$ 3,426,619.18	$ 3,578,276.77
Payments to Employees	(2,515,944.16)	(2,542,487.06)
Payments to Suppliers	(865,355.88)	(930,309.86)
Other Operating Receipts	193,782.66	41,308.48
Net Cash Provided by Operating Activities	239,101.80	146,788.33
Cash Flows from Capital and Related Financing Activities:		
Interest on Bonds	(9,425.00)	(14,320.00)
Principal Paid on Bonds		(155,000.00)
Principal Paid on Loans	(45,542.36)	(45,542.36)
NJEIT Receipts	75,858.00	149,282.00
Payment of Retainage		(9,117.16)
Acquisitions of Property, Plant and Equipment	(121,915.45)	(37,279.96)
Payments Made for Construction in Progress	(84,401.38)	(334,371.40)
Net Cash Used in Capital and Related Financing Activities	(185,426.19)	(446,348.88)
Cash Flows from Investing Activities:		
Proceeds from Sales and Maturities of Investments	15,810.52	166,362.12
Investment Income	6,771.60	15,370.30
Net Cash Provided by Investing Activities	22,582.12	181,732.42
Change in Cash and Cash Equivalents	76,257.73	(117,828.13)
Cash and Cash Equivalents--Beginning of Year	865,815.26	983,643.39
Cash and Cash Equivalents--End of Year	$ 942,072.99	$ 865,815.26
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities:		
Operating Loss	$ (374,016.51)	$ (239,087.58)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	435,734.73	376,738.88
Changes in Operating Assets and Liabilities:		
Service Fees Receivable	21,858.30	6,472.04
Intergovernmental Accounts Receivable	(1,305.63)	(1,191.02)
Other Accounts Receivable	90,949.13	(32,420.47)
Prepaid Expense	12,400.00	(12,400.00)
Accounts Payable	(18,755.77)	19,921.64
OPEB Obligation	50,519.96	49,624.79
Overpaid Consumer Accounts Receivable	15,671.82	(1,399.79)
Other Liabilities	8,207.25	(22,684.57)
Compensated Absences Payable	(2,161.48)	3,214.41
Net Cash Provided by Operating Activities	$ 239,101.80	$ 146,788.33

See the accompanying Notes to Financial Statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Pennsauken Sewerage Authority (the "Authority") is a public body corporate and politic of the State of New Jersey and was originally created as a sewerage authority by Ordinance No. 688 of the Township of Pennsauken (the "Township") adopted on August 28, 1950, pursuant to the Sewerage Authority Law, Chapter 138 of the Laws of 1946, as amended. The governing body of the Authority is a Board consisting of five members appointed by the Pennsauken Township Committee. The terms of the members of the Authority are staggered so that at least one member's term expires each year, and the Pennsauken Township Committee, in accordance with the Act, reappoints the member or appoints a successor.

The Act permits the Authority to charge and collect rents, rates, fees or other charges for direct or indirect connection with, or the use of services of its sewer system. The Act also permits the Authority to enter into agreements with other municipalities for the collection and treatment of sewage.

Presently, the Authority provides and charges for all connected customers within the municipal boundaries of Township for the collection of sewage. The Authority has contracted to collect all sewage discharged into the collection system maintained by Merchantville Borough and a certain portion of Cherry Hill Township. Sewage collected by the Authority from whatever source is then passed on to the Camden County Municipal Utilities Authority (CCMUA) system. The CCMUA is, in turn responsible for the treatment of all waste materials.

Component Unit

The Authority is a component unit of the Township of Pennsauken as described in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. These financial statements would be either blended or discreetly presented as part of the Township's financial statements if the Township reported using generally accepted accounting principles applicable to governmental entities.

GASB Statement No. 14 also provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. As of December 31, 2012, it has been determined by the Authority that no component units exist.

Basis of Presentation

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues -- Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Sewer service charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that sewage collection services are being provided to the properties.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Expenses / Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. N.J.A.C. 5:31-2 requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt not later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal. Depreciation expense, amortization of bond issue costs, bond discounts and deferred loss on defeasance are not included in the budget appropriations.

The legal level of budgetary control is established at the detail shown on the Statement of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended. The Authority adopted an amending budget resolution during the year.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash, Cash Equivalents and Investments (Cont'd)

New Jersey governments units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

Additionally, 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. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include State or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings banks or associations located in another state with a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

Inventory and Prepaid Expenses

The Authority has determined that the inventories are immaterial and are not recorded in the financial statements.

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond December 31, 2012.

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased prior to January 1, 1992 are stated at estimated cost. Assets purchased since are stated at actual cost. Donated capital assets are recorded at their fair market value as of the date received.

Expenditures, which enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the fixed asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized. Costs incurred during construction of an asset are recorded as construction in progress. In the year that the project is completed, these costs are transferred to Capital Assets - Completed. Interest costs incurred during construction are not capitalized into the cost of the asset.

Expenditures are capitalized when they meet the following requirements:

1) Cost of $1,000.00 or more
2) Useful life of more than one year
3) Asset is not affected by consumption

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Depreciation

Depreciation is provided using the straight-line method over the following estimated useful life of the assets:

	Years
Buildings	30-40
Major Moveable Equipment	7-20
Vehicles	8-15
Infrastructure	25

Depreciation is taken starting with the date the asset is placed into service.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Authority and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as deferred inflows of resources until the revenue is both measurable and available.

Bond Discount and Bond Premium

Bond discount and bond premium arising from the issuance of the revenue bonds are recorded as liabilities. They are amortized by the straight-line method (effective interest method) from the issue date to maturity as a component of interest expense. Bond discount and bond premium are presented as an adjustment of the face amount on the bonds.

Deferred Loss on Refunding

Deferred loss on refunding arising from the issuance of the revenue refunding bonds is recorded as a deferred outflow of resources. It is amortized by the straight-line method from the issue date to maturity as a component of interest expense.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Net Position (Cont'd)

Net Invested in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced, by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of external constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restricts the use of net position.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." This component includes net position that may be allocated for specific purposes by the Authority.

Income Taxes

The Authority operates as defined by the Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from facility charges and other revenue sources. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and on investments in debt securities.

Operating expenses include expenses associated with the operation, maintenance and repair of the sewer system and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Standards Adopted

During the year ended December 31, 2012, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Adopted (Cont'd)

Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (Cont'd)

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

Implementation of this statement had no material impact on the Authority's fiscal year 2012 financial statements.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Issued in November 2010, the objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Implementation of this statement had no material impact on the Authority's fiscal year 2012 financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Adopted (Cont'd)

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Issued in June 2011, this Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Implementation of this statement materially affected the classification of several balances. See Note 9.

Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

Issued in June 2011, the objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

Implementation of this statement had no material impact on the Authority's fiscal year 2012 financial statements.

Note 1: <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)</u>

New Accounting Standards Adopted (Cont'd)

Statement No. 65, Items Previously Reported as Assets and Liabilities

Issued in March 2012, this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Implementation of this statement materially affected the classification of several balances. See Note 9.

New Accounting Standards Pronouncements to be Implemented in the Future

The Authority plans to implement the following pronouncements by the required implementation dates or earlier, when deemed feasible:

Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34

Issued in November 2010, the objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Pronouncements to be Implemented in the Future (Cont'd)

Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 (Cont'd)

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

Statement No. 66, Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62

Issued in March 2012, the objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Pronouncements to be Implemented in the Future (Cont'd)

Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25

Issued in June 2012, the objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

Statement No. 68, Accounting and Financial Reporting for Pensions, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered, as follows:

- Single-employer pension plans—those in which pensions are provided to the employees of only one employer (as defined in this Statement)
- Agent multiple-employer pension plans (agent pension plans)—those in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- Cost-sharing multiple-employer pension plans (cost-sharing pension plans) those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Pronouncements to be Implemented in the Future (Cont'd)

Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27

Issued in June 2012, the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, Financial Reporting for Pension Plans, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Pronouncements to be Implemented in the Future (Cont'd)

Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (Cont'd)

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014.

Statement No. 69, Government Combinations and Disposals of Government Operations

Issued in January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with finance related legal and contractual provisions
Management of the Authority is unaware of any material violations of finance related legal and contractual provisions.

General Bond Resolution
The Authority is subject to the provisions and restrictions of the General Bond Resolution adopted July 18, 1995 and a supplemental resolution adopted December 17, 2002, and March 2, 2010. A summary of the activities of each account created by the Bond Resolution is covered below.

Revenue Account - All money collected by the Authority for service charges or from any other source for operating, maintaining or repairing the system is deposited in this account. The Trustee, on the first day of each month, shall make payments into the other accounts to satisfy bond resolution or operating requirements.

General Account – All excess funds of the Authority are recorded in the General Account. If the Authority is not in default in the payment of bond principal or interest and all fund requirements are satisfied, the excess funds may be used by the Authority for any lawful purpose.

Bond Service Account - The balance on deposit must be sufficient to enable the Trustee to withdraw amounts equal to interest due on bonds, principal amount maturing on bonds and sinking fund installments when such payments are required. At December 31, 2012, the balance in the bond service account meets the requirements of the Bond Resolution.

Bond Reserve Account - The amount of funds on deposit must be maintained at a level equal to the lesser of the maximum annual debt service during any calendar year; 125% of average annual debt service or 10% of the principal amount of the bonds. At December 31, 2012, the balance in the bond reserve account meets the requirements of the Bond Resolution. Whenever the amount in this account exceeds the Bond Reserve Fund Requirement, the excess is transferred to the Revenue Fund.

Renewal and Replacement Account - These funds are maintained for reasonable and necessary expenses with respect to the system for major repairs, renewals, replacements or maintenance items of a type not recurring annually, all to the extent not provided for in the then current annual budget or not paid from reserves in the Operating Account. Money in this account is pledged for the security of payment of principal and interest on the 2010 Sewer Revenue Loans. Whenever the amount in this account exceeds the Renewal and Replacement Fund Requirement, the excess is transferred to the Revenue Fund.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)

General Bond Resolution (Cont'd)

Debt Service Coverage

The excess of revenues for the current year ended December 31, 2012 is 215.96% of the annual debt service. Section 712 of the Bond Resolution requires the computation of sufficiency of revenues and that excess revenues equal at least 110% of the annual debt service. Debt service coverage for the years ended December 31, 2012 and 2011 is calculated as follows:

	Dec. 31, 2012		Dec. 31, 2011	
Operating Revenues:				
Utility Service Charges	$ 3,390,394.69		$ 3,574,395.54	
Other Operating Revenues	94,626.28		96,413.52	
Net Investment Income	6,113.80		10,546.34	
Total Revenues	$ 3,491,134.77		$ 3,681,355.40	
Operating Expenses:				
Administrative	$ 988,423.52		$ 1,096,128.93	
Cost of Providing Service	2,434,879.23		2,437,028.83	
OPEB Obligation	(50,519.96)		(49,624.79)	
Total Operating Expenses	$ 3,372,782.79		$ 3,483,532.97	
Net Revenues	$ 118,351.98	= 215.96%	$ 197,822.43	= 115.68%
Debt Service	$ 54,802.01		$ 171,011.05	

This ratio meets the required debt service coverage of 110% for the Series 2010 NJ EIT Loans for the year ended December 31, 2012.

Note 3: DETAIL NOTES - ASSETS

Cash and Cash Equivalents

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first $250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below.

Note 3: DETAIL NOTES – ASSETS (CONT'D)

Cash and Cash Equivalents (Cont'd)

As of December 31, 2012 and 2011, the Authority's bank balances of $958,662.89 and $873,065.59 were exposed to custodial credit risk as follows:

	2012	2011
Insured by Federal Deposit Insurance Corporation	$ 500,000.00	$ 250,000.00
Uninsured and Collateralized with Securities Held by Pledging Financial Institutions	458,662.89	623,065.59
Total	$ 958,662.89	$ 873,065.59

Investments

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. All of the Authority's $29,213.39 as of December 31, 2012 and $45,023.91 as of December 31, 2011 investments in treasury obligations, money market funds and state and municipal bonds are held in the name of the Authority.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Authority may purchase items such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Authority has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Authority does not place a limit on the amount that may be invested in any one issuer. All of the Authority's investments are in investments in government money market funds.

As of December 31, 2012 and 2011, the Authority had the following investments and maturities:

Investment	Maturity	Credit Rating	Fair Value December 31, 2012	Fair Value December 31, 2011
Governmental Money Market Fund	Demand	N/A	$ 29,213.39	$ 45,023.91

Note 3: DETAIL NOTES – ASSETS (CONT'D)

Service Fees

The following is a three-period comparison of service charge billings and collections for all types of accounts maintained by the Authority:

Year	Beginning Balance	Billings	Total Collections	Percentage of Collections
2012	$ 521,342.00	$ 3,185,556.45	$ 3,243,962.19	87.51%
2011	481,792.64	3,372,106.32	3,332,556.96	86.47%
2010	455,961.17	3,285,074.84	3,259,243.37	87.12%

Capital Assets

During the year ended December 31, 2012, the following changes in capital assets occurred:

	Balance Jan. 1, 2012	Additions	Deletions	Balance Dec. 31, 2012
Administration:				
Infrastructure	$ 190,940.08			$ 190,940.08
Land	63,100.00			63,100.00
Buildings	754,603.67			754,603.67
Vehicles	80,927.00		$ 24,219.00	56,708.00
Equiment	242,229.82	$ 15,607.63	43,277.98	214,559.47
Operations:				
Infrastructure	8,454,412.65	415,747.14	15,249.12	8,854,910.67
Land	42,300.00			42,300.00
Buildings	5,674,496.65			5,674,496.65
Vehicles	758,255.64	5,223.70		763,479.34
Equiment	617,720.17	32,819.48	12,384.51	638,155.14
	16,878,985.68	469,397.95	95,130.61	17,253,253.02
Depreciation	10,536,676.23	435,734.73	91,552.32	10,880,858.64
	$ 6,342,309.45	$ 33,663.22	$ 3,578.29	$ 6,372,394.38

Note 4: DETAIL NOTES - LIABILITIES

Compensated Absences

Authority employees may accumulate unused sick days with no restrictions. Employees are compensated for accumulated sick leave upon retirement or resignation at their then current hourly rate of pay times the number of days accumulated. One week of vacation time not used during the year may be carried forward for one year. Upon separation from the Authority, the employee will be paid for all accrued vacation time at their then current hourly rate. The accrued liability for accumulated sick leave and vacation time at December 31, 2012 and 2011 is estimated at $104,475.22 and $106,636.70 respectively.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Retirement Systems

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System (PERS), which is administered by the New Jersey Division of Pensions and Benefits. In addition, Authority employees may also participate in the Defined Contribution Retirement Program, which is a defined contribution pension plan. This too is administered by the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

Public Employees' Retirement System - The PERS was established as of January 1, 1955. The PERS provides retirement, death, and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System were required to contribute 5% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.0% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012 and increases each subsequent July 1. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The Authority is billed annually for its normal contribution plus any accrued liability. These contributions, equal to the required contributions for each year, were as follows:

Year	Normal Contribution	Accrued Liability	Total Liability	Paid by Authority
2012	$ 50,660.00	$ 101,319.00	$ 151,979.00	$ 151,979.00
2011	66,221.00	88,155.00	154,376.00	154,376.00
2010	61,681.00	60,183.00	121,864.00	121,864.00

Related Party Investments - The Division of Pensions and Benefits does not invest in securities issued by the Authority.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Postemployment Benefits Other Than Pension

The State Pension Fund provides health benefits through the State Health Benefit Plan which is a cost-sharing multiple-employer defined benefit postemployment healthcare plan. As a result, GASB Statement 45 requires that the actuarial accrued liability for employee benefits are recorded as an obligation of the State Health Benefit Plan and not the Authority.

The Authority provides Dental benefits through Delta Dental, Vision through Vision Service and reimbursement of Medicare B premiums to employees that have retired from the Authority in addition to benefits provided through the State Pension Fund. The benefits and reimbursement for the Medicare Part B deduction amounts are established by the Authority. GASB Statement 45 requires that accrued liabilities associated with these benefits be recorded on the Authority's financial statements.

State Health Benefit Plan

Plan Description - The Authority contributes to the New Jersey State Health Benefits Program ("the SHBP"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP provides medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Program Act is found in the New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pension and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SHBP. That report may be obtained by writing to Division of Pensions and Benefits, PO Box 295, Trenton, NJ 08625-0295.

Funding Policy - Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required Public Employees' Retirement System (PERS), to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of postemployment medical benefits through the PERS. It created separate funds outside of the pension plans for the funding and payment of postemployment medical benefits for retired State employees. As of December 31, 2012 and 2011, there were 9 and 7 retirees eligible for postemployment medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State's contribution rate is based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The Authority funds these benefits on a pay-as-you-go basis and therefore does not record accrued expenses related to these benefits. During 2012 and 2011, there were 9 and 7 retired employees who received this benefit. The Authority contributions to SHBP for the years ended December 31, 2012 and 2011, were $96,032.47 and $65,955.43, respectively, which equaled the required contributions for each year.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Authority's Plan – Dental, Vision and Medicare B Reimbursement

Plan Description - The Authority also provides Dental, Vision and Medicare Part B reimbursement to retirees and their covered dependents. The reimbursements are administered by the Authority; therefore, payments are made directly by the Authority to the retirees.

Funding Policy - The Authority presently funds its current retiree post employment benefit costs on a "pay-as-you-go" basis. The Authority's contributions to the plan for 2012 and 2011 were $12,587.04 and $9,845.21, respectively.

Annual OPEB Cost and Net OPEB Obligation - The Authority's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Authority's net OPEB obligation for 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Normal cost	$ 27,832.33	$ 26,507.00	$ 34,380.00
Amortization Payment	33,504.33	31,001.00	30,024.00
Interest Contributions	2,453.34	2,300.00	2,576.00
Annual required contribution (expense)	63,790.00	59,808.00	66,980.00
Interest on Outstanding Net OPEB Obligation	7,378.00	5,919.00	1,786.00
Adjustment to Annual Required Contribution	(8,061.00)	(6,257.00)	(1,774.00)
Total Annual OPEB Cost	63,107.00	59,470.00	66,992.00
Contributions Made	12,587.04	9,845.21	10,162.40
	50,519.96	49,624.79	56,829.60
Net OPEB obligation - beginning of year	197,606.39	147,981.60	91,152.00
Net OPEB obligation - end of year	$ 248,126.35	$ 197,606.39	$ 147,981.60

Annual OPEB Cost – For 2012, the Authority's annual OPEB cost (expense) was $63,107.00. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 is as follows:

Year	Annual OPEB Cost	Pay as You Go Cost (Existing Retirees)	Net OPEB Obligation	Percentage of Annual OPEB Cost Contributed
2012	$ 63,107.00	$ 12,587.04	$ 50,519.96	19.95%
2011	59,470.00	9,845.21	49,624.79	16.55%
2010	66,992.00	10,162.40	56,829.60	15.17%

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Authority's Plan – Dental, Vision and Medicare B Reimbursement (Cont'd)

Funded Status and Funding Progress - As of January 1, 2011, the most recent actuarial valuation date, the Authority's Plan was 0% funded. The actuarial accrued liability for benefits was $740,321.00 and the actuarial value of plan assets was $0.00, resulting in an unfunded actuarial accrued liability (UAAL) of $740,321.00. (For additional information, please refer to the "Required Supplementary Information Schedule of Funding Progress for OPEB Plan" shown at the end of the footnote section.) Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 5%. Both rates include a 5% salary inflation assumption. The actuarial value of the Authority Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three year period. The Authority's Plan unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2012, was twenty-five years.

Revenue Loans Payable

On March 10, 2010, the Authority closed on two loans from the New Jersey Environmental Infrastructure Trust (the "NJEIT Series 2010A") totaling $929,000 for the repair of various pump stations and wet wells. The Fund portion of the award is for $699,000 and is interest free. The remaining Trust portion is for $230,000 and carries interest rates varying from 3.0% to 5.0% with a final maturity in 2029.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Loans Payable

Maturities of the NJEIT Series 2010:

Year Ending Dec. 31,	Interest Free Loan Principal	Loan Principal	Total Principal	Interest	Total
2013	$ 35,542.36	$ 10,000.00	$ 45,542.36	$ 8,925.00	$ 54,467.36
2014	35,542.36	10,000.00	45,542.36	8,425.00	53,967.36
2015	35,542.36	10,000.00	45,542.36	7,925.00	53,467.36
2016	35,542.36	10,000.00	45,542.36	7,425.00	52,967.36
2017	35,542.36	10,000.00	45,542.36	6,925.00	52,467.36
2018-2022	177,711.80	55,000.00	232,711.80	27,625.00	260,336.80
2023-2027	177,711.80	75,000.00	252,711.80	14,700.00	267,411.80
2028-2029	71,084.97	30,000.00	101,084.97	1,800.00	102,884.97
	$ 604,220.37	$ 210,000.00	814,220.37	$ 83,750.00	$ 897,970.37
Premium on Loan			2,564.21		
Current Maturities			(45,542.36)		
Long-Term Portion			$ 771,242.22		

Lease Obligations

At December 31, 2012, the Authority has an operating lease agreement in effect for the following:

- Pitney Bowes Postage Machine

Operating Leases – Future minimum rental payments under an operating lease agreement is as follows:

Calendar Year	Amount
2013	$ 3,132.00
2014	3,132.00
2015	522.00
	$ 6,786.00

Current Year Payments under Operating Leases totaled $3,132.00.

Note 5: DETAIL NOTES – NET POSITION

Net Position Appropriated

The Authority appropriated $193,368.00 and $215,000.00 in the operating and capital budgets respectively when they approved their 2013 budget in November of 2012. Actual results of operations for 2012 resulted in a unrestricted net position of $361,734.18. The Authority lowered its capital budget as a result of the insufficient net position.

Note 6: INTERGOVERNMENTAL AGREEMENTS

Borough of Merchantville Service Agreement

On January 22, 1996, the Authority entered into an agreement with the Borough of Merchantville ("Borough") regarding the disposal of wastewater generated from within the Borough, the relationship between the parties regarding disposal, and other pertinent issues. Additionally, the agreement provides a means for the funding of necessary capital improvements to the collection system within the Borough.

The Borough is required to pay the Authority for each of the Borough's connections an amount equal to fifty percent of the amount charged to Authority customers. The Borough must pay in two equal, semi-annual installments due on the thirtieth day of June and the thirty-first day of December. In addition, the Borough pays an additional fee for the use of the Authority's personnel and equipment of $10.00 per year for each connection in the Borough to cover the cost of maintenance and repairs. The additional fee was originally established for a period of two years and automatically renews for successive two year periods unless either party provides written notice at least 180 days prior to any extension thereof. Payments of the additional fee are also paid in two equal semi-annual installments on the same dates as the rate payments.

Township of Pennsauken Service Agreement

A Service Agreement was entered into on May 1, 1987, between the Authority and the Township of Pennsauken. Under the Service Agreement, the Township agrees to pay any shortfall the Authority may encounter in making payments for either operating expenses and/or debt service.

Cherry Hill Township Service Agreement

On December 12, 1955, the Authority entered into an agreement with the Township of Delaware, which is now known as Cherry Hill Township. The Authority agreed to accept sewage from a small section of Cherry Hill Township. Payment for this service is calculated at a per unit charge using the same rate schedule used in charging Pennsauken Township customers. This agreement will stay in effect until one of the parties terminates the agreement giving one year's notice.

Note 7: COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the Authority, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 8: RISK MANAGEMENT

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund. The Fund provides the Authority with the following coverage:

Property and Physical Damage
Workers Compensation
Excess Liability
Boiler and Machinery
General and Automobile Liability

Contributions to the Fund are payable in an annual premium and are based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. The Authority's agreement with the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of $500,000 for each insured event.

The Fund publishes its own financial report for the year ended December 31, 2012, which can be obtained from:

New Jersey Utilities Authorities Joint Insurance Fund
9 Campus Drive, Suite 16
Parsippany, New Jersey 07054-4412

Note 9: CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

GASB 63

During the year ending December 31, 2012 there was a change in accounting principles as a result of GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 65

During year ending December 31, 2012, there was a change in accounting principles as a result of GASB Statement 65 Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement 65 is retroactive to prior reporting periods. The adjustment is detailed below.

Note 9: CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE (CONT'D)

GASB 65 (Cont'd)

Summary Statement of Net Position
As of December 31, 2011

	Previously Reported	Prior Period Adjustment	Restated
Assets			
Current Assets	$ 1,750,728.57		$ 1,750,728.57
Plant Property & Equipment	6,770,609.93		6,770,609.93
Debt Issue Costs	21,246.51	$ (21,246.51)	-
Total Assets	8,542,585.01	(21,246.51)	8,521,338.50
Liabilities			
Current Liabilities	550,033.75		550,033.75
Noncurrent Liabilities	909,937.09		909,937.09
Total Liabilities	1,459,970.84	-	1,459,970.84
Net Position			
Net Investment in Capital Assets	6,035,917.09	(21,246.51)	6,014,670.58
Restricted	551,833.34		551,833.34
Unrestricted	494,863.74		494,863.74
Total Net Assets	$ 7,082,614.17	$ (21,246.51)	$ 7,061,367.66

Summary Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended December 31, 2011

	Previously Reported	Prior Period Adjustment	Restated
Operating Revenues	$ 3,670,809.06		$ 3,670,809.06
Operating Expenses	3,909,896.64		3,909,896.64
Non-Operating Expenses			
Bond Issue Costs	(8,268.63)	$ 8,268.63	-
Other Non-Operating Expenses	(3,755.50)		(3,755.50)
Change in Net Assets	(251,111.71)	8,268.63	(242,843.08)
Net Position January 1	7,333,725.88	(29,515.14)	7,304,210.74
Net Position December 31	$ 7,082,614.17	$ (21,246.51)	$ 7,061,367.66

REQUIRED SUPPLEMENTARY INFORMATION

PENNSAUKEN SEWERAGE AUTHORITY
Required Supplementary Information
Schedule of Funding Progress for the OPEB Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2011	$ -	$ 740,321.00	$ 740,321.00	0 %	N/A	N/A
1/1/2008	$ -	$ 762,821.00	$ 762,821.00	0 %	N/A	N/A

Schedule RSI-2

PENNSAUKEN SEWERAGE AUTHORITY
Required Supplementary Information
Schedule of Employer Contributions to the OPEB Plan

Year Ended December 31,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	$ 63,790.00	19.73%
2011	59,808.00	16.46%
2010	66,992.00	15.15%

PENNSAUKEN SEWERAGE AUTHORITY
Note to Required Supplementary Information
For the Year Ended December 31, 2012

Other Postemployment Benefits

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Closed, Level Dollar Method
Remaining Amortization Period	25 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	4.0%
Rate of Salary Increases	5%
Rate of Medical Inflation for Retirees Under Age 65	5%
Rate of Medical Inflation for Retirees Age 65 and Older	5%

For determining the GASB ARC, the rate of employer contributions to the Pennsauken Sewerage Authority Plan is composed of the Normal Cost plus amortization of the Unfunded Actuarial Liability. The Normal Cost is a portion of the actuarial present value of plan benefits and expenses which is allocated to a valuation year by the actuarial cost method. The Actuarial Liability is that portion of the Present Value of Projected Benefits that will not be paid by Future Employer Normal Costs or active employee contributions. The difference between this liability and the funds accumulated as of the same date is the Unfunded Actuarial Liability.

SUPPLEMENTAL EXHIBITS

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Revenues, Expenses and Changes in Net Position
Unrestricted and Restricted Accounts
For the Year Ended December 31, 2012

	Operating	General	Restricted Bond Service	Restricted Bond Reserve	Restricted Renewal and Replacement	Total
Operating Revenues:						
Service Fees	$ 3,185,556.45					$ 3,185,556.45
Intergovernmental Service Fees	204,838.24					204,838.24
Connection Fees	62,004.72					62,004.72
Other Operating Revenues	32,621.56					32,621.56
	3,485,020.97	-	-	-	-	3,485,020.97
Operating Expenses:						
Administration:						
Salaries and Wages	477,960.08					477,960.08
Employee Benefits	330,918.11					330,918.11
Other Expenses	179,545.33					179,545.33
Cost of Providing Service:						
Salaries and Wages	1,088,967.81					1,088,967.81
Employee Benefits	666,456.64					666,456.64
Other Expenses	679,454.78					679,454.78
Depreciation	435,734.73					435,734.73
	3,859,037.48	-	-	-	-	3,859,037.48
Operating Loss	(374,016.51)	-	-	-	-	(374,016.51)
Non-operating Income (Expenses):						
Investment Income	1,760.20	$ 2,888.83		$ 165.41	$ 1,299.36	6,113.80
Interest on Bonds		155.41	$ (9,218.48)			(9,063.07)
Loss on Disposal of Capital Assets		(3,578.29)				(3,578.29)
Income (Loss) before Transfers	(372,256.31)	(534.05)	(9,218.48)	165.41	1,299.36	(380,544.07)
Transfers	372,256.31	(380,010.02)	9,218.48	(165.41)	(1,299.36)	
Change in Net Position	-	(380,544.07)	-	-	-	(380,544.07)
Net Position - Beginning	250,000.00	6,509,534.32		51,833.34	250,000.00	7,061,367.66
Net Position December 31, 2012:						
Net Investment in Capital Assets		$ 5,767,256.07				$ 5,767,256.07
Restricted	$ 250,000.00			$ 51,833.34	$ 250,000.00	551,833.34
Unrestricted		361,734.18	$ -			361,734.18

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Cash Receipts and Disbursements
For the Year Ended December 31, 2012

	Operating Account	General Account	Revenue Account	Restricted: Bond Service	Restricted: Bond Reserve	Restricted: Renewal and Replacement	Total
Cash, Cash Equivalents and Investments Jan. 1, 2012	$ 163,649.82	$ 477,213.02	$ -	$ -	$ 17,810.89	$ 252,165.44	$ 910,839.17
Cash Receipts:							
Investment Income	1,760.20	2,518.35				2,493.05	6,771.60
Service Fees Receivable	3,224,326.09						3,224,326.09
Intergovernmental Service Fees	203,532.61						203,532.61
Other Accounts Receivable	100,810.24						100,810.24
Other Operating Income	29,371.83						29,371.83
Overpaid Service Fees	35,307.92						35,307.92
Other Liabilities	94,883.72						94,883.72
NJEIT Receipts	75,858.00						75,858.00
Transfers in			75,557.31	57,987.36	35,000.00		168,544.67
Total Cash Receipts and Investments Available	3,929,500.43	479,731.37	75,557.31	57,987.36	52,810.89	254,658.49	4,850,245.85
Cash Disbursements:							
Budget Appropriations	3,257,276.96			3,020.00			3,260,296.96
Bond and Loan Interest Payments				9,425.00			9,425.00
Bond and Loan Principal				45,542.36			45,542.36
Accounts Payable	135,516.63						135,516.63
Property, Plant and Equipment	70,963.23						70,963.23
Construction in Progress	8,543.03						8,543.03
Accounts Payable from Restricted Assets	126,810.57						126,810.57
Other Accounts Receivable	31,687.27						31,687.27
Other Liabilities	21,629.75						21,629.75
Transfers out	35,000.00	75,557.31	57,987.36				168,544.67
Total Cash Disbursements	3,687,427.44	75,557.31	57,987.36	57,987.36	-	-	3,878,959.47
Cash, Cash Equivalents and Investments Dec. 31, 2012	$ 242,072.99	$ 404,174.06	$ 17,569.95	$ -	$ 52,810.89	$ 254,658.49	$ 971,286.38
Analysis of Balance:							
Cash & Cash Equivalents	$ 242,072.99	$ 400,000.00			$ 50,000.00	$ 250,000.00	$ 942,072.99
Investments							
Governmental Money Markets		4,174.06	$ 17,569.95		2,810.89	4,658.49	29,213.39
	$ 242,072.99	$ 404,174.06	$ 17,569.95	$ -	$ 52,810.89	$ 254,658.49	$ 971,286.38

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Anticipated Budget Revenues, Operating Appropriations
Principal Payments and Non-Operating Appropriations Compared to Budget -- Non-GAAP Budgetary Basis
For the Year Ended December 31, 2012

	Adopted Budget	Transfers/ Modifications	Modified Budget	Actual	Variance Favorable (Unfavorable)
Budget Revenues:					
Operating Revenues:					
Service Fees:					
Residential	$ 2,200,000.00		$ 2,200,000.00	$ 2,185,241.52	$ (14,758.48)
Business/Commercial	1,105,000.00		1,105,000.00	958,738.53	(146,261.47)
Intergovernmental	201,000.00		201,000.00	204,838.24	3,838.24
Other-Delinquent Penalties	28,000.00		28,000.00	41,576.40	13,576.40
	3,534,000.00	-	3,534,000.00	3,390,394.69	(143,605.31)
Connection Fees:					
Residential	20,000.00		20,000.00	1,800.00	(18,200.00)
Business/Commercial	50,000.00		50,000.00	60,204.72	10,204.72
Merchantville Connection Fees	1,000.00		1,000.00		(1,000.00)
	71,000.00	-	71,000.00	62,004.72	(8,995.28)
Other Operating Revenues:					
Filing Fees	1,000.00		1,000.00	45.00	(955.00)
Other Income	16,000.00		16,000.00	32,576.56	16,576.56
	17,000.00	-	17,000.00	32,621.56	15,621.56
Total Operating Revenues	3,622,000.00		3,622,000.00	3,485,020.97	(136,979.03)
Non-Operating Revenues:					
Investment Income					
Unrestricted Accounts	30,000.00		30,000.00	4,649.03	(25,350.97)
Restricted Accounts	8,000.00		8,000.00	1,464.77	(6,535.23)
	38,000.00	-	38,000.00	6,113.80	(31,886.20)
Total Budget Revenues	3,660,000.00	-	3,660,000.00	3,491,134.77	(168,865.23)
Operating Appropriations:					
Administration:					
Salaries and Wages					
Management	227,000.00	$ 5,500.00	232,500.00	227,264.19	5,235.81
Office Administration	225,000.00	18,500.00	243,500.00	236,695.50	6,804.50
Commissioners	15,000.00		15,000.00	14,000.39	999.61
	467,000.00	24,000.00	491,000.00	477,960.08	13,039.92
Employee Benefits:					
Public Employees Retirement System	85,000.00	(4,000.00)	81,000.00	80,831.00	169.00
Social Security Tax	44,000.00	(3,000.00)	41,000.00	39,182.95	1,817.05
Unemployment Comp Insurance	5,500.00	(1,000.00)	4,500.00	4,221.19	278.81
Health Insurance	91,000.00	(4,000.00)	87,000.00	86,343.43	656.57
Vision/Dental/Prescription Insurance	49,000.00	(5,000.00)	44,000.00	41,916.88	2,083.12
Employee Sick time Payback	66,000.00	(5,000.00)	61,000.00	56,771.25	4,228.75
Total Employee Benefits	340,500.00	(22,000.00)	318,500.00	309,266.70	9,233.30

(Continued)

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Anticipated Budget Revenues, Operating Appropriations
Principal Payments and Non-Operating Appropriations Compared to Budget -- Non-GAAP Budgetary Basis
For the Year Ended December 31, 2012

	Adopted Budget	Transfers/ Modifications	Modified Budget	Actual	Variance Favorable (Unfavorable)
Administration (Cont'd):					
Other Expenses:					
Auditing Fees	$ 35,000.00		$ 35,000.00	$ 31,000.00	$ 4,000.00
Legal Fees	24,000.00	$ (4,000.00)	20,000.00	18,200.00	1,800.00
Other Professional Fees	8,000.00	5,000.00	13,000.00	10,230.50	2,769.50
Public Official Liability Insurance	5,500.00		5,500.00	5,129.30	370.70
Office Supplies and Expenses	12,000.00		12,000.00	9,181.54	2,818.46
Postage	18,000.00	(2,000.00)	16,000.00	14,841.83	1,158.17
Advertising/Printing	12,000.00		12,000.00	4,508.79	7,491.21
Telephone Expense	24,000.00	(5,000.00)	19,000.00	16,577.54	2,422.46
Miscellaneous Expenses	5,000.00		5,000.00	4,417.62	582.38
Service Contracts	10,000.00	1,000.00	11,000.00	9,873.80	1,126.20
Equipment Rental	4,000.00		4,000.00	3,696.00	304.00
Building Utilities/Expenses	37,000.00	(12,000.00)	25,000.00	13,946.08	11,053.92
Building Repairs	17,000.00		17,000.00	12,555.01	4,444.99
Financial Expenses	6,200.00	(2,000.00)	4,200.00	4,050.00	150.00
Bad Debt Expense	500.00		500.00	(14,513.55)	15,013.55
Education/Seminars	6,000.00		6,000.00	3,350.87	2,649.13
Civic Involvement	32,500.00		32,500.00	32,500.00	
Total Other Expenses	256,700.00	(19,000.00)	237,700.00	179,545.33	58,154.67
Total Administration Department	1,064,200.00	(17,000.00)	1,047,200.00	966,772.11	80,427.89
Cost of Providing Service:					
Salaries and Wages					
Operations and Maintenance	912,000.00		912,000.00	867,724.18	44,275.82
Management	255,000.00	(5,000.00)	250,000.00	221,243.63	28,756.37
Total Salaries and Wages	1,167,000.00	(5,000.00)	1,162,000.00	1,088,967.81	73,032.19
Employee Benefits:					
Public Employees Retirement System	85,500.00	(3,000.00)	82,500.00	81,549.18	950.82
Social Security Tax	96,000.00		96,000.00	91,954.57	4,045.43
Unemployment Comp Insurance	5,500.00		5,500.00	4,854.75	645.25
Health Insurance	275,000.00		275,000.00	266,036.49	8,963.51
Vision/Dental/Prescription Insurance	119,000.00		119,000.00	103,714.74	15,285.26
Employee Sick time Payback	94,000.00	(5,000.00)	89,000.00	89,478.36	(478.36)
Total Employee Benefits	675,000.00	(8,000.00)	667,000.00	637,588.09	29,411.91

(Continued)

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Anticipated Budget Revenues, Operating Appropriations
Principal Payments and Non-Operating Appropriations Compared to Budget -- Non-GAAP Budgetary Basis
For the Year Ended December 31, 2012

	Adopted Budget	Transfers/ Modifications	Modified Budget	Actual	Variance Favorable (Unfavorable)
Cost of Providing Service (Cont'd):					
Other Expenses:					
Engineer Fees	$ 20,000.00	$ 15,000.00	$ 35,000.00	$ 27,333.93	$ 7,666.07
Insurance:					
General and Auto Liability	25,500.00	(500.00)	25,000.00	24,655.20	344.80
Workers Compensation	50,000.00	(2,500.00)	47,500.00	47,110.20	389.80
Property	29,000.00		29,000.00	27,642.35	1,357.65
JIF Fund Expense	10,000.00	(5,500.00)	4,500.00	4,308.05	191.95
Uninsured Liabilities	10,000.00	(5,000.00)	5,000.00	350.00	4,650.00
Service Contracts O & M	30,000.00	(15,000.00)	15,000.00	19,378.00	(4,378.00)
Utilities/Pumping Stations	230,000.00	(20,000.00)	210,000.00	193,899.54	16,100.46
Trash Removal	10,000.00		10,000.00	9,183.91	816.09
Operations/Maintenance Expense	45,000.00		45,000.00	32,857.44	12,142.56
Safety Expense	5,000.00		5,000.00	2,779.12	2,220.88
Maintenance of Grounds and Structures	8,000.00	500.00	8,500.00	7,957.00	543.00
Vehicle Repair & Parts	30,000.00		30,000.00	30,219.04	(219.04)
Fuel, Oil, Mileage Expense	40,000.00	8,000.00	48,000.00	44,654.11	3,345.89
Collection System Expense	45,000.00	20,000.00	65,000.00	57,922.45	7,077.55
Uniforms	8,000.00	(5,000.00)	3,000.00	2,203.98	796.02
Chemicals	1,000.00		1,000.00		1,000.00
Permits & Licensing	3,000.00		3,000.00	860.00	2,140.00
Emergency Main Repairs	190,000.00	40,000.00	230,000.00	146,140.46	83,859.54
Total Other Expenses	789,500.00	30,000.00	819,500.00	679,454.78	140,045.22
Total Cost of Providing Service	2,631,500.00	17,000.00	2,648,500.00	2,406,010.68	242,489.32
Principal Payments on Debt in lieu of Depreciation	45,543.00	-	45,543.00	45,542.36	0.64
Total Operating Appropriations	3,741,243.00	-	3,741,243.00	3,418,325.15	322,917.85
Non-Operating Appropriations:					
Interest on Bonds	9,425.00	-	9,425.00	9,218.48	206.52
Total Budget Appropriations	3,750,668.00	-	3,750,668.00	3,427,543.63	323,124.37
Unrestricted Net Position to Balance Budget	(90,668.00)	-	(90,668.00)	-	(90,668.00)
Total Appropriations and Unrestricted Net Position	3,660,000.00	-	3,660,000.00	3,427,543.63	232,456.37
Excess Budget Appropriations Over Budget Revenues	$ -	$ -	$ -	$ 63,591.14	$ (63,591.14)

(Continued)

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Anticipated Revenues, Operating Appropriations and
Principal Payments Compared to Budget -- Non-GAAP Budgetary Basis
For the Year Ended December 31, 2012

Reconciliation of Excess Appropriations over Revenues to Operating Income		$ 63,591.14
Add:		
Bond Principal	$ 45,542.36	
Bond Interest	9,218.48	
		54,760.84
Less:		
Interest on Investments	6,113.80	
OPEB Annual Required Contribution	50,519.96	
Depreciation	435,734.73	
		492,368.49
Operating Loss (Exhibit B)		$ (374,016.51)

Analysis of Charges to Appropriations

Cash Disbursed	$ 3,260,296.96
Accounts Payable	116,760.86
Compensated Absences	(2,161.48)
Prepaid expenses	12,400.00
Change in Allowance	(14,513.55)
Bond Principal	45,542.36
Bond Interest	9,218.48
Total Budget Appropriations	$ 3,427,543.63

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Service Fees Receivable
For the Year Ended December 31, 2012

Balance Jan. 1, 2012		$ 521,342.00
Increased by:		
Residential Charges	$ 2,185,241.52	
Business/Commercial	958,738.53	
Delinquent Penalties	41,576.40	
		3,185,556.45
		3,706,898.45
Decreased by:		
Collections	3,224,326.09	
Overpayment Applied	19,636.10	
		3,243,962.19
Balance Dec. 31, 2012		$ 462,936.26
Analysis of Balance:		
Service Fees Receivable		$ 398,941.48
Jnbilled Revenue		63,994.78
Balance Dec. 31, 2012		$ 462,936.26

Schedule 5

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Investment Income Receivable
For the Year Ended December 31, 2012

	Balance Jan. 1, 2012	Investment Earnings	Received	Balance Dec. 31, 2012
Unrestricted Earnings:				
Operating Account		$ 1,760.20	$ 1,760.20	
General Account	$ 2,059.66	2,888.83	2,518.35	$ 2,430.14
	2,059.66	4,649.03	4,278.55	2,430.14
Restricted Earnings:				
Bond Reserve Account		165.41		165.41
Renewal and Replacement Fund	1,810.27	1,299.36	2,493.05	616.58
	1,810.27	1,464.77	2,493.05	781.99
	$ 3,869.93	$ 6,113.80	$ 6,771.60	$ 3,212.13

Schedule 6

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Intergovernmental Service Fees Receivable
For the Year Ended December 31, 2012

	Cherry Hill	Merchantville	Total
Balance Jan. 1, 2012	$ 2,482.28	$ 1,813.38	$ 4,295.66
Increased by:			
Charges Billed	25,163.24	179,675.00	204,838.24
	27,645.52	181,488.38	209,133.90
Decreased by:			
Cash Collections	24,433.00	179,099.61	203,532.61
Balance Dec. 31, 2012	$ 3,212.52	$ 2,388.77	$ 5,601.29

Schedule 7

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Other Accounts Receivable
For the Year Ended December 31, 2012

	Other Receivable	Refunds Receivable	Lend a Hand Program	Total
Balance Jan. 1, 2012	$ 55,626.09	$ 18,512.68	$ 35,327.16	$ 109,465.93
Increased by:				
Accrued			207.73	207.73
Disbursed		21,561.27	10,126.00	31,687.27
	55,626.09	40,073.95	45,660.89	141,360.93
Decreased by:				
Cash Collections	55,626.09	37,462.14	7,722.01	100,810.24
Balance Dec. 31, 2012	$ -	$ 2,611.81	$ 37,938.88	$ 40,550.69

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Property, Plant and Equipment
For the Year Ended December 31, 2012

	Balance Jan. 1, 2012	Additions	Deletions	Balance Dec. 31, 2012
Administration:				
Infrastructure	$ 190,940.08			$ 190,940.08
Land	63,100.00			63,100.00
Buildings	754,603.67			754,603.67
Vehicles	80,927.00		$ 24,219.00	56,708.00
Equipment	242,229.82	$ 15,607.63	43,277.98	214,559.47
Operations:				
Infrastructure	8,454,412.65	415,747.14	15,249.12	8,854,910.67
Land	42,300.00			42,300.00
Buildings	5,674,496.65			5,674,496.65
Vehicles	758,255.64	5,223.70		763,479.34
Equipment	617,720.17	32,819.48	12,384.51	638,155.14
	16,878,985.68	469,397.95	95,130.61	17,253,253.02
Less: Depreciation	10,536,676.23	435,734.73	91,552.32	10,880,858.64
	$ 6,342,309.45	$ 33,663.22	$ 3,578.29	$ 6,372,394.38

'ransferred from Construction in Progress	$ 375,704.97
Accounts Payable	22,729.75
Disbursed	70,963.23
	$ 469,397.95

Schedule 9

PENNSAUKEN SEWERAGE AUTHORITY
Analysis of Construction in Progress
For the Year Ended December 31, 2012

Balance Jan. 1, 2012		$ 428,300.48
Add:		
Disbursed	$ 8,543.03	
Accounts Payable	620.49	
		9,163.52
		437,464.00
Decreased by:		
Transferred to Completed		375,704.97
Balance Dec. 31, 2012		$ 61,759.03

Schedule 10

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Overpaid Service Fees
For the Year Ended December 31, 2012

Balance Jan. 1, 2012	$ 19,636.10
Increased by:	
Cash Received	35,307.92
	54,944.02
Decreased by:	
Applied to Service Fees Receivable	19,636.10
Balance Dec. 31, 2012	$ 35,307.92

Schedule 11

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Other Liabilities
For the Year Ended December 31, 2012

	Turn On/Off Fees Payable	Unearned Revenue	Planning Escrow Fees	Total
Balance Jan. 1, 2012	$ 24.00		$ 7,365.17	$ 7,389.17
Increased by:				
Received	14,850.00	$ 63,541.72	16,492.00	94,883.72
	14,874.00	63,541.72	23,857.17	102,272.89
Decreased by:				
Disbursed	10,512.00		11,117.75	21,629.75
Transferred to Revenue	3,042.00	62,004.72		65,046.72
	13,554.00	62,004.72	11,117.75	86,676.47
Balance Dec. 31, 2012	$ 1,320.00	$ 1,537.00	$ 12,739.42	$ 15,596.42

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Accrued Interest Payable
For the Year Ended December 31, 2012

Balance Jan. 1, 2012		$ 3,892.93
Increased by:		
Accrued		9,063.07
		12,956.00
Decreased by:		
Cash Disbursed	$ 9,425.00	
Loan Premium Amortized	(155.41)	
		9,269.59
Balance Dec. 31, 2012		$ 3,686.41

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Sewer Revenue Loans
For the Year Ended December 31, 2012

	Date of Issue	Original Issue	Maturities Date	Maturities Amount	Rate	Balance Jan. 1, 2012	Principal Paid	Balance Dec. 31, 2012
New Jersey Environmental Infrastructure Trust Loan, Series 2010A (Non-Interest Bearing)	03/10/10	$699,000.00	02/01/13	$ 11,847.45				
			08/01/13	23,694.91				
			02/01/14	11,847.45				
			08/01/14	23,694.91				
			02/01/15	11,847.45				
			08/01/15	23,694.91				
			02/01/16	11,847.45				
			08/01/16	23,694.91				
			02/01/17	11,847.45				
			08/01/17	23,694.91				
			02/01/18	11,847.45				
			08/01/18	23,694.91				
			02/01/19	11,847.45				
			08/01/19	23,694.91				
			02/01/20	11,847.45				
			08/01/20	23,694.91				
			02/01/21	11,847.45				
			08/01/21	23,694.91				
			02/01/22	11,847.45				
			08/01/22	23,694.91				
			02/01/23	11,847.45				
			08/01/23	23,694.91				
			02/01/24	11,847.45				
			08/01/24	23,694.91				
			02/01/25	11,847.45				
			08/01/25	23,694.91				
			02/01/26	11,847.45				
			08/01/26	23,694.91				
			02/01/27	11,847.45				
			08/01/27	23,694.91				

(Continued)

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Sewer Revenue Loans
For the Year Ended December 31, 2012

	Date of Issue	Original Issue	Maturities Date	Maturities Amount	Rate	Balance Jan. 1, 2012	Principal Paid	Balance Dec. 31, 2012
New Jersey Environmental Infrastructure Trust Loan, Series 2010A (Non-Interest Bearing) (Continued)	03/10/10	$699,000.00	02/01/28	$ 11,847.45				
			08/01/28	23,694.91				
			02/01/29	11,847.45				
			08/01/29	23,695.16				
				604,220.37		$ 639,762.73	$ 35,542.36	$ 604,220.37
New Jersey Environmental Infrastructure Trust Loan, Series 2010A (Interest Bearing)	03/10/10	230,000.00	08/01/13	10,000.00	5.00%			
			08/01/14	10,000.00	5.00%			
			08/01/15	10,000.00	5.00%			
			08/01/16	10,000.00	5.00%			
			08/01/17	10,000.00	5.00%			
			08/01/18	10,000.00	5.00%			
			08/01/19	10,000.00	4.00%			
			08/01/20	10,000.00	5.00%			
			08/01/21	10,000.00	3.00%			
			08/01/22	15,000.00	4.00%			
			08/01/23	15,000.00	4.00%			
			08/01/24	15,000.00	4.00%			
			08/01/25	15,000.00	4.00%			
			08/01/26	15,000.00	3.50%			
			08/01/27	15,000.00	4.00%			
			08/01/28	15,000.00	4.00%			
			08/01/29	15,000.00	4.00%			
				210,000.00		220,000.00	10,000.00	210,000.00
						$ 859,762.73	$ 45,542.36	814,220.37
					Add:			
					Premium on Loans			2,564.21
								$ 816,784.58

PENNSAUKEN SEWERAGE AUTHORITY

PART II

FINDINGS AND RECOMMENDATIONS

REPORT OF AUDIT

FOR THE YEAR ENDED

DECEMBER 31, 2012

PENNSAUKEN SEWERAGE AUTHORITY
Schedule of Findings and Recommendations
For the Year Ended December 31, 2012

Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None

PENNSAUKEN SEWERAGE AUTHORITY
Summary Schedule of Prior Year Findings and Recommendations
For the Year Ended December 31, 2012

Schedule of Financial Statement Findings

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with the audit requirements as prescribed by the Bureau of Authority Regulations, Division of Local Governmental Services, Department of Community Affairs, State of New Jersey.

None

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APPRECIATION

We express our appreciation for the courtesies extended and assistance rendered to us during the course of this audit.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants