

**DELAWARE TOWNSHIP MUNICIPAL
UTILITIES AUTHORITY**

Financial Statements

January 31, 2013 and 2012

With Independent Auditors' Report

Delaware Township Municipal Utilities Authority
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January 31, 2013 and 2012

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Delaware Township Municipal Utilities Authority
Roster of Officials
January 31, 2013 and 2012

Authority Members:

Chairperson	Mary Ann Pichacz
Vice Chairperson	John Sterbinsky
Executive Secretary	Thomas Wodock
Treasurer	James Mathews
Member	Don Scholl
First Alternate	Richard Madden
Second Alternate	Thomas Warren
Recording Secretary	Dianne Rankin

Officials:

Attorney	Richard P. Cushing Gebhardt & Kiefer, P.C.
Engineer	Adam Stern Applied Water Management Group, Inc.
Auditor	WithumSmith+Brown, PC

Delaware Township Municipal Utilities Authority
Management's Discussion and Analysis
January 31, 2013 and 2012

This section of the annual financial report of the Delaware Township Municipal Utilities Authority ("the Authority") presents a discussion and analysis of the financial performance of the Authority for the years ended January 31, 2013 and 2012. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial position and results of operations of the Authority for the years ended January 31, 2013 and 2012.

	2013	2012
Assets		
Unrestricted current assets	\$ 438,757	\$ 382,267
Restricted current assets	209,517	189,276
Property, plant and equipment – net	<u>461,746</u>	<u>443,339</u>
	<u>\$ 1,110,020</u>	<u>\$ 1,014,882</u>
Liabilities and Net Assets		
Unrestricted current liabilities	\$ 62,724	\$ 54,689
Restricted current liabilities	2,077	1,836
Net assets invested in capital assets	461,746	443,339
Restricted net assets	207,440	187,440
Unrestricted net assets	<u>376,033</u>	<u>327,578</u>
	<u>\$ 1,110,020</u>	<u>\$ 1,014,882</u>
Revenue and Expenses		
Operating revenues		
User charges	\$ 269,074	\$ 263,617
Rent income	108,254	111,381
Other	<u>3,355</u>	<u>4,168</u>
	380,683	379,166
Operating expenses	<u>293,821</u>	<u>292,756</u>
Net income and change in net assets	<u>\$ 86,862</u>	<u>\$ 86,410</u>

Delaware Township Municipal Utilities Authority

Management's Discussion and Analysis

January 31, 2013 and 2012

Overview of the Financial Statements

The Authority's financial statements are prepared on the basis of accounting principles generally accepted for governmental units. The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

The three basic financial statements presented within the financial statements are as follows:

Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities.

Statement of Revenues, Expenses and Changes in Net Assets – This statement reflects the operating revenue and expenses as well as non-operating revenue and expenses during the year. The major source of operating revenue is user charges. Net income is similar to net income for a business enterprise.

Statement of Cash Flows – This statement presents changes in cash and cash equivalents resulting from operating activities, investing activities, and financing activities.

Financial Highlights

Total Operating Revenues were \$380,683 for the year ended January 31, 2013, an increase of \$1,517, or 0.40% higher than total operating revenues of \$379,166 for the year ended January 31, 2012. Details can be found in the Statements of Revenues, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Revenues were \$380,683 for the year ended January 31, 2013 which was 109.68% of the adopted budget of \$347,100. Details can be found in the Schedule of Operating Revenues Compared to Budget – Unrestricted Funds for the year ended January 31, 2013 in the supplementary information section of this report.

Total Operating Expenditures were \$293,821, for the year ended January 31, 2013, an increase of \$1,065, or 0.36% higher than the total operating expenditures of \$292,756 for the year ended January 31, 2012. Details can be found in the Statements of Revenues, Expenses and Changes in Net Assets in the Financial Statements.

Total Operating Expenditures were \$264,280 (excluding depreciation of \$29,541) for the year ended January 31, 2013 which was 80.79% of the operating expenditures of the adopted budget of \$327,100. Details will be found in the Schedule of Expenditures Funded by Operating Revenues Compared to Budget – Unrestricted Funds for the year ended January 31, 2013 in the supplementary information section of this report.

In regard to capital replacement fund, \$20,000 was budgeted and paid into this restricted fund for the year ended January 31, 2013 and \$50,000 for the year ended January 31, 2012 for future capital projects.

The user fee for sewer and water remained at \$814 and \$501, respectively for the years ended January 31, 2013 and 2012.

A description of currently known facts, decisions, or conditions expected to have significant effects on the financial position or the results of operations of the Authority follows:

- During the year ending January 31, 2008, the Authority initiated an Administrative Action against the NJDEP to reduce some of the mandates proposed for issuing a new permit. These proceedings concluded during the fiscal year ended January 31, 2013 which resulted in a favorable conclusion. The new limits also provide our engineer with the information needed to determine how to design an upgrade to our existing facility.

**Delaware Township Municipal Utilities Authority
Management's Discussion and Analysis
January 31, 2013 and 2012**

Subsequently, the DEP issued a new permit greatly reducing the required standards and limits. As a result, the Authority is proceeding with plant design that is considerably cheaper than originally anticipated and may not require the borrowing of funds. The Board approved to proceed with an ultra violet treatment design that will cost approximately \$200,000. Completion is anticipated within the next one to two years.

Request for Information

The financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Authority at 570 Rosemont-Ringoes Road, PO Box 103, Sergeantsville NJ 08557 or by telephone at 908-782-9601.



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Additional Offices in New Jersey,
New York, Pennsylvania, Maryland,
Florida, and Colorado

Independent Auditors' Report

Delaware Township Municipal Utilities Authority
Sergeantsville, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware Township Municipal Utilities Authority ("the Authority") as of and for the years ended January 31, 2013 and 2012, 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.

Auditors' Responsibility

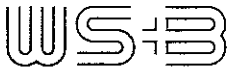
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Authority as of January 31, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information comprised of the schedule of operating revenues compared to budget - unrestricted funds and schedule of expenditures funded by operating revenues compared to budget-unrestricted funds on pages 2-4 and 19-20 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 additional supplementary information, schedule of findings and responses, schedule of prior year findings and the corrective action plan as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information, schedule of findings and responses, schedule of prior year findings and the corrective action plan is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information, schedule of findings and responses, schedule of prior year findings and the corrective action plan is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 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.

WithumSmith+Brown, PC

June 5, 2013



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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

Delaware Township Municipal Utilities Authority
Sergeantsville, 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, the financial statements of the Delaware Township Municipal Utilities Authority ("the Authority") as of and for the year ended January 31, 2013 and 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 June 5, 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting (findings #2013-1).



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*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance.

This report is intended solely for the information and use of the governing body, the management of the Authority and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

WithumSmith+Brown, PC

June 5, 2013

Delaware Township Municipal Utilities Authority
Statements of Net Assets
January 31, 2013 and 2012

	2013	2012
Assets		
Current assets		
Unrestricted assets		
Cash and cash equivalents	\$ 55,882	\$ 34,588
Investments	332,499	300,264
Sewer fees receivable	50,376	47,415
Total unrestricted assets	<u>438,757</u>	<u>382,267</u>
Restricted assets		
Escrow		
Cash and cash equivalents	200	200
Capital replacement fund		
Investments	207,440	187,440
Unemployment trust		
Cash and cash equivalents	1,877	1,636
Total restricted assets	<u>209,517</u>	<u>189,276</u>
Total current assets	<u>648,274</u>	<u>571,543</u>
Property, plant and equipment		
Machinery, equipment and collection system	1,166,933	1,118,985
Less: accumulated depreciation	(705,187)	(675,646)
Property, plant and equipment - net	<u>461,746</u>	<u>443,339</u>
	<u>\$ 1,110,020</u>	<u>\$ 1,014,882</u>

The Notes to Financial Statements are an integral part of these statements.

Delaware Township Municipal Utilities Authority
Statements of Net Assets
January 31, 2013 and 2012

	2013	2012
Liabilities and Net Assets		
Current liabilities		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 37,292	\$ 30,646
Payroll taxes payable	767	603
Accrued salaries payable	8,599	8,727
Deferred revenue	16,066	14,713
Total current liabilities payable from unrestricted assets	<u>62,724</u>	<u>54,689</u>
Current liabilities payable from restricted assets		
Funds held in escrow	200	200
Unemployment trust funds	1,877	1,636
Total liabilities payable from restricted assets	<u>2,077</u>	<u>1,836</u>
Total current liabilities	<u>64,801</u>	<u>56,525</u>
Total liabilities	<u>64,801</u>	<u>56,525</u>
Net assets		
Invested in capital assets	461,746	443,339
Restricted for capital projects	207,440	187,440
Unrestricted	376,033	327,578
	<u>1,045,219</u>	<u>958,357</u>
	<u>\$ 1,110,020</u>	<u>\$ 1,014,882</u>

The Notes to Financial Statements are an integral part of these statements.

Delaware Township Municipal Utilities Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended January 31, 2013 and 2012

	2013	2012
Operating revenues		
User charges	\$ 269,074	\$ 263,617
Rent - cell tower	108,254	111,381
Interest income	2,235	1,728
Delinquent penalties	746	1,140
Miscellaneous revenues	374	1,300
Total operating revenues	<u>380,683</u>	<u>379,166</u>
Operating expenses		
Administrative and general	72,107	100,988
Costs of providing services	192,173	162,227
Depreciation	29,541	29,541
Total operating expenses	<u>293,821</u>	<u>292,756</u>
Operating Income	86,862	86,410
Net assets, February 1	<u>958,357</u>	<u>871,947</u>
Net assets, January 31	<u>\$ 1,045,219</u>	<u>\$ 958,357</u>

The Notes to Financial Statements are an integral part of these statements.

Delaware Township Municipal Utilities Authority
Statements of Cash Flows
Years Ended January 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Operating revenue collected	\$ 376,840	\$ 386,116
Cash payments to vendors for goods or services	(223,663)	(207,234)
Cash payments to employees for services	(33,935)	(34,722)
Cash payments for restricted liabilities	241	(10,053)
Net cash provided by operating activities	<u>119,483</u>	<u>134,107</u>
Cash flows from investing activities		
Purchase of investments	(50,000)	(135,000)
Investment in property and equipment	(47,948)	-
Net cash used in investing activities	<u>(97,948)</u>	<u>(135,000)</u>
Net increase (decrease) in cash	21,535	(893)
Cash and cash equivalents		
Beginning of year	36,424	37,317
End of year	<u>\$ 57,959</u>	<u>\$ 36,424</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 86,862	\$ 86,410
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation	29,541	29,541
Investment income	(2,235)	(1,714)
(Increase) decrease in sewer fees receivable	(2,961)	7,855
Increase in accounts payable	6,646	20,973
(Decrease) increase in payroll taxes payable	164	(46)
(Decrease) increase in accrued salaries payable	(128)	332
Increase in deferred revenue	1,353	809
Decrease (increase) in restricted liabilities	241	(10,053)
Net cash provided by operating activities	<u>\$ 119,483</u>	<u>\$ 134,107</u>

The Notes to Financial Statements are an integral part of these statements.

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

1. Nature of Operations

The Delaware Township Municipal Utilities Authority ("the Authority") was created on April 26, 1965 to construct and operate a wastewater collection system and a water system to serve parts of Delaware Township. The Authority bills and collects its revenue from users of the system. As a public body, under existing statute, the Authority is exempt from both Federal and State Income Tax.

2. Summary of Significant Accounting Policies

The accounting policies of the Authority are in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Basis of Presentation - Fund Accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements that do not conflict with or contradict GASB pronouncements and that are developed for business enterprises.

These financial statements follow GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments and related standards. The standard provides for significant changes in terminology; recognition of contributions in the Statements of Revenues, Expenses and Changes in Net Assets; inclusion of a management's discussion and analysis as supplementary information; and other changes.

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

Basis of Accounting

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method, revenues are recorded in the accounting period in which they are earned and expenses are recorded as incurred.

Revenue Recognition

The Authority generates the vast majority of its revenues through user fees that are charged to residents who use the services provided by the Authority. User fees are billed on a quarterly basis, and are recorded on an accrual basis as earned.

Additionally, as discussed further in Note 10, the Authority leases a small piece of land for a tower to be used for wireless communication equipment. Such revenue is recorded as earned, as per the terms set forth in the related lease agreements. Some of this lease income is received in advance, and as such, results in deferred revenue being recognized.

Historically, the Authority has had very few delinquent accounts. Management does not deem it necessary to record an allowance against its receivables, as it has a tax lien placed against any delinquent accounts. Additionally, the Authority's customer base is fairly vast and individual delinquent account balances are normally insignificant. Payments are applied to open invoices in date order with the remainder applied to delinquent interest.

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of plant and equipment is provided using the straight-line method, with the following estimated useful lives:

Sewer plant and mains	40 years
Well	30 years
Other equipment and improvements	10-40 years

Depreciation on assets acquired with government grants or other contributed capital is recorded as a reduction of contributed capital.

At January 31, 2013 and 2012, property, plant and equipment consisted of the following:

	2013	2012
Sewer plant and mains	\$ 514,669	\$ 514,669
Well	56,167	56,167
Other equipment and improvements	548,149	548,149
Construction in Progress	47,948	-
	<u>1,166,933</u>	<u>1,118,985</u>
Less: accumulated depreciation	(705,187)	(675,646)
Property, plant and equipment – net	<u>\$ 461,746</u>	<u>\$ 443,339</u>

Depreciation expense on property, plant and equipment for the years ended January 31, 2013 and 2012 was \$29,541 and \$29,541 respectively and is included in operating expenses in the accompanying statement of revenues, expenses and changes in net assets.

Restricted Accounts

The Authority has established a Capital Replacement Fund to set aside funds for major improvements. Actual cash is not kept in a separate account but is co-mingled with several unrestricted cash, money market, and certificate of deposit accounts. During the years ended January 31, 2013 and 2012, \$20,000 and \$50,000, respectively was transferred to this fund. During the years ended January 31, 2013 and 2012, \$0 was used for capital improvements and/or board approved operating expenditures.

Budgetary Procedures and Budgetary Accounting

The Authority adheres to the following procedures in establishing the budgetary data reflected in these financial statements:

At least 60 days prior to January 31, the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority budget, the Director shall either approve the budget or notify the Authority of the reasons for refusing to approve and state the conditions upon which approval will be granted. After the Director approval, the Authority formally adopts the budget.

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

The Authority prepares its budget on a basis of accounting that conforms with the accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Cash and cash equivalents

The Authority considers all unrestricted and restricted checking and money market accounts, the State of New Jersey cash management fund and certificates of deposit with maturities of less than three months at the time of purchase to be cash and cash equivalents. All certificates of deposits with financial institutions are considered investments.

Concentration of Credit Risk

Financial instruments which potentially subject the Authority to concentrations of credit risk consist primarily of cash and certificates of deposit. These balances are maintained at one financial institution. At times, the balances may exceed certain insured limits. Management monitors the soundness of the institution and considers the Authority's risk to be minimal.

Fair Value of Financial Instruments

Effective December 1, 2008, the Authority adopted FASB ASC 820 (formerly, "Fair Value Measurements" (SFAS 157)). FASB ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under FASB ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under FASB ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement did not have a material impact on the Authority's financial statements.

Compensated Absences

The Authority employs two part-time operators. The liability for unused sick pay and/or vacation pay is considered insignificant.

3. Cash and Cash Equivalents

At January 31, 2013 and 2012, the carrying amount of the Authority's cash and cash equivalents was \$57,959 and \$36,424 respectively and the bank balance was \$57,959 and \$36,424 respectively.

	2013	2012
Cash and cash equivalents- unrestricted	\$ 55,882	\$ 34,588
Cash and cash equivalents- restricted	<u>2,077</u>	<u>1,836</u>
Total cash and cash equivalents	<u>\$ 57,959</u>	<u>\$ 36,424</u>

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

4. Fair Value Accounting

Recurring Fair Value Measurements

Pursuant to the requirements of FASB ASC 820, the Authority has provided fair value disclosure information for relevant assets and liabilities in these financial statements. The following table summarizes assets which have been accounted for at fair value on a recurring basis as of January 31, 2013 and 2012, along with the basis for the determination of fair value:

	Total	Basis for Valuation		
		Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit at January 31, 2013	\$ 539,939	\$ --	\$ 539,939	\$ --
Certificates of deposit at January 31, 2012	\$ 487,704	\$ --	\$ 487,704	\$ --

For applicable assets and liabilities subject to this pronouncement, the Authority will value such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, the Authority will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Authority will develop measurement criteria based on the best information available. The Authority has used observable measurement criteria as a means to value all assets under this pronouncement.

5. Investments

At January 31, 2013, the face amount of the Authority's certificates of deposits and related interest rates and maturity dates were as follows:

<u>Fund</u>	<u>Bank</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>
Unrestricted:				
General	PNC Bank	.399% - .400%	2/15/13 – 4/22/14	<u>\$ 332,499</u>
Restricted:				
Capital Projects	PNC Bank	.399% - .400%	2/15/13– 4/22/14	<u>\$ 207,440</u>

At January 31, 2012, the face amount of the Authority's certificates of deposits and related interest rates and maturity dates were as follows:

<u>Fund</u>	<u>Bank</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Face Amount</u>
Unrestricted:				
General	PNC Bank	.345% - .747%	2/22/12 – 2/15/13	<u>\$ 300,264</u>
Restricted:				
Capital Projects	PNC Bank	.345% - .747%	2/22/12 – 2/15/13	<u>\$ 187,440</u>

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

At January 31, 2013 and 2012, investments at face amount approximate fair market value.

All of the certificates of deposit have been deposited in public depositories, which are insured by the Federal Deposit Insurance Corporation (FDIC) and are fully collateralized by the bank through the Government Unit Deposit Protection Act (GUDPA).

Financial instruments which potentially subject the Authority to concentrations of credit risk consist primarily of cash and certificates of deposit. These balances are maintained at one financial institution. At times, the balances may exceed certain insured limits. Management monitors the soundness of the institution and considers the Authority's risk to be minimal.

6. Contributed Capital Assets

The Authority's historical cost basis of the Capital Assets (Property, Plant and Equipment) includes assets that were contributed primarily through donations by the Township and developers. These assets are being depreciated on a straight line basis over generally a 40 year life from the date placed in service. The depreciation was not recorded through the statement of revenues and expenses but rather was charged directly against net assets on the statement of changes in net assets. These assets were fully depreciated prior to the year ending January 31, 2013.

Contributed capital	\$ 106,000
Less: accumulated depreciation	<u>106,000</u>
Contributed capital, net	<u>\$ --</u>

7. Pension Plans

The Authority participates in the Public Employees' Retirement System of New Jersey ("PERS") which is a part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The plan, which covers public employees throughout the State, does not maintain separate records for each reporting unit and, accordingly, the actuarial data for the employees of the Authority who are members of the plan is not available. The Authority's contribution to the plan for the years ending January 31, 2013 and 2012 was \$1,905 and \$1,015, respectively.

8. Risk Management

Risks of losses from worker's compensation, property, liability, and public officials' liability are covered by insurance.

9. Allocation of Costs Between Water And Sewer

The Authority does not maintain its records in a way which facilitates the determination of the costs relating to water and sewer services. For budgeting purposes a percentage allocation is used: 64% for sewer and 36% for water.

10. Tower Site Lease

The Authority is party to a 25 year lease to rent a small parcel of land for a tower to be used for wireless communication equipment. The minimum base rent is \$21,650 per year payable quarterly, with annual increases of 3% of the prior year minimum base rent. In addition, the Authority is entitled to 50% of any gross revenue from sub-tenants of the tower site. The lease can be terminated by the tenant with six months written notice. Rental income was \$108,254 in 2013 and \$111,381 in 2012.

Delaware Township Municipal Utilities Authority
Notes to Financial Statements
January 31, 2013 and 2012

11. Contingencies and Commitments

The Authority is required, under NJDEP mandates to adhere to the NJDEP permit requirements. These requirements may require a substantial amount of capital outlay to upgrade the plant facility. Based on negotiations with the NJDEP and the New Jersey Pollutant Discharge Elimination System (NJPDES), the Authority's administrative action resulted in a favorable conclusion based on their independent review. Subsequently, the NJDEP issued a new permit greatly reducing the required standards and limits. As a result, the Authority can proceed with plant design that is considerably cheaper and may not require the borrowing of funds. The Board approved to proceed with an ultra violet treatment design that will cost approximately \$200,000. This design is contingent on the NJPDES permit being renewed. Completion is anticipated within the next one to two years.

The Authority has entered into a commitment for a specific project. This project is for the implementation of a WTP Generator. The project includes the supply and installation of a reinforced concrete pad, generator and propane tank. The total project projected costs are approximately \$34,900 and as of January 31, 2013 the project has not begun.

12. Subsequent Events

The Authority has evaluated subsequent events occurring after the balance sheet date through June 5, 2013, the date the financial statement were available for release. There were no such events that occurred which require disclosure or recognition in the financial statements.

SUPPLEMENTARY INFORMATION

Delaware Township Municipal Utilities Authority
Schedule of Operating Revenues Compared to Budget - Unrestricted Funds
Year Ended January 31, 2013

	2012-13 Budget	2012-13 Actual
Revenues - regular		
User charges	\$ 259,424	\$ 269,074
Delinquent penalties	350	746
Interest income	326	2,235
Rents - cell tower	87,000	108,254
Total revenues - regular	<u>347,100</u>	<u>380,309</u>
Miscellaneous revenues		
Hook-up fees	-	-
Other	-	374
Total miscellaneous revenues	<u>-</u>	<u>374</u>
	<u>\$ 347,100</u>	<u>\$ 380,683</u>

See Independent Auditors' Report.

Delaware Township Municipal Utilities Authority
Schedule of Expenditures Funded by Operating Revenues Compared to
Budget - Unrestricted Funds
Year Ended January 31, 2013

	2012-13 Budget	2012-13 Actual
Administrative and general		
Legal	\$ 10,000	\$ 369
Engineering	45,000	32,361
Accounting	15,000	15,500
Insurance	20,000	6,379
Independent contractor	30,000	14,572
Postage	1,550	1,186
Telephone	1,800	1,740
Total administrative and general	<u>123,350</u>	<u>72,107</u>
Cost of providing services		
Salaries and wages	36,000	33,935
Payroll taxes	2,750	6,639
Sludge removal	22,000	24,239
Repair and maintenance	25,000	24,940
Electric	30,000	18,964
Materials and supplies	28,000	29,869
Permit fees	7,500	2,863
Lab fees	42,500	39,216
Miscellaneous	10,000	11,508
Total cost of providing services	<u>203,750</u>	<u>192,173</u>
Subtotal	327,100	264,280
Increase to capital reserve	20,000	20,000
	<u>\$ 347,100</u>	<u>\$ 284,280</u>

See Independent Auditors' Report.

Delaware Township Municipal Utilities Authority
Schedule of Findings and Responses
January 31, 2013

Findings related to the financial statements, which are required to be reported in accordance with GAGAS:

Finding #2013-1

Based on our overall assessment of the client during our audit and on our review of adjusting journal entries proposed and recorded during our audit, we concluded that the Authority's expertise in their accounting software and infrastructure for recording transactions in accordance with accounting principles generally accepted in the United States of America and preparing financial statements and related footnote disclosures could be improved. These comments were a direct result of several computer issues during the year. These computer issues were addressed by the Authority during the year. However, we consider this to be a significant deficiency in the Authority's controls as defined in our 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 found in these financial statements. This significant deficiency was also reported as a significant deficiency in the prior year Schedule of Findings.

Criteria

Professional standards clarify that individuals at the Authority in charge of recording transactions and overseeing the financial reporting process should have sufficient expertise in the computer system to ensure accuracy in capturing and reporting relevant financial data and in selecting, applying and disclosing accounting principles generally accepted in the United States of America in the Authority's financial statements. The Authority should have adequate internal controls (infrastructure) to insure proper financial reporting is adhered to.

Effect

This condition results in financial reporting that could be more complete and accurate. We do not, however, believe that this condition has caused the financial statements presented herein to be materially inaccurate or misleading.

Cause

We recognize that the Authority implemented a new accounting system for the 2011 fiscal year, which has significantly improved the financial reporting process. However, due to the computer issues, not all aspects of the Authority's financial reporting was fully incorporated into the new accounting system. Therefore, further improvements can be made. We have further concluded that weaknesses in financial reporting resulted from a lack of training with respect to certain aspects of accounting principles generally accepted in the United States of America, computer knowledge in general, training on the accounting software, and lack of solid internal controls in regard to financial reporting.

Recommendation

We recommend that the Authority review and amend its internal controls and continue training on the new accounting software as it relates to financial reporting and consider hiring a computer consultant as needed. We further recommend that the individuals responsible for financial reporting obtain training as deemed appropriate on relevant accounting principles to better select, apply and disclose such principles in the Authority's financial statements.

Response

The Authority has and will continue to get computer assistance and will continue to fully incorporate and train on the new accounting software system going forward and will review internal controls and attempt to obtain additional training on relevant accounting principles, for the individuals responsible for financial reporting. Given the size of the organization and its staff, this will be a difficult challenge, economically. However, the Authority will attempt to provide additional training as deemed appropriate.

Delaware Township Municipal Utilities Authority
Schedule of Prior Year Findings
January 31, 2013

Finding #2012-1

Based on our overall assessment of the client during our audit and on our review of adjusting journal entries proposed and recorded during our audit, we concluded that the Authority's expertise and infrastructure for recording transactions in accordance with generally accepted accounting principles and preparing financial statements and related footnote disclosures could be improved. We consider this to be a significant deficiency in the Authority's controls as defined in our 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 found in these financial statements. This significant deficiency was also reported as a significant deficiency in the prior year Schedule of Findings.

Recommendation

We recommend that the Authority review and amend its internal controls and complete the implementation of the new accounting software as it relates to financial reporting. We further recommend that the individuals responsible for financial reporting obtain training as deemed appropriate on relevant accounting principles to better select, apply and disclose such principles in the Authority's financial statements.

Current Status

During our audit we noted that the Authority has implemented a new accounting software package to help record all transactions as it relates to their financial reporting responsibilities. The bookkeeper also completed training on the accounting software, and certain aspects of GAAP to better select, apply and disclose such principles. These are good steps towards clearing this significant deficiency; however, deficiencies were still identified during the audit year end January 31, 2013. See the Schedule of Findings and Responses.

Delaware Township Municipal Utilities Authority
Corrective Action Plan – For the Year Ended January 31, 2012
January 31, 2013

Finding # 2012-1

Authority's infrastructure for preparing financial statements and related footnote disclosures could be improved. Financial statements could be more complete and accurate.

Response

The bookkeeper took training throughout the year with respect to certain aspects of GAAP to better select, apply and disclose such principles. The new software is capable of enabling better financial reporting. The bookkeeper has received additional training in order to improve and implement stronger internal controls.

Implementation Date – Currently in place.