

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COUNTY OF SOMERSET
FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010 AND 2009

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
TABLE OF CONTENTS
YEAR ENDED NOVEMBER 30, 2010

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	1-3
Roster of Officials	4
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	5-6
Management's Discussion and Analysis (Unaudited)	7-10
<u>Financial Statements</u>	
Comparative Statement of Net Assets	11-12
Comparative Statement of Revenue, Expenses and Changes in Net Assets	13
Comparative Statement of Cash Flows	14
Notes to Financial Statements	15-26
<u>Schedule</u>	
<u>Supplementary Information</u>	
Schedule of Revenue, Expenses and Changes in Net Assets – Restricted and Unrestricted Funds	27-28
Schedule of Sewer Operating Fund Revenue and Expenditures Compared to Budget	29
<u>SINGLE AUDIT SECTION</u>	
Schedule of Expenditures of Federal Awards (Not Applicable)	
Schedule of Expenditures of State Awards (Not Applicable)	
Notes to Schedules of Expenditures of Federal and State Awards (Not Applicable)	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30-31
Schedule of Findings and Questioned Costs	32
Summary Schedule of Prior Audit Findings	33
<u>COMMENTS AND RECOMMENDATIONS</u>	
Comments and Recommendations	34-35
Summary of Recommendations	36

INTRODUCTORY SECTION



Bernards Township Sewerage Authority

Administrative Office: 277 South Maple Avenue, Basking Ridge, NJ 07920

908-204-3020 Fax-908-204-3089

Plant: 726 Martinsville Road, PO Box 247, Liberty Corner, NJ 07938

908-647-2469 Fax-908-647-4416

Sewer Payments: Tax Collector, One Collyer Lane, Basking Ridge, 07920

908-204-3078 Fax-908-766-1941

April 15, 2011

The Honorable Chairman and Members
of the Bernards Township Sewerage Authority
Basking Ridge, NJ

Dear Authority Members:

The financial report of the Bernards Township Sewerage Authority (The "Authority") for the years ended November 30, 2010 and 2009, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The financial report is presented in four sections: introductory, financial, single audit and comments and recommendations. The introductory section includes this transmittal letter and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. The Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit (if applicable), including the auditors' report on the internal control and compliance with applicable laws and regulations and findings and recommendations, are included in the single audit section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Bernards on May 22, 1956.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewerage or other wastes.

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

The Honorable Chairman and Members
of the Bernards Township Sewerage Authority
Page 2
April 15, 2011

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2010, the Authority experienced the following:

- Electrical Upgrades – In 2010, installation of a solar photovoltaic field began. The system will generate approximately 1.1 Megawatts of electricity.
- Pump Stations and Collection System – In 2010 Construction began on the Madisonville Pump Station and the East Oak Street Pump Station Rehabilitations. The Valley Road Pump Station Rehabilitation project was completed. Additionally, various manholes and sewer pipes that were in need of improvement were repaired.
- Design work for the Harrison Brook Treatment Plant Sluice Gates replacement and Fieldstone Drive Pump Station rehabilitation was completed.
- The new Belt Filter Press project started. The Belt Press replaces old equipment and included the construction of a new building.

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

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

OTHER INFORMATION:

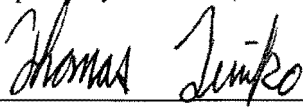
Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP., was selected by the Authority. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments of 1996 and the related OMB Circular A- 133 and New Jersey's OMB Circular NJOMB 04-04. The auditors' report on the financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the single audit section of this report.

The Honorable Chairman and Members
of the Bernards Township Sewerage Authority
Page 3
April 15, 2011

ACKNOWLEDGEMENTS:

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

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas Timko". The signature is written in a cursive style and is positioned above a horizontal line.

Thomas Timko
Authority Director

**BERNARDS TOWNSHIP SEWERAGE AUTHORITY
ROSTER OF OFFICIALS
NOVEMBER 30, 2010**

Board Members

John Carpenter	Chairman
Carolyn Gaziano	Vice Chairman
John Malay	Board Member/Treasurer
Mary Pavlini	Board Member
Scott Spitzer	Board Member

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia LLP
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856

ATTORNEY

John P. Belardo, Esq.
McElroy, Deutsch, Mulvaney & Carpenter, LLC
1300 Mt. Kemble Avenue
Morristown, NJ 07962-2075

ENGINEER

Hatch Mott MacDonald
27 Bleeker Street
Millburn, NJ 07041

FINANCIAL SECTION



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

Independent Auditors' Report

The Honorable Chairman and Members
of the Bernards Township Sewerage
Authority
Basking Ridge, New Jersey

We have audited the accompanying financial statements of the Bernards Township Sewerage Authority (the "Authority"), a component unit of the Township of Bernards, as of and for the years ended November 30, 2010 and 2009, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the component units financial statements referred to above present fairly, in all material respects, the financial position of the Bernards Township Sewerage Authority as of November 30, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.


The Honorable Chairman and Members
of the Bernards Township Sewerage
Authority
Page 2

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America and the Division. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purposes of forming opinions on the component unit financial statements that collectively comprise the basic financial statements. The accompanying introductory section and supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements mentioned above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1 to the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on this section.

Mount Arlington, New Jersey
April 15, 2011

NISIVOCIA LLP



John D. Cassells
Registered Municipal Account#55



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

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

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

Financial Highlights

Management believes the Authority's financial position is strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- The Authority has no outstanding debt.
- Operating revenues were \$3.472 million, a decrease of \$196,296 compared to 2009 mainly due to a decrease in sewer charge revenue.
- Non -operating revenues were \$45,691, a decrease of \$42,471 compared to 2009 due to a decrease in interest income revenue.

Overview of the Financial Statements

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

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net assets; a statement of revenue, expenses, and changes in net assets; a statement of cash flows and notes to the financial statements.

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

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

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

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

Financial Conditions

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

The Authority's total net assets increased from the prior year by \$405,143. The analysis below focuses on the Authority's net assets (Table I) and changes in net assets (Table 2) during the year.

Table I
Condensed Statement of Net Assets

	November 30,		Increase/ (Decrease) 2009	Percentage of Increase/ (Decrease)
	2010	2009 Restated		
Current and Other Assets	\$ 17,933,941	\$ 20,000,025	\$ (2,066,084)	(10.33) %
Noncurrent Assets	19,033,040	13,457,779	5,575,261	41.43
Total Assets	<u>36,966,981</u>	<u>33,457,804</u>	<u>3,509,177</u>	10.49
Current Liabilities	6,019,303	2,927,330	3,091,973	105.62
Long-term Liabilities	91,336	79,275	12,061	15.21
Total Liabilities	<u>6,110,639</u>	<u>3,006,605</u>	<u>3,104,034</u>	103.24
Invested in Capital Assets, Net of Debt	19,033,040	13,457,779	5,575,261	41.43
Unrestricted	<u>11,823,302</u>	<u>16,993,420</u>	<u>(5,170,118)</u>	(30.42)
Total Net Assets	<u>\$ 30,856,342</u>	<u>30,451,199</u>	<u>\$ 405,143</u>	1.33 %

Total net assets increased 1.33%. This was primarily a result of a decrease in revenues and sewer disposal expenses offset by the Authority's policy of continued capital maintenance and renewal and replacement.

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

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

	November 30,		Increase/ (Decrease) 2009	Percentage of Increase/ (Decrease)
	2010	2009		
Revenue				
Operating Revenue	\$ 3,471,914	\$ 3,668,210	\$ (196,296)	(5.35) %
Nonoperating Revenue	282,037	403,802	(121,765)	(30.15)
Total Revenue	<u>3,753,951</u>	<u>4,072,012</u>	<u>(318,061)</u>	(7.81)
Expenses				
Sewer Disposal	2,775,486	2,902,570	(127,084)	(4.38)
Depreciation	573,322	503,503	69,819	13.87
Total Expenses	<u>3,348,808</u>	<u>3,406,073</u>	<u>(57,265)</u>	(1.68)
Increase in Net Assets	405,143	665,939	(260,796)	(39.16)
Beginning Net Assets	<u>30,451,199</u>	<u>29,785,260</u>	<u>665,939</u>	2.24
Ending Net Assets	<u>\$ 30,856,342</u>	<u>\$ 30,451,199</u>	<u>\$ 405,143</u>	1.33 %

Results of Operations

Operating Revenue: Revenue from operations falls into two categories: sewer service fees and sewer connection fees. Sewer revenue overall decreased 5.35% compared to 2009.

Budgetary Highlights: No budget amendments were made to the Authority's 2010 original adopted budget.

Nonoperating Revenue: The Authority's nonoperating revenue decreased 30.15% from 2009. The primary reason for the decrease was due to lower interest income due to lower interest rates.

Expenses: Operating expenses for the sewer system decreased \$127,084 or 4.38% from 2009 and depreciation expense increased \$69,819 or 13.87%.

Capital Assets: As of November 30, 2010, the Authority had \$19 million invested in capital assets, including land, construction in progress and sewage collection systems including pumping stations. The amount represents an increase of \$5,575,261 over the prior year. The Authority has awarded contracts for the installation of solar panels and the rehabilitation of the East Oak Pump Station, which are scheduled to be completed in 2011.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the years ended November 30, 2010 and 2009. These changes are presented in detail in Note 3 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase/ (Decrease) From 2009	Percentage of Increase/ (Decrease)
	2010	2009 Restated		
Land	\$ 44,000	\$ 44,000		
Construction in Progress	8,672,831	2,950,731	\$ 5,722,100	193.92 %
Land Improvements	286,726	286,726		
Buildings/Treatment Plant	8,633,902	8,674,040	(40,138)	(0.46)
Transmission Facilities	10,085,696	10,085,696		
Equipment/Vehicles	4,390,479	3,923,858	466,621	11.89
Total	32,113,634	25,965,051	6,148,583	23.68
Less:				
Accumulated Depreciation	13,080,594	12,507,272	573,322	4.58
Capital Assets, Net of Depreciation	<u>\$ 19,033,040</u>	<u>\$ 13,457,779</u>	<u>\$ 5,575,261</u>	41.43 %

Cash Flow Activity: Cash and cash equivalents decreased by \$2,059,599, or 10.34% from the previous year primarily due to capital acquisitions. The Authority still maintains a healthy cash balance to meet future emergencies and capital requirements.

Long-Term Debt: At year end, the Authority continued to be debt free.

Final Comments: Infrastructure improvements, vehicle and equipment replacement continue to be a priority of the Authority. Upgrades to the sewerage system are planned as the system ages.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
AS OF NOVEMBER 30, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u> <u>(Restated)</u>
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 17,787,209	\$ 19,850,025
Sewer Charges Receivable (Less		
Allowance for Uncollectible Receivables of		
\$0 in 2010 and 2009)	48,015	49,614
Other Receivables	26,912	31,798
Total Unrestricted Assets	<u>17,862,136</u>	<u>19,931,437</u>
Restricted Assets:		
Developers Escrow:		
Cash and Cash Equivalents	71,805	68,588
Total Restricted Assets	<u>71,805</u>	<u>68,588</u>
Total Current Assets	<u>17,933,941</u>	<u>20,000,025</u>
Noncurrent Assets:		
Capital Assets, Net:		
Sites (Land) and Construction in Progress	8,716,831	2,994,731
Depreciable Site Improvements, Buildings, Treatment Plant,		
Transmission Facilities and Equipment/Vehicles	10,316,209	10,463,048
	<u>19,033,040</u>	<u>13,457,779</u>
TOTAL ASSETS	<u>36,966,981</u>	<u>33,457,804</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
AS OF NOVEMBER 30, 2010 AND 2009
(Continued)

<u>LIABILITIES</u>	<u>2010</u>	<u>2009</u> <u>(Restated)</u>
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 5,937,083	\$ 2,847,679
Prepaid Service Charges	7,255	8,463
Premium on Sale of Lien	3,160	2,600
Total Current Liabilities Payable from Unrestricted Assets	5,947,498	2,858,742
Current Liabilities Payable from Restricted Assets:		
Escrow Deposits Payable	71,805	68,588
Total Current Liabilities Payable from Restricted Assets	71,805	68,588
Total Current Liabilities	6,019,303	2,927,330
Long-Term Liabilities:		
Compensated Absences Payable	91,336	79,275
Total Long-Term Liabilities	91,336	79,275
Total Liabilities	6,110,639	3,006,605
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	19,033,040	13,457,779
Unrestricted	11,823,302	16,993,420
Total Net Assets	\$ 30,856,342	\$ 30,451,199

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009 (Restated)</u>
Operating Revenue:		
Sewer Charges	3,322,571	3,565,803
Connection Fees	84,022	51,390
Other Fees and Income	65,321	51,017
Total Operating Revenue	<u>3,471,914</u>	<u>3,668,210</u>
Operating Expenses:		
Sewer Disposal	2,775,486	2,902,570
Depreciation	573,322	503,503
Total Operating Expenses	<u>3,348,808</u>	<u>3,406,073</u>
Operating Income/(Loss)	<u>123,106</u>	<u>262,137</u>
Nonoperating Revenue (Expenses):		
Prior Year Accounts Payable Cancelled	236,346	315,640
Interest Income	45,691	88,162
Total Nonoperating Revenue (Expenses)	<u>282,037</u>	<u>403,802</u>
Increase (Decrease) in Net Assets	405,143	665,939
Net Assets, Beginning of Year	<u>30,451,199</u>	<u>29,785,260</u>
Net Assets, End of Year	<u>\$ 30,856,342</u>	<u>\$ 30,451,199</u>

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 3,507,880	\$ 3,682,808
Cash Paid to Suppliers and Employees	<u>(2,780,928)</u>	<u>(4,309,559)</u>
Net Cash Provided by (Used for) Operating Activities	<u>726,952</u>	<u>(626,751)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	<u>(2,832,242)</u>	<u>(142,699)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,832,242)</u>	<u>(142,699)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	<u>45,691</u>	<u>88,162</u>
Net Cash Provided by Investing Activities	<u>45,691</u>	<u>88,162</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(2,059,599)	(681,288)
Cash and Cash Equivalents - Beginning of Year	<u>19,918,613</u>	<u>20,599,901</u>
Cash and Cash Equivalents - End of Year	<u>\$ 17,859,014</u>	<u>\$ 19,918,613</u>
Reconciliation of Net Operating Income/(Loss) to Net Cash Provided by/		
(Used for) Operating Activities:		
Operating Income/(Loss)	\$ 123,106	\$ 262,137
Adjustments to Reconcile Operating Income to		
Net Cash Provided by/(Used for) Operating Activities:		
Depreciation	573,322	503,503
Changes in Net Assets:		
(Increase)/Decrease in Charges Receivable	6,485	(6,533)
Increase/(Decrease) in Premium on Sale of Lien	560	
Increase/(Decrease) in Compensated Absences	12,061	6,500
Increase/(Decrease) in Prepaid Service Charges	(1,208)	2,574
Increase/(Decrease) in Escrow Deposits Payable	3,217	(18,998)
Increase/(Decrease) in Accounts Payable	<u>9,409</u>	<u>(1,375,934)</u>
Total Adjustments	<u>603,846</u>	<u>(888,888)</u>
Net Cash Provided by/(Used for) by Operating Activities	<u>\$ 726,952</u>	<u>\$ (626,751)</u>

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010

Note 1 - Nature of Authority

The Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Bernards on May 22, 1956.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewerage or other wastes.

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

Note 2: Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

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

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

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In addition, certain legally separate tax-exempt entities that meet specific criteria (i.e., benefit of economic resources, access/entitlement to economic resources, and significances) should be included in the financial reporting entity. The Authority is a legally separate organization, whose members are appointed by the Committee of the Township of Bernards. Financial transactions are processed and accounted for by the Township's financial administration. Accordingly, the Authority is considered to be a component unit of the Township of Bernards under the provisions of Governmental Accounting Standards Boards, Codification Section 2100. There were no additional entities required to be included in the reporting entity under the criteria as described above.

B. Grants

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

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue.

C. Inventories

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

D. Cash and Cash Equivalents

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

E. Investments

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

F. Use of Estimates

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

G. Accrued Sick Benefits

The Authority's policies regarding sick time permit employees to accumulate earned but unused sick leave. The liability for these compensated absences is recorded as a long-term liability. The balance outstanding as of November 30, 2010 is \$91,336.

H. Net Assets

Net assets are classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.
2. Restricted – when constraints placed on net assets are either a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

I. Designated Amounts

As of November 30, 2010 the Authority had not internally designated any funds.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

J. Restricted Accounts

The Authority has established a restricted escrow account to hold the cash portion of performance bonds required to be posted by developers whose work affects the Authority. The security portion of such deposits, together with interest earned on that portion, is refunded to the developer, once the work has been satisfactorily completed. At November 30, 2010, \$71,805 was restricted for this purpose.

K. Revenue Recognition

The majority of the Authority's customers are residential. However, there are several commercial customers who are charged a different usage rate. All customers are billed quarterly based on actual usage readings. Estimates based on prior usage are utilized where actual readings cannot be obtained. Adjustments for actual usage are applied to the following quarter's bill or to the first quarter for which an actual reading can be obtained. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

L. Allowance for Uncollectible Accounts

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 3: Capital Assets

Capital assets, balances and activity for the year ended November 30, 2010 were as follows:

	2009 Restated	Additions	(Decrease)/ Adjustment	2010
Land	\$ 44,000			\$ 44,000
Construction in Progress	2,950,731	\$ 5,725,100	(\$3,000)	8,672,831
Land Improvements	286,726			286,726
Buildings/Treatment Plant	8,674,040		(40,138)	8,633,902
Transmission Facilities	10,085,696			10,085,696
Equipment/Vehicles	3,923,858	426,483	40,138	4,390,479
Total	25,965,051	6,151,583	(3,000)	32,113,634
Accumulated Depreciation	(12,507,272)	(573,322)		(13,080,594)
	<u>\$ 13,457,779</u>	<u>\$ 5,578,261</u>	<u>\$ (3,000)</u>	<u>\$ 19,033,040</u>

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

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

	<u>Estimated Useful Life</u>
Building - Administration	40 Years
Treatment Plant	40 Years
Transmission Facilities	40 Years
Equipment/Vehicles	5 Years
Office Furniture/Fixtures	5 Years

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 4: Long-Term Debt

As of November 30, 2010, the Authority had no outstanding bonds or notes issued or authorized but not issued.

Note 5: Pension

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

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

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

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employee contributions are based on percentages of 5.50% for PERS of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in the Fund. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to PERS amounted to \$52,981, \$38,535, and \$24,697 for 2010, 2009, and 2008, respectively. The annual pension cost ("APC") for PERS differed from the net pension obligation ("NPO") due to the enactment of Chapter 114, P.L. 1997 for 2008 as the APC was \$53,178 and the NPO was \$42,542.40.

Note 6: Cash and Cash Equivalents

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

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

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 6: Cash and Cash Equivalents (Cont'd)

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

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

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

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

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

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

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

Deposits:

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

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

The market value of the collateral must equal 5% of the average daily balance of public funds;
and

If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 6: Cash and Cash Equivalents (Cont,d.)

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

Investments:

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

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 6: Cash and Cash Equivalents (Cont'd)

As of November 30, 2010, cash and cash equivalents of the Bernards Township Sewerage Authority consisted of the following:

<u>Fund</u>	<u>Checking</u> <u>Accounts</u>	<u>Petty</u> <u>Cash</u>	<u>New Jersey</u> <u>Cash</u> <u>Management</u> <u>Fund</u>	<u>Total</u>
Unrestricted	\$ 3,073,011	\$ 300	\$ 14,713,898	\$ 17,787,209
Restricted - Escrow Deposit	71,805			71,805
	<u>\$ 3,144,816</u>	<u>\$ 300</u>	<u>\$ 14,713,898</u>	<u>\$ 17,859,014</u>

During the year ended November 30, 2010, the Authority did not hold any investments. The carrying amount of the Bernards Township Sewerage Authority's cash and cash equivalents at year end was \$17,859,014 and the bank balance was \$18,320,545. The \$14,713,898 in the NJ Cash Management Fund is uninsured and unregistered.

Note 7: Risk Management

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

The Authority is currently a member of the New Jersey Utilities Joint Insurance Fund (the "Fund"). The Fund provides their members with Liability, Property and Workers' Compensation Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self administered group of governmental entities established for the purpose of providing low-cost insurance coverage for their respective members in order to keep expenses at a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Funds are elected.

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

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

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

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 7: Risk Management (Cont'd)

The December 31, 2010 audit report for the fund is not available as of the date of this report. Selected, summarized financial information for the Fund as of December 31, 2009 is as follows:

	New Jersey Utility Authorities Joint Insurance Fund Dec. 31, 2009
Total Assets	\$ 12,740,906
Net Assets	\$ 5,678,105
Total Revenue	\$ 8,952,082
Total Expenses	\$ 9,173,282
Change in Net Assets	\$ (2,155,609)
Net Assets Distribution to Participating Members	\$ -0-

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

PERMA Risk Management Services.
250 Pehle Ave, Suite 701
Saddle Brook, New Jersey 07663
(201) 587-0555

New Jersey Unemployment Compensation Insurance

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. Due to the shared service arrangement with the Township of Bernards relative to the provision of accounting services, the Authority's share of withholdings is maintained in the Township's Unemployment trust account. Authority contributions for the years 2010 and 2009 were \$4,193 and \$1,193, respectively. The Authority has had no claims in the past two years.

Note 8: Deferred Compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, which is administered by ICMA Retirement Corporation, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 9: Accounts Payable

Accounts payable were as follows:

	2010	2009
Vendors	\$ 5,937,083	\$ 2,847,679

Note 10: Related Party Transactions

The Township of Bernards provides certain administrative and accounting services to the Authority by means of a shared services agreement. During the year ended November 30, 2010, the Authority budgeted and paid to the Township of Bernards the amount of \$372,579 and \$347,517.

Note 11: Environmental Matters

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

Note 12: Contingencies

The Authority is periodically involved in various lawsuits in the normal course business, including claims for property damage, personal injury, and various contract disputes. The Authority vigorously contests these lawsuits and believes the ultimate resolution would not have a adverse effect on their financial position.

Amounts received or receivable from grantors, principally the federal and state governments are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the Authority as revenue would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although Authority officials expect such amount, if any, to be immaterial.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2010
(Continued)

Note 13: Prior Period Adjustment

The Authority adjusted the prior year expenditures as of November 30, 2009 to primarily reclassify them as capital assets.

	<u>Balance 11/30/09</u> <u>as Previously</u> <u>Reported</u>	<u>Retroactive</u> <u>Adjustments</u>	<u>Balance 11/30/09</u> <u>as Restated</u>
Assets:			
Capital Assets, Net:			
Sites(Land) and Construction in Progress	\$ 44,000	\$ 2,950,731	\$ 2,994,731
Depreciable Site Improvements, Buildings, Treatment Plant and Transmission Facilities and Equipment/Vehicles	\$ 11,275,066	\$ (812,018)	\$ 10,463,048
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 11,319,066	\$ 2,138,713	\$ 13,457,779

**BERNARDS TOWNSHIP
SEWERAGE AUTHORITY
SUPPLEMENTARY DATA**

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED NOVEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED NOVEMBER 30, 2009)

	Unrestricted	Invested in Capital Assets, Net of Related Debt	Memo Total	
			2010	2009 (Restated)
Operating Revenue:				
Sewer Charges	\$ 3,322,571		\$ 3,322,571	\$ 3,565,803
Connection Fees	84,022		84,022	51,390
Other Income	65,321		65,321	51,017
Total Operating Revenue	<u>3,471,914</u>		<u>3,471,914</u>	<u>3,668,210</u>
Operating Expenses:				
Sewer Disposal	2,775,486		2,775,486	2,902,570
Depreciation	573,322		573,322	503,503
Total Operating Expenses	<u>3,348,808</u>		<u>3,348,808</u>	<u>3,406,073</u>
Operating Income	<u>123,106</u>		<u>123,106</u>	<u>262,137</u>
Nonoperating Revenue (Expenses):				
Interest Earned on Investments	45,691		45,691	88,162
Prior Year Accounts Payable Cancelled	236,346			315,640
Total Nonoperating Revenue (Expenses)	<u>282,037</u>		<u>282,037</u>	<u>403,802</u>
Increase (Decrease)in Net Assets (Before Transfers)	<u>405,143</u>		<u>405,143</u>	<u>665,939</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED NOVEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED NOVEMBER 30, 2009)
(continued)

	<u>Unrestricted</u>	<u>Invested in Capital Assets, Net of Related Debt</u>	<u>Memo Total</u>	
			<u>2010</u>	<u>2009 (Restated)</u>
Transfers:				
Capital Acquisitions	\$ (6,151,583)	\$ 6,151,583		
Adjustments to Construction In Process	3,000	(3,000)		
Depreciation	573,322	(573,322)		
Increase in Net Assets (After Transfers)	<u>(5,170,118)</u>	<u>5,575,261</u>	<u>405,143</u>	<u>665,939</u>
Net Assets, December 1 (Restated)	<u>16,993,420</u>	<u>13,457,779</u>	<u>30,451,199</u>	<u>29,785,260</u>
Net Assets, November 30	<u>\$ 11,823,302</u>	<u>\$ 19,033,040</u>	<u>\$ 30,856,342</u>	<u>\$ 30,451,199</u>

SCHEDULE II

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF SEWER OPERATING FUND REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED NOVEMBER 30, 2010
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED NOVEMBER 30, 2009)

	2010 Original and Final Budget	2010 Actual	Excess or (Deficit)	2009 Actual (Restated)
Revenue:				
Fund Balance Anticipated	\$ 6,544,740	\$ 6,544,740		\$ 1,303,906
Operating Revenues:				
Service Fees	3,352,640	3,322,571	\$ (30,069)	3,565,803
Connection Fees	79,136	84,022	4,886	51,390
Other Non-Operating Revenue	25,000	65,321	40,321	51,017
Total Operating Revenues	<u>3,456,776</u>	<u>3,471,914</u>	<u>15,138</u>	<u>3,668,210</u>
Non-Operating Revenues:				
Interest on Investments	110,000	45,691	(64,309)	88,162
Total Non-Operating Revenue	<u>110,000</u>	<u>45,691</u>	<u>(64,309)</u>	<u>88,162</u>
Total Revenue	<u>\$ 10,111,516</u>	<u>\$ 10,062,345</u>	<u>\$ (49,171)</u>	<u>\$ 5,060,278</u>
Budgeted Appropriations:				
Administration:				
Other Expenses	\$ 1,520,500	\$ 1,095,682	\$ 424,818	\$ 756,357
Total Administration	<u>1,520,500</u>	<u>1,095,682</u>	<u>424,818</u>	<u>756,357</u>
Cost of Providing Service:				
Salaries & Wages	726,111	681,071	45,040	636,930
Fringe Benefits	292,997	259,606	33,391	217,027
Other Expenses	646,408	613,470	32,938	960,824
Capital Outlay	6,925,500	125,657	6,799,843	331,433
Total Cost of Providing Service	<u>8,591,016</u>	<u>1,679,804</u>	<u>6,911,212</u>	<u>2,146,213</u>
Total Operating Appropriations	<u>10,111,516</u>	<u>2,775,486</u>	<u>7,336,030</u>	<u>2,902,570</u>
Total Appropriations	<u>\$ 10,111,516</u>	<u>\$ 2,775,486</u>	<u>\$ 7,336,030</u>	<u>\$ 2,902,570</u>

**BERNARDS TOWNSHIP
SEWERAGE AUTHORITY**

**SINGLE AUDIT SECTION
YEAR ENDED NOVEMBER 30, 2010**



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

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

The Honorable Chairman and Members
 of the Bernards Township Sewerage
 Authority
 Basking Ridge, New Jersey

We have audited the component unit financial statements of the Bernards Township Sewerage Authority, in the County of Somerset (the "Authority") as of, and for the years ended, November 30, 2010 and 2009 and have issued our report thereon dated April 15, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

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

The Honorable Chairman and Members
of the Bernards Township Sewerage
Authority
Page 2

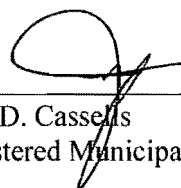
Compliance and Other Matters

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

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

Mount Arlington, New Jersey
April 15, 2011

NISIVOCCIA LLP



John D. Cassels
Registered Municipal Accountant #55



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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2010

Summary of Auditors' Results:

- An unqualified report was issued on the Authority's financial statements.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of the Authority.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of the Authority.
- The Authority was not subject to the single audit provisions of Federal OMB Circular A-133 or New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants and State Aid* as federal and state expenditures were less than the single audit threshold of \$500,000 identified in the Circulars.

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

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

Findings and Questioned Costs for State Awards:

- Not applicable since state expenditures were below the single audit threshold.

Findings and Questioned Costs for Federal Awards:

- Not applicable since federal expenditures were below the single audit threshold.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED NOVEMBER 30, 2010

Status of Prior Year Audit Findings:

Corrective action was taken on the prior year audit findings.

COMMENTS AND RECOMMENDATIONS

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required Advertisement for Bids

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

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

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

Effective July 1, 2005 the bid threshold in accordance with N.J.S.A 40A:11-3 and 40A:11-4 (as amended) is \$21,000 and with a qualified purchasing agent the threshold may be up to \$29,000.

Effective July 1, 2010 the bid threshold in accordance with N.J.S.A 40A:11-3 and 40A:11-4 (as amended) is \$26,000 and with a qualified purchasing agent the threshold may be up to \$36,000.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where questions arise as to whether any contract or agreement might result in violation of the statute, the Authority Attorney's opinion should be sought before a commitment is made.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required Advertisement for Bids (Cont'd)

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

Management Suggestion

There have been certain other receivables and payables that have been carried on the balance sheet for several years with no activity. We would strongly suggest that these items be reviewed and, if determined to be uncollectible or not valid, as applicable, cancelled by resolution.

Status of Prior Year's Findings/Recommendations

Corrective action was taken on the prior year audit recommendation.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SUMMARY OF RECOMMENDATIONS

None.

* * * * *