

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
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THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

ROSTER OF OFFICIALS

Commissioners

Bernhard H. Kofoet
Regina L. Davis
Patrick J. Brennan
G. Burton German, Jr.
Kelly N. Killion

Position

President
Vice President
Secretary
Treasurer
Assistant Secretary
and Treasurer

Officers

Michael A. Saraceni
Jeffrey C. Whalen
Richard Spafford, PE
Karl N. McConnell, Esquire

Chief Operating Officer
Superintendent
Engineer
General Counsel

Consultants

Remington and Vernick Engineers, Inc.
T&M Associates, Inc.
Consulting Engineer Services, Inc.
ABR Consultants LLC

Engineer
Engineer
Engineer
Engineer

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

PART I

FINANCIAL SECTION

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

The Commissioners of
The Merchantville-Pennsauken Water Commission
6751 Westfield Avenue
Pennsauken, NJ 08110

We have audited the accompanying statements of net assets of the Merchantville-Pennsauken Water Commission, State of New Jersey, a component unit of the Township of Pennsauken as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Merchantville-Pennsauken Water Commission'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, the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements present fairly, in all material respects, the financial position of the Merchantville-Pennsauken Water Commission as of December 31, 2011 and 2010 and the respective changes in financial position and cash flows 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 July 10, 2012 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, 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 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 audit.

The Commissioners of
The Merchantville-Pennsauken Water Commission

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

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State of New Jersey Circular 04-04-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and is not a required part of the financial statements. In addition, the supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of State Financial Assistance and supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
July 10, 2012

**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 Commissioners of
The Merchantville-Pennsauken Water Commission
6751 Westfield Avenue
Pennsauken, NJ 08110

We have audited the financial statements of the Merchantville-Pennsauken Water Commission, State of New Jersey, a component unit of the Township of Pennsauken, as of and for the year ended December 31, 2011, and have issued our report thereon dated July 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

Management of the Merchantville-Pennsauken Water Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

Our consideration of 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.

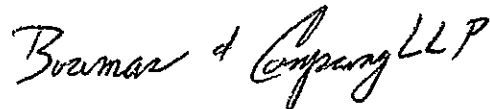
The Commissioners of
The Merchantville-Pennsauken Water Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Merchantville-Pennsauken Water Commission'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 that are required to be reported under Government Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended for the information and use of the Commissioners and management of the Merchantville-Pennsauken Water Commission and the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey 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.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
July 10, 2012

The Merchantville-Pennsauken Water Commission Management's Discussion and Analysis For the Year Ending December 31, 2011

The Merchantville-Pennsauken Water Commission was created under the provisions of Title 40 Chapter 62 of the Laws of New Jersey, as a public agency to acquire, construct, maintain, operate or improve works for the collection, treatment, or purification of water for the Borough of Merchantville and the Township of Pennsauken. The Commission also provides these services to certain sections of the Township of Cherry Hill and the City of Camden. This section of the Commission's annual financial report provides a discussion and analysis of the financial performance for the year ending December 31, 2011. The entire annual financial report consists of four parts; Independent Auditor's Reports, management's discussion and analysis, the basic financial statements and supplementary schedules.

FINANCIAL HIGHLIGHTS

- **Water Consumption Rates** – the Commission made the decision to not increase water rates/fees for 2011 and held the 2010 rates.
- **Total Assets** - Total assets at the end of FY 2011 were \$34,363,179 after deducting liabilities net assets equal \$21,598,078.
- **Total Operating Revenues** - FY 2011 operating revenues totaling \$8,040,033 were \$54,156 lower than the comparable prior year amount of \$8,094,189.
- **Net Non-Operating Income (Expense)** - FY 2011 non-operating income net of non-operating expenses was \$260,402 and was down \$893,717 from the prior year primarily due to \$1,226,121 recognition of a New Jersey DEP Granular Activated Carbon (GAC) Demonstration Project Grant in 2010. While recognized as income in the prior year, this was a reimbursement grant used for infrastructure costs which will be depreciated over future periods.
- **Total Operating Expenses** – FY 2011 operating expenses before depreciation in the amount of \$6,649,983 were 5.29% greater than the prior year comparable amount of \$6,315,834. Net increases were primarily due to a combination of; a well re-development (none were required in 2010) salary and benefits expenses

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The comparative statement of net assets includes all of the Commission's assets and liabilities. As the Commission follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid.

Net-assets – the difference between the Commission’s assets and liabilities – are a measure of the Commission’s financial health or position.

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

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

FINANCIAL ANALYSIS OF THE COMMISSION

The Commission’s total assets were \$34,363,179 on December 31, 2011. Total assets, total liabilities and total net assets are detailed below.

A total of \$17,997,027 of the Commission’s \$21,598,078 in net assets, or (83.33%) represents its investment in capital assets (i.e. water lines, wells, treatment plants, buildings, improvements and equipment); less the related debt outstanding used to acquire those capital assets. Of the remaining \$3,601,051 of net assets, On November 3, 2011, the Commissioners appropriated \$2,275,000 of net assets for use in its 2012 capital budget as submitted to the New Jersey Division of Local Government Services and has reserved the balance for infrastructure maintenance with the immediate concern of painting two of its’ water tanks in the immediate future.

Although the Commission’s investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

Operating Revenues of the Commission decreased \$54,156 primarily due to the loss of three major customers in 2011 and operating expenses (net of depreciation) increased \$334,149 or 5.29%.

NET ASSETS APPROPRIATED AND RESERVED

It is the explicit intention of the Commission to allocate the balance of net assets, (2012 Capital Budget specification less related debt) in the amount of \$1,326,051, to be designated for the re-investment in critical capital repairs identified.

These critical repairs are, but are not limited to; the repair and refinishing of the 1,000,000 gallon Woodbine Avenue elevated tank and the repair and refinishing of the 3,000,000 gallon Park Avenue elevated tank, one each, in 2012 and 2013. Intentions of such will be reflected in the 2012 Budget submission to the State of New Jersey.

Comparative Statement of Net Assets
As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 6,731,600	\$ 7,582,034
Noncurrent Assets	1,980,646	1,705,020
Capital Assets	25,650,933	25,442,186
Total Assets	<u>34,363,179</u>	<u>34,729,240</u>
Liabilities		
Current Liabilities	4,632,851	5,140,587
Long-Term Liabilities	8,132,250	8,028,019
Total Liabilities	<u>12,765,101</u>	<u>13,168,606</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	17,997,027	16,563,777
Unrestricted	3,601,051	4,996,857
Total Net Assets	<u>21,598,078</u>	<u>21,560,634</u>

Comparative Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Service Charges	\$ 7,566,945	\$ 7,697,156
Other Operating Revenue	473,088	397,033
Total Operating Revenues	<u>8,040,033</u>	<u>8,094,189</u>
Operating Expenses:		
Administration	2,131,914	1,990,429
Cost of Providing Service	4,518,069	4,325,405
Depreciation	1,613,008	1,245,214
Total Operating Expenses	<u>8,262,991</u>	<u>7,561,048</u>
Net Non-Operating Income	<u>260,402</u>	<u>1,154,119</u>
Change in Net Assets	37,444	1,687,260
Net Assets -- Jan. 1	<u>21,560,634</u>	<u>19,873,374</u>
Net Assets -- Dec. 31	<u>\$ 21,598,078</u>	<u>\$ 21,560,634</u>

OVERALL ANALYSIS

Overall, the Commission is in a sound financial position in part due to its longevity (established in 1926) and the fact that its infrastructure was constructed and renewed over an extended period of time with 10 separate bond issues dated from June 1926 to December 1964. The Commission's rate structure, while competitive in comparison to area water purveyors, has traditionally been established to provide for operating costs, debt service requirements and the provision for future capital needs. This approach to setting rates in combination with a manageable debt service history leaves the Commission with \$3,601,051 of unrestricted net assets as of December 31, 2011.

BUDGET VARIANCES

The Commissioners have historically taken a conservative approach in preparing the budget due to the uncertainty in anticipating certain expenses such as repair and maintenance requirements that can create material deviations in the cost of operations from year to year. Actual operating and non-operating expenses and debt service costs, excluding the actuarially determined accrual for long term post retirement benefit costs were \$6,302,945 representing 88.3% of the \$7,137,596 budgeted. Actual total operating and non-operating revenues of \$8,495,232 were \$191,725 lower than \$8,555,429 budgeted.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During FY 2011, the Commission expended \$1,805,865 on capital activities.

The proposed five-year Capital Program included in the Commission's 2010 budget totals \$18,320,000. This five-year plan, in addition to the Commission's normal ongoing system renewals, contains certain major projects which are contingent upon the approval of the New Jersey Department of Environmental Protection Agency (NJDEP). Major line items making up a portion of the Capital Budget are:

1. Westfield Avenue New Administration Building
2. Water Reuse Treatment Plant
3. Meter Replacement Program
4. Mains and Interconnections
5. NJDEP Filtration Project
6. Water Tank and Plant Improvements

CONTACTING THE COMMISSION'S MANAGEMENT

This financial report is designed to provide Merchantville and Pennsauken residents, customers and creditors, with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Chief Operating Officer, Merchantville-Pennsauken Water Commission, 6751 Westfield Avenue, Pennsauken, NJ 08110 or by phone at 856-663-0043.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 3,743,963	\$ 4,267,395
Investments	509,558	-
Customer Accounts Receivable	1,518,338	1,689,251
N.J. D.E.P. GAC Grant Receivable	-	639,303
Deposits and Other Receivables	5,537	1,307
Unbilled Revenue	758,000	724,000
Materials and Supplies Inventory	192,027	175,022
Accrued Interest Receivable	4,177	2,908
Prepaid Expenses	-	82,848
	<hr/>	<hr/>
Total Current Assets	6,731,600	7,582,034
Capital Assets:		
Utility Plant and Equipment	50,029,381	48,223,516
Accumulated Depreciation and Amortization	24,378,448	22,781,330
	<hr/>	<hr/>
Total Capital Assets	25,650,933	25,442,186
Other Assets:		
Cash and Cash Equivalents - Restricted	-	346,207
Due From New Jersey Environmental Infrastructure Trust	845,532	1,177,226
N.J.D.E.P. Water Re-Use Grant Receivable	121,885	25,005
Due from Pennsauken Township	975,388	118,741
Debt Issuance Costs	37,841	37,841
	<hr/>	<hr/>
Total Other Assets	1,980,646	1,705,020
Total Assets	<hr/> \$ 34,363,179	<hr/> \$ 34,729,240

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

<u>LIABILITIES</u>	<u>2011</u>	<u>2010</u>
Current Liabilities:		
N.J.D.E.P. Loans Payable - Due Within One Year	\$ 336,629	\$ 282,371
Bond Anticipation Note	3,130,000	3,230,000
City of Camden Water Allocation - Due Within One Year	181,658	187,184
Accounts Payable	605,661	769,112
Construction Contracts Payable	112,959	485,389
Customer Prepayments	108,505	107,310
Accrued Wages	38,510	-
Accrued Interest	75,057	46,557
Pension Withholdings Payable	19,143	13,329
Escrow Deposits	24,729	19,335
	<hr/>	<hr/>
Total Current Liabilities	4,632,851	5,140,587
Long-term Liabilities:		
N.J.D.E.P. Loans Payable	4,559,455	4,902,976
City of Camden Water Allocation	1,313,851	1,495,509
Post Employment Benefits Obligation Other than Pension	2,258,944	1,629,534
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Total Long-Term Liabilities	8,132,250	8,028,019
	<hr/>	<hr/>
Total Liabilities	12,765,101	13,168,606
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Unrestricted:		
Invested in Capital Assets, Net of Related Debt	17,997,027	16,563,777
Unrestricted	3,601,051	4,996,857
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Total Net Assets	\$ 21,598,078	\$ 21,560,634
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See the accompanying Notes to Financial Statements.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Metered Sales to General Public	\$ 6,528,402	\$ 6,669,749
Private Fire Protection	966,333	955,197
Public Fire Protection	72,210	72,210
Late Charges	63,242	57,361
Tower Rentals	300,611	290,454
Tapping Fees	4,055	3,365
Miscellaneous Income	105,180	45,853
	<hr/>	<hr/>
Total Operating Revenues	8,040,033	8,094,189
	<hr/>	<hr/>
Operating Expenses:		
Administration:		
Salaries and Wages	735,127	646,871
Employee Benefits	677,218	615,366
Other Expenses	719,569	728,192
Cost of Providing Service:		
Salaries and Wages	1,401,385	1,279,185
Employee Benefits	1,290,991	1,283,354
Other Expenses	1,825,693	1,762,866
Depreciation and Amortization	1,613,008	1,245,214
	<hr/>	<hr/>
Total Operating Expenses	8,262,991	7,561,048
	<hr/>	<hr/>
Operating Income (Loss)	(222,958)	533,141
	<hr/>	<hr/>
Non-Operating Revenues (Expenses):		
Investment Income	85,795	64,542
Interest on Debt	(194,797)	(191,200)
N.J.D.E.P. GAC Grant	133,879	1,266,121
Gain on Sale of Capital Assets	131,528	-
Connection and Developers' Fees	103,997	14,656
	<hr/>	<hr/>
Total Non-Operating Revenues	260,402	1,154,119
	<hr/>	<hr/>
Change in Net Assets	37,444	1,687,260
	<hr/>	<hr/>
Net Assets, Beginning of Year	21,560,634	19,873,374
	<hr/>	<hr/>
Net Assets, End of Year	\$ 21,598,078	\$ 21,560,634
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See the accompanying Notes to Financial Statements

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Receipts From Customers	\$ 7,764,065	\$ 7,409,797
Other Operating Receipts	409,846	339,672
Payments to Suppliers	(2,642,870)	(2,317,921)
Payments and Benefits to Employees	<u>(3,430,987)</u>	<u>(3,272,066)</u>
Net Cash Provided by Operating Activities	<u>2,100,054</u>	<u>2,159,482</u>
Cash Flows from Non-Capital Financing Activities		
Water Re-Use Expenditures	(2,608,686)	(117,301)
Water Re-Use Grant Reimbursements	1,655,159	149,261
Escrow Deposits	10,598	98
Escrow Disbursements	(5,204)	(1,200)
Connection and Developers' Fees	<u>103,997</u>	<u>14,656</u>
Net Cash Flows Provided by (Used In) Non-Capital Financing Activities	<u>(844,136)</u>	<u>45,514</u>
Cash Flows From Capital and Related Financing Activities:		
Additions to Capital Assets	(2,178,295)	(4,321,061)
Gain from Sale of Capital Assets	131,528	-
N.J.D.E.P. Loan Proceeds	331,694	83,857
N.J.D.E.P. GAC Grant	773,182	626,818
Principal Payments on Bond Anticipation Note	(100,000)	(170,000)
Principal Payments on N.J.D.E.P. Loans	(298,262)	(320,271)
Principal Payments on City of Camden Water Allocation	(187,184)	(157,922)
Interest Payments on N.J.D.E.P. Loans	(105,695)	(112,070)
Interest Payments on City of Camden Water Allocation	(41,551)	(43,738)
Interest Payments on Bond Anticipation Note	<u>(25,942)</u>	<u>(28,764)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(1,700,525)</u>	<u>(4,443,151)</u>
Cash Flows From Investing Activities:		
Net Redemption (Purchase) of Investments	(509,558)	501,875
Investment Income	<u>84,526</u>	<u>66,956</u>
Net Cash Provided by Investing Activities	<u>(425,032)</u>	<u>568,831</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(869,639)	(1,669,324)
Cash and Cash Equivalents, January 1	<u>4,613,602</u>	<u>6,282,926</u>
Cash and Cash Equivalents, December 31	<u>\$ 3,743,963</u>	<u>\$ 4,613,602</u>

(Continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (222,958)	\$ 533,141
Adjustments to Reconcile Operating Income To		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	1,613,008	1,245,214
(Increase) Decrease in Customer Accounts Receivable	170,913	(387,126)
(Increase) in Other Accounts Receivable	(4,230)	(867)
(Increase) Decrease in Unbilled Revenue	(34,000)	60,000
(Increase) in Materials and Supplies Inventory	(17,005)	(16,916)
(Increase) Decrease in Prepaid Expenses	82,848	(82,848)
Increase (Decrease) in Accounts Payable	(163,451)	272,901
Increase (Decrease) in Customer Prepayments	1,195	(16,727)
Increase (Decrease) in Accrued Wages	38,510	(25,880)
Increase (Decrease) in Pension Withholdings Payable	5,814	(5,485)
Increase in Post Employment Benefits Obligation	629,410	584,075
	<u>\$ 2,100,054</u>	<u>\$ 2,159,482</u>

See the accompanying Notes to Financial Statements.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Merchantville-Pennsauken Water Commission, was established in 1926 pursuant to the provisions of Title 40, Chapter 62 of the Laws of New Jersey and is co-owned by the Borough of Merchantville and Pennsauken Township. The Laws authorized the Municipalities through the agency of a water commission to acquire, construct, maintain, operate or improve works for the collection, treatment, or purification of water.

The Commission, service area goes beyond Merchantville and Pennsauken supplying water to areas in Cherry Hill Township and Camden City, as well.

The Commission consists of five members who are appointed by resolution of the Borough of Merchantville and Pennsauken Township. The daily operations of the Commission are managed by the Chief Operating Officer.

Component Unit

The Merchantville-Pennsauken Water Commission (the Commission) is a component unit of the Township of Pennsauken (The Township) as described in Government Accounting Standards Board Statement No. 14. These financial statements would be either blended or discreetly presented as part of the Township's financial statements if the Township were governed by generally accepted accounting principles applicable to governmental entities.

Basis of Presentation

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

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

Basis of Accounting

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

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

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

Governmental Accounting Standards Board - Statement No. 20

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Board Standards (GASB). Entities following government accounting standards also have the option of following subsequent private sector guidance for their business type activities and enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private sector guidance.

Budgets and Budgetary Accounting

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

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

Revenue Recognition

The Commission recognizes revenues at the time water is distributed to metered services. The Commission's policy is to invoice customers on a quarterly basis at the end of the billing period, employing a cycle billing system.

Unbilled Revenue - represents the estimated value of water distributions to metered services as of December 31, which will be included in customer billings subsequent to year-end.

Cash, Cash Equivalents and Investments

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

New Jersey governments are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 40A:5-15.1 provides a list of permissible investments that may be purchased by New Jersey governments.

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

Cash, Cash Equivalents and Investments (Cont'd)

Additionally, the Commission has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

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

Materials and Supplies Inventory

Materials and Supplies Inventory consists of pipes, mains, fittings and other supplies used in the renewal and repairs to the system and for new installations. Inventories are valued at cost on a first-in, first-out basis.

Account Receivable and Uncollectible Accounts

Management establishes reserves for uncollectible accounts based on reviews of aged receivables and other factors, such as bankruptcies, associated with the account.

Capital Assets

Capital Assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Commission. Assets purchased prior to January 1, 1992 are stated at estimated cost. Assets purchased since are stated at actual cost.

Costs incurred are recorded as construction in progress. In the year that the project is completed, these costs are transferred to Property, Plant and Equipment - Completed. Interest costs incurred during construction are not capitalized into the cost of the asset. The cost of maintenance and repairs is charged to expense as incurred.

Expenditures are capitalized when they meet the following requirements:

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

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

The costs of assets acquired through bond issue prior to 1979 are recovered over the lives of the bond issues at a rate consistent with the bonds' annual maturities. The cost of assets acquired with operating funds is recovered using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Buildings	40
Services	20
Water Treatment and Pumping Equipment	20-30
Other Infrastructure	15-20
Meters and Equipment	5-10
Transportation Equipment	5
Office and Technological Equipment	5-7

Debt Issuance Costs

Debt issuance costs are amortized by the straight-line method from the issue date to maturity. Premiums related to the 2001 Environmental Infrastructure Loan are being amortized using the straight line method, which approximate the effective interest rate method, over the life of the loans.

Net Assets

Net assets comprise the various earnings from operating income, non-operating revenues, expenses, and capital contributions. Net assets are classified in the following three components:

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

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

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

Income Taxes - The Commission operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from service charges (i.e., metered sales, which include water distribution revenues) and other revenue sources. Non-operating revenues principally consist of connection and developers' fees and interest income earned on various interest-bearing accounts and on investments in debt securities.

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

Operating and Non-Operating Revenues and Expenses (Cont'd)

Operating expenses include expenses associated with the operation, maintenance and repair of the treatment and distribution systems and general administrative expenses. Non-operating expenses principally include expenses attributable to the Commission's interest on funded debt.

Use of Estimates

Management of the Commission has made certain estimates and assumptions relating to the reporting of assets, liabilities and revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results may differ from those estimates.

Reclassifications

The financial statements for the year ended December 31, 2010 have been reclassified to conform to current year presentation.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with finance related legal and contractual provisions

Management of the Commission is unaware of any material violations of finance related legal and contractual provisions.

Note 3: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits might not be recovered. Although the Commission does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Commission in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Commission relative to the happening of a future condition. As of December 31, 2011, the Commission's bank balances of \$4,217,619, \$14,207 was uninsured or uncollateralized. As of December 31, 2010, the Commission's bank balances of \$4,603,884, \$19,335 was uninsured or uncollateralized.

Note 4: INVESTMENTS

Custodial Credit Risk -- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Commission, and are held by either the counterparty or the counterparty's trust department or agent but not in the Commission's name. The Commission's \$509,558 of investments in Certificates of Deposit are in the name of the Commission.

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

Note 4: INVESTMENTS (CONT'D)

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

Concentration of Credit Risk – The Commission does not place a limit on the amount that may be invested in any one issuer. All of the Commission's investments consist of certificates of deposit with maturities of more than three months at the time of purchase.

As of December 31, 2011 the Commission had three certificates of deposit valued at \$308,049 at 1.00% and maturing January 6, 2012 and one certificate of deposit valued at \$201,509 at 1.50% and maturing June 9, 2012. As of December 31, 2010 the Commission did not have any investments.

Note 5: CUSTOMER ACCOUNTS RECEIVABLE

Customers of the Commission include residential and commercial accounts within the municipalities of Merchantville and Pennsauken and sections of Cherry Hill and Camden. In addition to the sale of water, the Commission bills commercial and municipal customers fixed fees for fire services and hydrants.

As of December 31, 2011 and 2010 the number of the Commission's accounts were as follows:

	<u>2011</u>	<u>2010</u>
Residential, Apartments, and Commercial Water Services	14,387	14,343
Senior Citizen Accounts	400	421
Fire Services	332	332
Fire Hydrants	254	254

Concentration of credit risk associated with customer accounts receivable is limited due to the large number of small customer balances and the Commission's policy of discontinuing service when warranted and filing utility liens when necessary.

Aged accounts receivable at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Current (less than 30 days)	\$ 1,359,558	\$ 1,552,546
30 to 59 days	34,402	59,261
60 to 89 days	21,226	56,642
90 to 179 days	36,525	44,080
Over 180 days	<u>103,787</u>	<u>27,115</u>
	1,555,499	1,739,644
Accrued Interest on Delinquent Balances	<u>51,839</u>	<u>38,607</u>
	1,607,338	1,778,251
Less: Reserve for Uncollectible Accounts	<u>89,000</u>	<u>89,000</u>
	<u>\$ 1,518,338</u>	<u>\$ 1,689,251</u>

Notes to Financial Statements (Cont'd)

Note 6: **CAPITAL ASSETS**

During the year ended December 31, 2011, the following changes in capital assets occurred:

	<u>Balance</u> <u>January 01, 2011</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>December 31, 2011</u>
Land and Land Rights	\$ 194,934	\$ (19,077)	\$ 175,857
Intangible Plant	32,181		32,181
Source of Supply	2,807,583		2,807,583
Pumping Plant	1,789,315		1,789,315
Water Treatment Plant	4,541,983		4,541,983
Transmission and Distribution Plant	30,040,872	2,894,014	32,934,886
General Plant	1,188,560	3,794,278	4,982,838
City of Camden Water Allocation Rights	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
Construction in Progress	<u>4,863,350</u>	<u>(4,863,350)</u>	<u>--</u>
	48,223,516	1,805,865	50,029,381
Less: Accumulated Depreciation	<u>22,781,330</u>	<u>1,597,118</u>	<u>24,378,448</u>
	<u>\$25,442,186</u>	<u>\$ 208,747</u>	<u>\$25,650,933</u>

During the year ended December 31, 2010, the following changes in capital assets occurred:

	<u>Balance</u> <u>January 01, 2010</u>	<u>Additions</u>	<u>Balance</u> <u>December 31, 2010</u>
Land and Land Rights	\$ 194,934		\$ 194,934
Intangible Plant	32,181		32,181
Source of Supply	2,807,583		2,807,583
Pumping Plant	1,789,315		1,789,315
Water Treatment Plant	4,541,983		4,541,983
Transmission and Distribution Plant	29,782,848	\$ 258,024	30,040,872
General Plant	1,157,024	31,536	1,188,560
City of Camden Water Allocation Rights	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
Construction in Progress	<u>473,335</u>	<u>4,390,015</u>	<u>4,863,350</u>
	43,543,941	4,679,575	48,223,516
Less: Accumulated Depreciation	<u>21,524,825</u>	<u>1,256,505</u>	<u>22,781,330</u>
	<u>\$22,019,116</u>	<u>\$3,423,070</u>	<u>\$25,442,186</u>

Note 7: N.J.D.E.P. LOANS PAYABLE**New Jersey Environmental Infrastructure Trust Loans**

2001 Series - On October 17, 2001, the Commission settled on the issuance of \$4,000,000 in loans consisting of a \$2,000,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a \$2,000,000 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 4.00% to 5.50%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2003 Series - On November 5, 2003, the Commission settled on the issuance of \$731,801 in loans consisting of a \$375,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a \$356,801 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 3.00% to 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2007 Series - On November 8, 2007, the Commission settled on the issuance of \$1,285,507 in loans consisting of a \$650,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a \$635,507 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 3.40% to 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2010 Series - On December 2, 2010, the Commission settled on the issuance of \$1,285,507 in loans consisting of a \$560,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a \$579,000 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest at 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

The "Trust Loan" portion of the borrowings is administered by The New Jersey Environmental Infrastructure Trust with Commerce Bank acting as Trustee. The "Fund Loan" portion is administered by the State of New Jersey.

As the Commission completes its projects, vouchers are submitted to the New Jersey Department of Environmental Protection. Requisitions are funded 50% from "Trust Loan" proceeds available in the Commission's construction account and 50% from "Fund Loan" proceeds.

Upon final completion of the Commission's projects as certified by the Commission's engineer, any monies remaining in the construction accounts will be immediately applied as credits against the remaining scheduled debt service payments until such remaining balance is exhausted. Any unspent monies from the non-interest bearing "Fund Loan" portion of borrowings will be applied to offset the scheduled debt service payments from the back end of the schedule, reducing debt service payments from the end of the schedule until such remaining balance is exhausted.

On July 20, 2006, the 2001 and 2003 series loans were certified complete. At that time \$13,260 and \$96,832 of the unexpended proceeds from the 2001 and 2003 series, respectively, were applied to the outstanding balance of the "Fund Loan", reducing original balance due from the end of the original payment schedule. On August 11, 2010 the 2007 series was certified complete and \$12,525 was applied to the outstanding balance of the "Fund Loan". In addition, reciprocal amounts from the "Trust Loan", plus earnings credits were recorded as other assets Due from New Jersey Environmental Infrastructure Trust to be applied to immediately due debt service obligations on the "Trust Loan". As of December 31, 2011 and 2010, amounts "Due from New Jersey Environmental Infrastructure Trust" available for application against "Trust Loan" debt service for the 2003 and 2007 series and available in the 2011 construction account for the intended construction project and was \$845,532 and \$1,177,226, respectively.

Notes to Financial Statements (Cont'd)

Note 7: N.J.D.E.P. LOANS PAYABLE (CONT'D)

New Jersey Environmental Infrastructure Trust Loans (Cont'd)

On September 26, 2007, the New Jersey Environmental Infrastructure Trust issued Series 2007A refunding Bonds to refund the outstanding balance of the 2001 Series Loans. On August 18, 2010, the Trust issued Series 2010A refunding Bonds to refund the outstanding balance of the 2001 and 2003 Series Loans. The impact to the Commission was the recording of a net premium of \$44,010 and \$36,289, respectively on the issuances which is being amortized over the repayment period of the loans.

Combined adjusted repayment of the four loans as of December 31, 2011 is due as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 459,408	\$ 336,629	\$ 122,779
2013	460,638	345,647	114,991
2014	455,971	349,241	106,730
2015	454,241	355,234	99,007
2016	448,764	358,460	90,304
2017	456,453	375,228	81,225
2018	459,521	387,765	71,756
2019	438,100	376,774	61,326
2020	430,567	379,528	51,039
2021	431,049	390,315	40,734
2022	185,538	155,858	29,680
2023	184,405	158,780	25,625
2024	165,842	144,142	21,700
2025	160,786	142,861	17,925
2026	155,729	141,579	14,150
2027	151,312	140,937	10,375
2028	76,724	70,474	6,250
2029	74,724	70,474	4,250
2030	77,722	75,472	2,250
	<u>\$ 5,727,494</u>	4,755,398	<u>\$ 972,096</u>
Unamortized Discount		<u>140,686</u>	
Recorded Loans Payable		<u>\$ 4,896,084</u>	

As described in Note 1, the Borough of Merchantville and the Township of Pennsauken created the Merchantville-Pennsauken Water Commission. Those municipalities act as guarantors of all Commission bonds and loans and include their proportionate share of Commission debt as liabilities on their respective annual debt statements. The computed Municipalities' proportionate share of debt is in accordance with their respective ownership of the Commission as follows:

Borough of Merchantville	11.58%
Township of Pennsauken	<u>88.42%</u>
	<u>100.00%</u>

Note 8: CITY OF CAMDEN WATER ALLOCATION LOAN PAYABLE

As more fully described in note 18, on May 19, 2006 the Commission entered into an agreement with the City of Camden (the City) for the purchase of water allocation rights for \$2,522,512. The initial payment of \$500,000 was payable in installments totaling \$250,000 in 2006, \$125,000 in 2007 and \$125,000 in 2008.

The remaining balance is due in equal quarterly payments through May, 2021, with bi-annual adjustments adding three percent (3%) interest per annum at the end of the first two years and thereafter to each such period to the unpaid balance due. This adjustment shall be added to the principal and payments recalculated including the interest amount. The interest rate used shall be adjusted to add the percentage increase equal to the increases or decreases made in the prime rate in the intervening period but in no case shall the overall rate be less than 3% or greater than 7%.

Should the Commission be denied the use or access to the allocation of water, for any reason unrelated to the actions of either party, then a proportional reduction will be made to the initial agreed upon payments, not yet paid and no further payments will be required.

The estimated maturities on the loan as of December 31, 2011 are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 204,588	\$ 181,658	\$ 22,930
2013	196,049	175,973	20,076
2014	187,816	170,571	17,245
2015	179,582	165,015	14,568
2016	171,546	159,632	11,913
2017	163,509	154,098	9,411
2018	155,369	148,435	6,934
2019	147,229	142,615	4,614
2020	136,917	134,590	2,327
2021	<u>63,302</u>	<u>62,922</u>	<u>380</u>
	<u>\$ 1,605,907</u>	<u>\$ 1,495,509</u>	<u>\$ 110,398</u>

Note 9: BOND ANTICIPATION NOTE

On October 29, 2009 the Commission settled on the issuance of \$3,400,000 bond anticipation note in order to provide temporary financing for the initial costs of the Westfield Avenue office project as well as fund the costs of issuance. The note bears interest at the rate of 1.29% and is due October 28, 2010. On October 26, 2010, the bond anticipation note was re-issued and was due on October 28, 2011. Upon reissuance of this note, one principal payment was made of \$170,000.

On October 13, 2011, the bond anticipation note was purchased by 1st Colonial National Bank, and a series of notes of the Commission was created (Series 2011). A principal amount of \$3,130,000 was authorized to be issued and sold, and bears interest at the rate of 1.6%. Interest on the notes is due on October 23, 2012. Upon sale of the bond anticipation note, one principal payment was made of \$100,000.

Note 10: NET ASSETS APPROPRIATED AND RESERVED

As of December 31, 2011, the Commission had unrestricted, unreserved net assets of \$3,601,051 which has been appropriated and reserved by the Commissioners as follows:

- **Appropriated for 2012 Capital Budget** – On November 3, 2011, the Commissioners appropriated \$2,275,000 of net assets for use in the 2012 capital budget as submitted to the New Jersey Division of Local Government Services
- **Reserved for Infrastructure Maintenance** – The Commissioners have specifically reserved the \$1,326,051 balance of net assets for infrastructure maintenance with the required need to paint two water tanks in the immediate future.

Note 11: RETIREMENT SYSTEMS

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

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

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

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

Note 11: RETIREMENT SYSTEMS (CONT'D)

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

<u>Year</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Non-Contributory Group Life Insurance</u>	<u>Total Liability</u>	<u>Paid by Commission</u>
2012	\$58,186.00	\$116,371.00	\$11,121.00	\$185,678.00	\$185,678.00
2011	61,590.00	98,140.00	12,131.00	171,861.00	171,861.00
2010	52,414.00	67,346.00	16,608.00	136,368.00	136,368.00

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

Note 12: POST EMPLOYMENT BENEFITS**Plan Description**

The Commission provides benefits to employees and their spouses which are in addition to those received through the State Pension Fund who have retired, and have 25 years (35 years for employees hired on or after May 1, 2008) of service with the Commission. The Commission provides medical, dental, vision and prescription coverage. These benefits are provided to all eligible retirees and their spouses at no cost to the retiree. For employees hired on or after May 1, 2008, benefits cease once Medicare age is attained. As of December 31, 2011, there were 16 employees and 9 covered spouses who qualified for and receiving post employment benefits and an additional 5 employees and 4 spouses who are eligible but still actively employed.

Funding Policy

The contribution requirement of the Commission is established by the policy of the Commission. The required contribution is based on projected pay-as-you-go financing requirements. For the year 2011 and 2010, the Commission contributed \$257,147 and \$229,883, respectively, to the plan for current premiums. Plan members are not required to make any contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation

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

Note 12: POST EMPLOYMENT BENEFITS (CONT'D)**Annual OPEB Cost and Net OPEB Obligation (Cont'd)**

The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the Merchantville-Pennsauken Water Commission Plan, and changes in the Commission's net OPEB obligation to the Commission Plan:

Normal Cost	\$ 326,652
Unfunded Actuarial Liability	<u>559,905</u>
Annual required contribution (expense)	886,557
Contributions made	257,147
Net OPEB obligation - beginning of year	<u>1,629,534</u>
Net OPEB obligation - end of year	<u>\$ 2,258,944</u>

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the Commission Plan was 0% funded. The actuarial accrued liability for benefits was \$9,037,466, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,037,466. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, compares the assets used for funding purposes to the comparable liabilities to determine how well the Merchantville-Pennsauken Water Commission Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The Actuarial Accrued Liability under GASB is determined assuming that the Merchantville-Pennsauken Water Commission Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. In the December 31, 2011, actuarial valuation, the unit credit cost method was used in establishing the annual required contribution and actuarial accrued liability for participants.

Note 13: COMPENSATED ABSENCES

Commission employees are entitled to 10 to 30 vacation days per year depending on their length of service. A maximum of five unused vacation days may be carried over to the next year.

Commission employees are entitled to twelve sick days per year. Employees have the option of carrying over sick days; however, an employee cannot accumulate more than 24 sick days.

Upon separation of employment, unless the separation was a termination for cause, the Commission will purchase unused sick and vacation time excluding vacation time carried from the year prior to separation.

Management has determined that the balance of accrued sick leave was not material as of December 31, 2011 and 2010 and, accordingly, a liability has not been recorded.

Note 14: TRANSPORTATION EQUIPMENT LEASES

The Commission leases transportation equipment under agreements accounted for as operating leases. Rental and certain related maintenance expense charged to income was \$86,599 in 2011 and \$90,226 in 2010.

Future commitments on operating leases are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 50,892
2013	50,892
2014	26,008

Note 15: ANTENNA SITE LEASES

The Commission leases antenna sites atop its water tanks to several companies in the communications industry. As of December 31, 2011, the Commission had ten different lease agreements. Rental income from these leases was \$300,611 and \$290,454 in 2011 and 2010, respectively.

Future minimum rentals on the leases are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 312,484
2013	201,279
2014	209,000
2015	217,054
2016	195,179

* The future minimum rentals do not include a \$1,800 per month lease, currently in force with a 30 day termination provision.

Note 16: COMMITMENTS AND CONTINGENCIES

Commitments

As of December 31, 2011, the Commission had a remaining balance of \$347,567 on uncompleted construction contracts in progress.

Contingencies

The Commission is subject to certain claims and legal proceedings that arise in the ordinary course of its operations. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Commission. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect in the financial conditions, results of operations or cash flows of the Merchantville-Pennsauken Water Commission.

Note 17: RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered through a joint insurance pool as described below. Settled claims from these risks have not exceeded coverage for the past several years.

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

Property - Blanket Building and Grounds
Boiler and Machinery
General and Automobile Liability
Workers' Compensation
Public Officials Liability
Environmental Liability

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

The Fund publishes its own financial report for the year ended December 31, 2011, which can be obtained from:

New Jersey Utility Authorities Joint Insurance Fund
9 Campus Drive
Suite 16
Parsippany, NJ 07054

Note 18: WATER ALLOCATION RIGHTS

As described in note 7, on May 19, 2006 the Commission entered into an agreement with the city of Camden (the City) for the purchase of water allocation rights for \$2,522,512. The agreement was approved by the New Jersey Department of Environmental Protection and contains the following provisions:

Purchase of Water Allocation Rights

The Commission agreed to purchase the city's water allocation rights to pump 1,200,000 gallons of water per day from the Potomac-Raritan-Magothy aquifer to service the Commission's franchise area for quantities in excess of its current allocation.

Should the Commission be denied the use or access to the allocation of water, for any reason unrelated to the actions of either party, then a proportional reduction will be made to the initial agreed upon payments, not yet paid and no further payments will be required and any payments already made shall be converted to payments for the purchase of bulk water already delivered and not yet paid for or for water to be delivered in the future. If for any reason another governmental entity, either executive or judicial, or legal action shall prohibit the sale of the allocation, monies already paid shall not be returned and monies not yet paid will not be due.

Bulk Water Sale

The City will deliver and the Commission will purchase bulk potable drinking water for a period of thirty (30) years with the Commission having the option for two additional ten year terms. The purchase agreement will begin as soon thereafter that the parties have created the necessary infrastructure and facilities to respectively deliver and accept finished water and or raw water for treatment.

The agreement provides for a minimum of fifty thousand gallons per day and a maximum of one million gallons per day. The initial cost of the treated water will be for \$2.25 per thousand gallons and will be increased from time to time in accordance with factors outline in the agreement.

The water will be distributed through interconnections to be constructed by or on behalf of the Commission, including the obtainment of all land and or easements necessary, at mutually agreed upon locations, without cost or expense to the City.

Treatment of Water

It was agreed that at some point during the term of the agreement that the City may treat raw water for the Commission which is delivered to the Morris-Delair treatment plant. Delivery of the raw water to the City will be the responsibility of the Commission and the cost of treatment will be eighty-nine cents per thousand gallons subject to certain increases and decreases.

Note 19: FILTRATION PROJECT

On May 22, 2007, the Commission entered into an agreement with the New Jersey Department of Environmental Protection (NJDEP) to participate in a study of Volatile Organic Compounds (VOCs) over a five year period. Under the terms of the agreement, the Commission received an initial payment of \$200,000 and is to receive additional expense reimbursements of up to \$1,400,000 in exchange for the monitoring of certain VOCs as determined by the NJDEP. During 2011, the Commission received final reimbursements of \$133,879 on the completed project.

Note 20: WASTE WATER REUSE PROJECT

On May 27, 2007, the Commission adopted a resolution authorizing inter-local government agreements with the Townships of Pennsauken and Maple Shade in connection with a water re-use project for the construction of a water reclamation plant. The \$3.2 million project is to be 67.7% funded by a 1981 Water Re-use Grant from the New Jersey Department of Environmental Protection. The resolution authorized the Commission to obtain debt financing for the remaining 32.3% of the project which will be billed to Pennsauken Township with Pennsauken being the primary beneficiary of the plant. The portion billed to the Township will be payable over a period of ten years. For the years ended December 31, 2011 and 2010, \$975,388 and \$118,741, respectively, is receivable from the Township primarily for planning costs to date.

On December 9, 2010, the Commission awarded bids to George E. Ley Construction in the amount of \$1,570,281.80 and to Level I Construction, in the amount of \$1,243,000.00 for the Construction phase of the Pennsauken Country Club water re-use project. This project includes construction in connection with an inter-local agreement between Pennsauken Township and Maple Shade relative to construction of a water reclamation plant.

**REQUIRED SUPPLEMENTARY
INFORMATION**

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE OPEB PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2008	\$ 0	\$ 7,824,371	\$ 7,824,371	0 %	\$ 1,550,311	504.7%
12/31/2009	\$ 0	\$ 7,959,587	\$ 7,959,587	0 %	\$ 1,590,231	500.5%
12/31/2010	\$ 0	\$ 8,167,715	\$ 8,167,715	0 %	\$ 1,681,280	485.8%
12/31/2011	\$ 0	\$ 9,037,466	\$ 9,037,466	0 %	\$ 1,762,318	512.8%

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

Note to Required Supplementary Information
For the Year Ended December 31, 2011

Other Postemployment Benefits

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

Valuation Date	December 31, 2011
Actuarial Cost Method	Unit Credit Normal Cost Method
Amortization Method	Level Dollar - Open Over a 30 Year Funding Period
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	5.0%
Rate of Salary Increases	N/A
Rate of Medical Inflation for Retirees Under Age 65	6.0%
Rate of Medical Inflation for Retirees Age 65 and Older	6.0%

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

SUPPLEMENTARY SCHEDULES

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash, Cash Equivalents and Investments, January 1	\$	4,613,602
Cash Receipts:		
Collection of Customer Accounts Receivable	\$	7,659,790
Tower Rentals		300,611
Other Operating Receipts		110,758
Connection and Developers' Fees		103,997
Escrow Deposits		76
Customer Prepayments		108,505
N.J.D.E.P. Loan Draws		331,694
N.J.D.E.P. GAC Grant		773,182
Gain on Sale of Capital Assets		131,528
Water Re-Use Grant Reimbursements		1,655,159
Investment Income		<u>84,526</u>
		<u>11,259,826</u>
		15,873,428
Cash Disbursements:		
Current Year Cost of Operations	5,291,416	
Liquidation of Prior Year Accounts Payable and Accrued Liabilities	782,441	
Net Additions to Other Receivables	4,230	
Escrow Disbursements	5,204	
Interest Payments on City of Camden Water Allocation	25,942	
Interest Payments on Bond Anticipation Note	41,551	
Interest Payments on N.J.D.E.P. Loans	105,695	
Principal Payments on N.J.D.E.P. Loans	289,263	
Principal Payments on City of Camden Water Allocation	187,184	
Principal Payments on Bond Anticipation Note	100,000	
Water Re-Use Expenditures	2,608,686	
Additions to Capital Assets	<u>2,178,295</u>	
		<u>11,619,907</u>
Cash, Cash Equivalents and Investments, December 31	\$	<u><u>4,253,521</u></u>
Analysis of Balance:		
Cash and Cash Equivalents	\$	3,743,963
Investments		<u>509,558</u>
	\$	<u><u>4,253,521</u></u>

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Adopted and Final <u>Budget</u>	<u>Actual</u>	Variance-- Favorable <u>(Unfavorable)</u>
Revenues:			
Operating Revenues:			
Metered Sales to General Public	\$ 6,337,008	\$ 6,528,402	\$ 191,394
Private Fire Protection	956,160	966,333	10,173
Public Fire Protection	72,210	72,210	
Late Charges	55,000	63,242	8,242
Tower Rentals	299,869	300,611	742
Tapping Fees	7,000	4,055	(2,945)
Miscellaneous Income	130,000	105,180	(24,820)
	<hr/>	<hr/>	
Total Operating Revenues	7,857,247	8,040,033	182,786
Non-Operating Revenues:			
Investment Income	50,000	85,795	35,795
Connection and Developers' Fees	75,000	103,997	28,997
Gain on Sale of Capital Assets	-	131,528	
N.J.D.E.P. GAC Grant	573,182	133,879	(439,303)
	<hr/>	<hr/>	
Total Revenues	8,555,429	8,495,232	(191,725)
Operating Expenses:			
Administration:			
Salaries and Wages	640,000	735,127	(95,127)
	<hr/>	<hr/>	
Fringe Benefits	501,449	460,651	40,797
	<hr/>	<hr/>	
Other Expenses:			
Customer Account Expense	13,000	10,553	2,447
Customer Records and Collections	88,000	59,711	28,289
I.T. Expense	47,500	62,905	(15,405)
Uniform Rental	10,000	8,978	1,022
Office Supplies	48,000	50,879	(2,879)
Employee and Community Relations	37,100	28,814	8,286
Professional / Outside Services	122,800	86,173	36,627
Insurance	95,604	86,726	8,878
Payment in Lieu of Taxes	284,831	289,285	(4,454)
Bad Debt Expense (Net Reserve Reduction)	30,000	7,824	22,176
Other	25,400	27,721	(2,321)
	<hr/>	<hr/>	
Total Administration	802,235	719,569	82,666
Other Expenses	<hr/>	<hr/>	
Total Administration	\$ 1,943,684	\$ 1,915,347	\$ 28,336

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Adopted and Final <u>Budget</u>	<u>Actual</u>	Variance-- Favorable (Unfavorable)
Cost of Providing Service:			
Salaries and Wages	\$ 1,311,537	1,401,385	\$ (89,848)
Fringe Benefits	955,920	878,148	77,773
Other Expenses:			
Chemicals and Supplies	137,600	88,353	49,247
CCMUA Charges	37,500	3,647	33,853
Electric & Gas Expense	1,029,200	939,965	89,235
Maintenance of Wells and Treatment Equipment	175,000	164,623	10,377
Maintenance on Mains and Services	243,900	169,277	74,623
Maintenance on Structures	131,200	91,850	39,350
Maintenance on Generators and Power Equipment	40,000	19,559	20,441
Maintenance on Control Panels	100,000	8,025	91,975
Maintenance on Pumping and Chemical Equipment	50,000	56,229	(6,229)
Purchase of Water	100,000	72,271	27,729
Lab Work	65,000	54,865	10,135
Meter Repair and Maintenance	10,500	6,233	4,267
Communications	14,900	15,188	(288)
Fuel & Gas	38,000	37,024	976
Safety Equipment	16,600	11,985	4,615
Vehicle Expense	91,000	86,599	4,401
Total Cost of Providing Service Other Expenses	2,280,400	1,825,693	454,707
Total Cost of Providing Service	4,547,857	4,105,226	442,632
Total Principal Payments on Debt in Lieu of Depreciation	646,055	282,372	363,683
Total Operating Expenses	7,137,596	6,302,945	834,651
Non-Operating Expenses:			
Interest Payments on Debt	193,055	201,688	(8,633)
Total Non-Operating Expenses	193,055	201,688	(8,633)
Total Operating and Non-Operating Expenses	7,330,651	6,504,633	826,018
Excess of Revenues over Operating and Non-Operating Expenses	\$ 1,224,778	\$ 1,990,599	\$ 765,821

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Reconciliation of Excess Revenues
over Expenses to Operating Loss

Excess of Revenues Over Operating and Non-Operating Expenses	\$ 1,990,599
Add:	
Principal Payments on Debt	282,372
Interest Payments on Debt	201,688
Deduct:	
Other Post Employment Benefits Accrual Included in Employee Benefits	(629,410)
Investment Income	(85,795)
N.J.D.E.P. GAC Grant	(133,879)
Gain on Sale of Capital Assets	(131,528)
Connection and Developers' Fees	(103,997)
Depreciation and Amortization	<u>(1,613,008)</u>
Operating Loss (Exhibit B)	<u>\$ (222,958)</u>

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF N.J.D.E.P. LOANS PAYABLE

	Balance January 1, 2011	Additions	Paid	Discount Amortization	Balance December 31, 2011
2001 Infrastructure Trust Loan	2,355,036		\$ 192,219		\$ 2,162,817
2003 Infrastructure Trust Loan	395,696		32,240		363,456
2007 Infrastructure Trust Loan	1,148,037		57,913		1,090,124
2010 Infrastructure Trust Loan	1,139,000				1,139,000
Unamortized Discount on Bonds	147,578			\$ 6,891	140,687
	\$ 5,185,347	\$ -	\$ 282,372	\$ 6,891	\$ 4,896,084
Analysis of Balance:					
Current	\$ 282,371				\$ 336,629
Long-Term	4,902,976				4,559,455
	\$ 5,185,347				\$ 4,896,084

Schedule 4

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CUSTOMER ACCOUNTS RECEIVABLE

Balance January 1, 2011		\$ 1,778,251
Increased by Customer Billings:		
Metered Sales Billings to General Public	\$ 6,494,402	
Private Fire Protection	966,333	
Public Fire Protection	72,210	
Late Charges	<u>63,242</u>	
		<u>7,596,187</u>
		9,374,438
Decreased by:		
Collections	7,659,790	
Customer Prepayments Applied	<u>107,310</u>	
		<u>7,767,100</u>
Balance December 31, 2011		<u>\$ 1,607,338</u>

Schedule 5

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF ACCRUED INTEREST RECEIVABLE

Balance January 1, 2011		\$ 2,908
Interest Earned		<u>85,795</u>
		88,703
Interest Collected		<u>84,526</u>
Balance December 31, 2011		<u>\$ 4,177</u>

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CAPITAL ASSETS

<u>Description</u>	<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>December 31, 2011</u>
Land and Land Rights	\$ 194,934	\$ (19,077)	\$ 175,857
Intangible Plant:			-
Organization Costs	32,181		32,181
Source of Supply:			
Structures and Improvements	671,900		671,900
Wells and Springs	1,706,831		1,706,831
Water Mapping - SCADA	272,457		272,457
Supply Mains	156,395		156,395
Pumping Plant:			
Structures and Improvements	1,354,292		1,354,292
Electric Plumbing Equipment	157,614		157,614
Diesel Pumping Equipment	83,325		83,325
Other Pumping Equipment	194,084		194,084
Water Treatment Plant:			
Structures and Improvements	1,658,635		1,658,635
Water Treatment Equipment	2,883,348		2,883,348
Transmission and Distribution Plant:			
Structures and Improvements	425,293		425,293
Tank Painting	744,923		744,923
Camden Avenue Tank	1,569,625		1,569,625
Cherry Hill 1MG Tank	3,006,512		3,006,512
ASR Building - Browning Road	124,706		124,706
Manganese Filtration	2,108,896		2,108,896
National and Brown Lime Addition	399,738		399,738
CCP Project	137,336	192,365	329,701
Park Ave Project	4,534,580		4,534,580
Park Ave Lime Building	256,928		256,928
Service Wells and Motors	542,977		542,977
Filter Media	328,982	3,410	332,392
Rehab National Highway Well 2	43,235	91,875	135,110
Browning Road Well 1	167,410		167,410
Browning Road Painting	33,170		33,170
Marion Avenue Painting	-	990,425	990,425
GAC Project	1,328,784		1,328,784
CC TV Park	28,681		28,681
Valve Replacement	142,236		142,236
Distribution Reservoirs and Standpipes	2,830,658		2,830,658
Transmission and Distribution Mains	6,868,396		6,868,396
Water Main Replacement	1,427,492	6,750	1,434,242
Services	1,983,003		1,983,003
Meters	1,907,611	280,405	2,188,016
Hydrants	428,484		428,484
General Plant:			
Administration Office	3,534,566	208,906	3,743,472
Delaware Gardens Project	73,252		73,252
Garden State Project	28,423		28,423
Structures and Improvements	164,646	(15,890)	148,756
Office Furniture and Equipment	225,151		225,151
Software	84,488		84,488
SCADA Program	382,396		382,396
Transportation Equipment	88,916	66,696	155,612
Tools Shop and Garage Equipment	30,290		30,290
Power Operated Equipment	90,321		90,321
Telephone Equipment	20,677		20,677
City of Camden Water Allocation	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
Total Capital Assets in Service	\$ 48,223,516	\$ 1,805,865	\$ 50,029,381

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF ACCRUED INTEREST PAYABLE

Balance January 1, 2011		\$ 46,557
Accrued Interest:		
N.J.D.E.P. Loans	134,195	
Bond Anticipation Note	41,551	
City of Camden Water Allocation	<u>25,942</u>	
		<u>201,688</u>
		248,245
Less Interest Paid:		
N.J.D.E.P. Loans	105,695	
Bond Anticipation Note	41,551	
City of Camden Water Allocation	<u>25,942</u>	
		<u>173,188</u>
Balance December 31, 2011		<u>\$ 75,057</u>
Reconciliation of Interest Expense:		
Accrued Interest		\$ 201,688
Amortization of Bond Discount		<u>(6,891)</u>
Interest on Debt		<u>\$ 194,797</u>

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS 2011 AND 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating Revenues:			
Metered Sales to General Public	\$ 6,528,402	\$ 6,669,749	\$ (141,347)
Private Fire Protection	966,333	955,197	11,136
Public Fire Protection	72,210	72,210	0
Late Charges	63,242	57,361	5,881
Tower Rentals	300,611	290,454	10,157
Tapping Fees	4,055	3,365	690
Miscellaneous Income	105,180	45,853	59,327
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	8,040,033	8,094,189	(54,156)
Non-Operating Revenues:			
Investment Income	85,795	64,542	21,253
N.J.D.E.P. GAC Grant	133,879	1,266,121	(1,132,242)
Gain On Sale of Capital Assets	131,528		131,528
Connection and Developers' Fees	103,997	14,656	89,341
	<hr/>	<hr/>	<hr/>
Total Revenues	8,495,232	9,439,508	(944,276)
Operating Expenses:			
Personal Services:			
Administrative Salaries	735,127	624,751	110,376
Seasonal Salaries	26,556	22,120	4,436
Water Treatment Salaries	393,267	461,908	(68,641)
Repair and Maintenance Salaries	483,927	337,576	146,351
Service Salaries	223,876	204,793	19,083
Plant Operators Salaries	273,759	274,908	(1,149)
	<hr/>	<hr/>	<hr/>
Total Personal Services	2,136,512	1,926,056	210,456
Employee Benefits:			
Health Benefits	609,344	622,402	(13,058)
Prescription	218,578	221,789	(3,211)
Social Security Tax	160,721	149,713	11,008
Public Employees' Retirement System	104,323	110,552	(6,229)
Unemployment and Disability	8,295	7,838	457
Workers' Compensation Insurance	65,496	64,656	840
Dental, Vision and Other Employee Benefits	172,042	137,695	34,347
Post Employment Benefits Obligation			
Other than Pension	629,410	584,075	45,335
	<hr/>	<hr/>	<hr/>
Total Employee Benefits	\$ 1,968,209	\$ 1,898,720	\$ 69,489

(Continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS 2011 AND 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Administrative Expenses:			
Customer Account Expense	\$ 10,553	\$ 10,352	\$ 201
Customer Records and Collections	59,711	57,623	2,088
Uniform Expenses	8,978	3,872	5,106
Office Supplies	50,879	48,937	1,942
I.T. Expense	62,905	19,223	43,682
Employee and Community Relations	28,814	21,285	7,529
Professional/Outside Services	86,173	201,560	(115,387)
Insurance	86,726	85,176	1,550
Payment in Lieu of Taxes	289,285	267,658	21,627
Bad Debt Expense (Recovery)	7,824	(10,635)	18,459
Other	27,721	23,141	4,580
	<hr/>	<hr/>	<hr/>
Total Administrative Expenses	719,569	728,192	(8,623)
Operating and Maintenance Expenses:			
Chemicals and Supplies	88,353	95,471	(7,118)
CCMUA Charges	3,647	3,465	182
Electric & Gas Expense	939,965	927,459	12,506
Maintenance of Wells and Treatment Equipment	164,623	118,006	46,617
Maintenance on Mains and Services	169,277	146,467	22,810
Maintenance on Structures	91,850	82,748	9,102
Maintenance on Generators and Power Equipment	19,559	24,137	(4,578)
Maintenance on Control Panels	8,025	29,981	(21,956)
Maintenance on Pumping and Chemical Equipment	56,229	54,451	1,778
Tank Painting	0	4,659	(4,659)
Purchase of Water	72,271	76,599	(4,328)
Lab Work	54,865	41,874	12,991
Meter Repair and Maintenance	6,233	7,419	(1,186)
Communications	15,188	19,919	(4,731)
Fuel & Gas	37,024	28,825	8,199
Safety Equipment	11,985	11,160	825
Vehicle Expense	86,599	90,226	(3,627)
	<hr/>	<hr/>	<hr/>
Total Operating and Maintenance Expenses	1,825,693	1,762,866	62,827
Depreciation and Amortization Expense	1,613,008	1,245,214	367,794
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	8,262,991	7,561,048	701,943
Other Expenses:			
Interest on Long-term Debt	194,797	191,200	3,597
	<hr/>	<hr/>	<hr/>
Total Expenses	8,457,788	7,752,248	705,540
	<hr/>	<hr/>	<hr/>
Net Income	\$ 37,444	\$ 1,687,260	\$ (1,649,816)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

PART II

SINGLE AUDIT

FOR THE YEAR ENDED

DECEMBER 31, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE OMB CIRCULAR A-133
AND WITH STATE OF NEW JERSEY CIRCULAR 04-04-OMB**

The Commissioners of
The Merchantville-Pennsauken Water Commission
6751 Westfield Avenue
Pennsauken, NJ 08110

Compliance

We have audited the compliance of the Merchantville-Pennsauken Water Commission with the types of compliance requirements described in the New Jersey State Grant Compliance Supplement that that could have a direct and material effect on each of the Commission's major state programs for the year ended December 31, 2011. The Commission's major state programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the Merchantville-Pennsauken Water Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and State of New Jersey; and State of New Jersey Circular 04-04-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133, and State of New Jersey Circular 04-04-OMB, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Merchantville-Pennsauken Water Commission's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Merchantville-Pennsauken Water Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2011.

Internal Control Over Compliance


The management of the Merchantville-Pennsauken Water Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of New Jersey Circular 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Bureau of Authority Regulation, Division of Local Government Services will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the Commission, the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, 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.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
July 10, 2012

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE, SCHEDULE B
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>State Grantor/Program Title</u>	<u>Grant or State Project Number</u>	<u>Program or Award Amount</u>	<u>From</u>	<u>To</u>
State of New Jersey Department of Environmental Protection:				
New Jersey Division of Science, Research, and Technology:				
Granular Activated Carbon Demonstration Project	SR07-006	\$ 1,600,000	5/31/2007	5/31/2012
New Jersey Department of Environmental Protection				
Water Re-Use Grant	WSD-05-006	\$ 3,200,000	5/31/2007	5/31/2012

Total State Financial Assistance

The accompanying Notes to Financial Statements and Notes to the Schedules of Expenditures of State Financial Assistance are an integral part of the schedule

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE, SCHEDULE B
FOR THE YEAR ENDED DECEMBER 31, 2011

Balance January 1, 2011	Receipts or Revenue Recognized	Disbursements Expenditures	Unreimbursed Expenditures	Grants Receivable December 31, 2011	Project Funds Balance	Cash Received (Memo Only)	Accumulated Expenditures
\$ 1,466,121	\$ 133,879	\$ 192,365	\$ -	\$ -	-	\$ 1,600,000	\$ 1,600,000
<u>2,987,167</u>	<u>1,655,159</u>	<u>2,608,686</u>	<u>953,527</u>	<u>\$ 1,332,008</u>	<u>1,332,008</u>	<u>1,867,992</u>	<u>2,821,519</u>
<u>\$ 4,453,288</u>	<u>\$ 1,789,038</u>	<u>\$ 2,801,051</u>	<u>\$ 953,527</u>	<u>\$ 1,332,008</u>	<u>\$ 1,332,008</u>	<u>\$ 3,467,992</u>	<u>\$ 4,421,519</u>

The accompanying Notes to Financial Statements and Notes to the Schedules of Expenditures of State Financial Assistance are an integral part of the schedule

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
Notes to Schedule of Expenditures of State Financial Assistance
For the Year Ended December 31, 2011

Note 1: **GENERAL**

The accompanying schedule of expenditures of state financial assistance present the activity of all state financial assistance programs of the Merchantville-Pennsauken Water Commission, County of Camden, State of New Jersey. The Commission is defined in the Notes to the Financial Statements, Note 1.

Note 2: **BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of state financial assistance is presented using the accrual basis of accounting as promulgated by the State of New Jersey, Department of Community Affairs, Local Finance Board, which is described in the Notes to the Financial Statements, Note 1.

Note 3: **RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying schedules agree with amounts reported in the Commission's financial statements.

Note 4: **RELATIONSHIP TO FINANCIAL REPORTS**

Amounts reported in the accompanying schedules agree with amounts reported in the related state financial reports.

Note 5: **MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED

DECEMBER 31, 2011

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Section 1- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified Opinion

Internal control over financial reporting:

Material weaknesses identified? ___ yes X no

Were significant deficiencies identified that were not considered to be a material weakness? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

State Financial Assistance

Internal control over compliance:

Material weaknesses identified? ___ yes X no

Were significant deficiencies identified that were not considered to be a material weakness? ___ yes X none reported

Type of auditor's report on compliance for major programs Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a)) or New Jersey Circular 04-04-OMB? ___ yes X no

Identification of major programs:

<u>GMIS Numbers</u>	<u>Name of State Program</u>
<u>SR07-006</u> <hr/>	New Jersey Division of Science, Research, and Technology Granular Activated Carbon Demonstration Project <hr/>
<u>WSD-05-006</u> <hr/>	New Jersey Department of Environmental Protection Water Re-Use Grant <hr/>
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Dollar threshold used to determine Type A programs \$ 300,000

Auditee qualified as low-risk auditee? ___ yes X no

MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

Section 2- Schedule of Financial Statement Findings

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

None

Section 3- Schedule of State Financial Assistance Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major State programs, as required by OMB Circular A-133 and State of New Jersey Circular 04-04-OMB.

None

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AS PREPARED BY MANAGEMENT

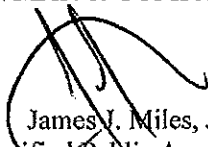
This section identifies the status of prior year audit findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

None.

APPRECIATION

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

Respectfully submitted,
BOWMAN & COMPANY LLP


James J. Miles, Jr.
Certified Public Accountant

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