**THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION**

**REPORT OF AUDIT**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2012 AND 2011**

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## TABLE OF CONTENTS

**THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION**

**ROSTER OF OFFICIALS**

| Commissioners | Position |
|---|---|
| Bernhard H. Kofoet | President |
| Regina L. Davis | Vice President |
| Patrick J. Brennan | Secretary |
| G. Burton German, Jr. | Treasurer |
| Joseph Scavuzzo | Assistant Secretary and Treasurer |

Officers

| | |
|---|---|
| Michael A. Saraceni | Chief Operating Officer |
| Jeffrey C. Whalen | Superintendent |
| Richard Spafford, PE | Engineer |
| Karl N. McConnell, Esquire | General Counsel |

Consultants

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

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

## PART I

## FINANCIAL SECTION

## REPORT OF AUDIT

## FOR THE YEARS ENDED

## DECEMBER 31, 2012 AND 2011

# INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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



6 North Broad Street | Suite 201 | Woodbury, NJ 08096 | P 856.853.0440 | F 856.845.4128 | www.bowmanllp.com

The Commissioners of
The Merchantville-Pennsauken Water Commission

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Merchantville-Pennsauken Water Commission, in the County of Camden, State of New Jersey as of December 31, 2012 and 2011 and its changes in financial position and its cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

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

**Other Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2013 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 in considering the Commission's internal control over financial reporting and compliance.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
September 6, 2013

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey the financial statements of the Merchantville-Pennsauken Water Commission, in the County of Camden, State of New Jersey, a component unit of the Township of Pennsauken, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 6, 2013.

**Internal Control Over Financial Reporting**

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

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

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



6 North Broad Street | Suite 201 | Woodbury, NJ 08096 | P 856.853.0440 | F 856.845.4128 | www.bowmanllp.com

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.

**Purpose of this Report**

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

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
September 6, 2013

**The Merchantville-Pennsauken Water Commission**
**Management's Discussion and Analysis**
**For the Year Ending December 31, 2012**

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, 2012. 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** – Water consumption rates were increased in 2012 to assist the Commission in meeting increasing cost for capital improvements and debt service requirements

- **Total Assets** - Total assets at the end of FY 2012 were $33,967,655. After deducting liabilities, net assets equal $21,627,633.

- **Total Operating Revenues** - FY 2012 operating revenues totaling $8,395,373 were $355,340 higher than the comparable prior year amount of $8,040,033.

- **Net Non-Operating Income (Expense)** - FY 2012 non-operating income net of non-operating expenses was $(38,270) and was down $298,672 from the prior year primarily due to $133,879 recognition of a New Jersey DEP Granular Activated Carbon (GAC) Demonstration Project Grant in 2011. While recognized as income in the prior year, this was a reimbursement grant used for infrastructure costs which will be depreciated over future periods. Also, in 2011 the Maple Avenue property was sold and a gain of $131,528 was recognized.

- **Total Operating Expenses** – FY 2012 operating expenses before depreciation in the amount of $6,675,394 were 0.34% greater than the prior year comparable amount of $6,649,983.

## 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 position 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 Position regardless of when cash is received or paid. Net-Position – the difference between the Commission's assets and liabilities – are a measure of the Commission's financial health or position.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONT'D)

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

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

## FINANCIAL ANALYSIS OF THE COMMISSION

The Commission's total assets were $33,967,655 on December 31, 2012. Total assets, total liabilities and total net assets are detailed below.

A total of $18,541,427 of the Commission's $21,627,633 in net assets, or (85.73%) 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 $3,086,206 of net assets, on October 22, 2012, the Commissioners appropriated $1,573,000 of net assets for use in its 2013 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 the Park Avenue Tank in 2013, along with other needed infrastructure repairs and upgrades scheduled.

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 increased $355,340 primarily due a 3% rate increase in 2012 and operating expenses (net of depreciation) increased $25,411 or 0.32%.

## NET POSITION APPROPRIATED AND RESERVED

It is the explicit intention of the Commission to allocate the balance of net position, (2013 Capital Budget specification less related debt) in the amount of $1,513,206, to be designated for the re-investment in critical capital repairs identified.

These critical repairs/upgrades are, but are not limited to; the repair and refinishing of the 1,000,000 gallon Cherry Hill elevated tank, the replacement of mains, the water meter replacement program and the GIS Program. Intentions of such will be reflected in the 2014 Budget submission to the State of New Jersey.

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | $ 6,714,790 | $ 6,731,600 | $ 7,582,034 |
| Noncurrent Assets | 1,149,765 | 1,980,646 | 1,705,020 |
| Capital Assets | 26,103,100 | 25,650,933 | 25,442,186 |
| **Total Assets** | 33,967,655 | 34,363,179 | 34,729,240 |
| **Liabilities** | | | |
| Current Liabilities | 3,950,003 | 4,524,346 | 5,033,277 |
| Long-Term Liabilities | 8,290,317 | 8,132,250 | 8,028,019 |
| **Total Liabilities** | 12,240,320 | 12,656,596 | 13,061,296 |
| **Deferred Inflows or Resources** | 99,702 | 108,505 | 107,310 |
| **Net Position:** | | | |
| Net Invested in Capital Assets | 18,541,427 | 17,997,027 | 16,563,777 |
| Unrestricted | 3,086,206 | 3,601,051 | 4,996,857 |
| **Total Position** | 21,627,633 | 21,598,078 | 21,560,634 |

## Comparative Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2012, 2011 and 2010

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Operating Revenues:** | | | |
| Service Charges | $ 7,912,089 | $ 7,566,945 | $ 7,697,156 |
| Other Operating Revenue | 483,284 | 473,088 | 397,033 |
| **Total Operating Revenues** | 8,395,373 | 8,040,033 | 8,094,189 |
| **Operating Expenses:** | | | |
| Administration | 2,320,374 | 2,131,914 | 1,990,429 |
| Cost of Providing Service | 4,355,020 | 4,518,069 | 4,325,405 |
| Depreciation | 1,652,154 | 1,613,008 | 1,245,214 |
| **Total Operating Expenses** | 8,327,548 | 8,262,991 | 7,561,048 |
| **Net Non-Operating Income (Expense)** | (38,270) | 260,402 | 1,154,119 |
| **Change in Net Position** | **29,555** | **37,444** | **1,687,260** |
| **Net Position -- Jan. 1** | 21,598,078 | 21,560,634 | 19,873,374 |
| **Net Position -- Dec. 31** | $ 21,627,633 | $ 21,598,078 | $ 21,560,634 |

## 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 $3,086,206 of unrestricted net assets as of December 31, 2012.

## 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 $6,499,075 representing 86.00% of the $7,557,029 budgeted. Actual total operating and non-operating revenues of $8,523,841 were $205,341 higher than $8,318,500 budgeted.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During FY 2012, the Commission expended $2,106,658 on capital activities.

The proposed five-year Capital Program included in the Commission's 2013 budget totals $12,238,000. 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. Park Avenue Tank Painting
2. GIS Mapping Project
3. Meter Replacement Program
4. Mains and Interconnections
5. Hydrant Change

## 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 POSITION
## AS OF DECEMBER 31, 2012 AND 2011

| ASSETS | 2012 | 2011 |
|---|---|---|
| Current Assets: | | |
| Cash and Cash Equivalents | $ 1,716,084 | $ 3,743,963 |
| Investments | 2,262,817 | 509,558 |
| Customer Accounts Receivable | 1,550,159 | 1,518,338 |
| Deposits and Other Receivables | 51,375 | 5,537 |
| Unbilled Revenue | 855,000 | 758,000 |
| Materials and Supplies Inventory | 277,530 | 192,027 |
| Accrued Interest Receivable | 1,825 | 4,177 |
| Total Current Assets | 6,714,790 | 6,731,600 |
| Capital Assets: | | |
| Utility Plant and Equipment | 51,693,828 | 50,029,381 |
| Accumulated Depreciation and Amortization | 25,590,728 | 24,378,448 |
| Total Capital Assets | 26,103,100 | 25,650,933 |
| Other Assets: | | |
| Due From New Jersey Environmental Infrastructure Trust | 45,850 | 845,532 |
| N.J.D.E.P. Water Re-Use Grant Receivable | - | 121,885 |
| Due from Pennsauken Township | 1,103,915 | 975,388 |
| Debt Issuance Costs | - | 37,841 |
| Total Other Assets | 1,149,765 | 1,980,646 |
| Total Assets | $ 33,967,655 | $ 34,363,179 |

(Continued)

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## COMPARATIVE STATEMENTS OF NET POSITION
## AS OF DECEMBER 31, 2012 AND 2011

| LIABILITIES | 2012 | 2011 |
|---|---|---|
| Current Liabilities: | | |
| N.J.D.E.P. Loans Payable - Due Within One Year | $ 345,647 | $ 336,629 |
| Bond Anticipation Note | 2,780,000 | 3,130,000 |
| City of Camden Water Allocation - Due Within One Year | 175,973 | 181,658 |
| Accounts Payable | 448,552 | 605,661 |
| Construction Contracts Payable | 65,500 | 112,959 |
| Accrued Wages | 51,016 | 38,510 |
| Accrued Interest | 49,550 | 75,057 |
| Pension Withholdings Payable | 17,927 | 19,143 |
| Escrow Deposits | 15,838 | 24,729 |
| Total Current Liabilities | 3,950,003 | 4,524,346 |
| Noncurrent Liabilities | | |
| N.J.D.E.P. Loans Payable | 4,206,439 | 4,559,455 |
| City of Camden Water Allocation | 1,137,879 | 1,313,851 |
| Post Employment Benefits Obligation Other than Pension | 2,945,999 | 2,258,944 |
| Total Noncurrent Liabilities | 8,290,317 | 8,132,250 |
| Total Liabilities | 12,240,320 | 12,656,596 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Customer Prepayments | 99,702 | 108,505 |
| | 99,702 | 108,505 |
| NET POSITION | | |
| Net Invested in Capital Assets | 18,541,427 | 17,997,027 |
| Unrestricted | 3,086,206 | 3,601,051 |
| Total Net Position | $ 21,627,633 | $ 21,598,078 |

See the accompanying Notes to Financial Statements.

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| Operating Revenues: | | |
| Metered Sales to General Public | $ 6,821,336 | $ 6,528,402 |
| Private Fire Protection | 1,013,065 | 966,333 |
| Public Fire Protection | 77,688 | 72,210 |
| Late Charges | 88,315 | 63,242 |
| Tower Rentals | 312,229 | 300,611 |
| Tapping Fees | 3,730 | 4,055 |
| Miscellaneous Income | 79,010 | 105,180 |
| Total Operating Revenues | 8,395,373 | 8,040,033 |
| Operating Expenses: | | |
| Administration: | | |
| Salaries and Wages | 753,802 | 735,127 |
| Employee Benefits | 706,134 | 677,218 |
| Other Expenses | 860,438 | 719,569 |
| Cost of Providing Service: | | |
| Salaries and Wages | 1,413,467 | 1,401,385 |
| Employee Benefits | 1,324,082 | 1,290,991 |
| Other Expenses | 1,617,471 | 1,825,693 |
| Depreciation and Amortization | 1,652,154 | 1,613,008 |
| Total Operating Expenses | 8,327,548 | 8,262,991 |
| Operating Income (Loss) | 67,825 | (222,958) |
| Non-Operating Revenues (Expenses): | | |
| Investment Income | 42,609 | 85,795 |
| Interest on Debt | (166,738) | (194,797) |
| N.J.D.E.P. GAC Grant | - | 133,879 |
| Gain on Sale of Assets | - | 131,528 |
| Connection and Developers' Fees | 85,859 | 103,997 |
| Total Non-Operating Revenues (Expenses) | (38,270) | 260,402 |
| Change in Net Position | 29,555 | 37,444 |
| Net Position, Beginning of Year | 21,598,078 | 21,560,634 |
| Net Position, End of Year | $ 21,627,633 | $ 21,598,078 |

See the accompanying Notes to Financial Statements

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Receipts From Customers | $ 7,816,942 | $ 7,764,065 |
| Other Operating Receipts | 394,969 | 409,846 |
| Payments to Suppliers | (2,720,521) | (2,642,870) |
| Payments and Benefits to Employees | (3,499,140) | (3,430,987) |
| Net Cash Provided by Operating Activities | 1,992,250 | 2,100,054 |
| Cash Flows from Non-Capital Financing Activities | | |
| Water Re-Use Expenditures | (128,527) | (2,608,686) |
| Water Re-Use Grant Reimbursements | 121,885 | 1,655,159 |
| Escrow Deposits | 1,636 | 10,598 |
| Escrow Disbursements | (10,527) | (5,204) |
| Connection and Developers' Fees | 85,859 | 103,997 |
| Net Cash Flows Provided by (Used In) Non-Capital Financing Activities | 70,326 | (844,136) |
| Cash Flows From Capital and Related Financing Activities: | | |
| Additions to Capital Assets | (2,106,568) | (2,178,295) |
| Gain (Loss) from Sale of Capital Assets | - | 131,528 |
| N.J.D.E.P. Loan Proceeds | 799,682 | 331,694 |
| N.J.D.E.P. GAC Grant | - | 773,182 |
| Principal Payments on Bond Anticipation Note | (350,000) | (100,000) |
| Principal Payments on N.J.D.E.P. Loans | (343,998) | (298,262) |
| Principal Payments on City of Camden Water Allocation | (181,657) | (187,184) |
| Interest Payments on N.J.D.E.P. Loans | (126,745) | (105,695) |
| Interest Payments on City of Camden Water Allocation | (49,941) | (41,551) |
| Interest Payments on Bond Anticipation Note | (22,930) | (25,942) |
| Net Cash Used In Capital and Related Financing Activities | (2,382,157) | (1,700,525) |
| Cash Flows From Investing Activities: | | |
| Net Purchase of Investments | (1,753,259) | (509,558) |
| Investment Income | 44,961 | 84,526 |
| Net Cash Used In Investing Activities | (1,708,298) | (425,032) |
| Net Decrease in Cash and Cash Equivalents | (2,027,879) | (869,639) |
| Cash and Cash Equivalents, January 1 | 3,743,963 | 4,613,602 |
| Cash and Cash Equivalents, December 31 | $ 1,716,084 | $ 3,743,963 |

(Continued)

## THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## COMPARATIVE STATEMENTS OF CASH FLOWS (CONT'D)
## FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| Reconciliation of Operating Income to | | |
| Net Cash Provided by Operating Activities: | | |
| Operating Income (Loss) | $ 67,825 | $ (222,958) |
| Adjustments to Reconcile Operating Income To | | |
| Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation and Amortization | 1,652,154 | 1,613,008 |
| (Increase) Decrease in Customer Accounts Receivable | (31,821) | 170,913 |
| (Increase) in Other Accounts Receivable | (45,838) | (4,230) |
| (Increase) in Unbilled Revenue | (97,000) | (34,000) |
| (Increase) in Materials and Supplies Inventory | (85,503) | (17,005) |
| Decrease in Prepaid Expenses | | 82,848 |
| (Decrease) in Accounts Payable | (157,109) | (163,451) |
| Increase (Decrease) in Customer Prepayments | (8,803) | 1,195 |
| Increase in Accrued Wages | 12,506 | 38,510 |
| Increase (Decrease) in Pension Withholdings Payable | (1,216) | 5,814 |
| Increase in Post Employment Benefits Obligation | 687,055 | 629,410 |
| | $ 1,992,250 | $ 2,100,054 |

See the accompanying Notes to Financial Statements.

**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, *The Financial Reporting Entity*. These financial statements would be either blended or discreetly presented as part of the Township's financial statements if the Township reported using generally accepted accounting principles applicable to governmental entities.

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

**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.

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

### Basis of Accounting

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

**Revenues -- Exchange and Non-Exchange Transactions -** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. 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.

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

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

### Budgets and Budgetary Accounting

The 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.

### Cash, Cash Equivalents and Investments

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

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

**Cash, Cash Equivalents and Investments (Cont'd)**

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

Additionally, the 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 Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. 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.

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

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

### Capital Assets (Cont'd)

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

### 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:

| | Years |
|---|---|
| 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 |

### Unearned Revenue

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

### Net Position

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

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

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

**Net Position (Cont'd)**

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

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

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**

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

**New Accounting Standards Adopted**

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

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

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

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

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

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

**New Accounting Standards Adopted (Cont'd)**

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

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

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

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

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

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

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

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

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

**New Accounting Standards Adopted (Cont'd)**

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

**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, 2012, the Commission's bank balances of $3,790,749, $15,838 was uninsured or uncollateralized. As of December 31, 2011, the Commission's bank balances of $4,217,619, $14,207 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. All of the Commission's $2,262,817 as of December 31, 2012 and $509,558 as of December 31, 2011 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.

**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 Commission may purchase such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Commission 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.

**Note 4: INVESTMENTS (CONT'D)**

As of December 31, 2012 the Commission had ten certificates of deposit valued at $2,262,817 at .75% and maturing between February 2, 2013 and March 3, 2013. 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.

**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, 2012 and 2011 the number of the Commission's accounts was as follows:

| | 2012 | 2011 |
|---|---|---|
| Residential, Apartments, and Commercial Water Services | 14,385 | 14,387 |
| Senior Citizen Accounts | 413 | 400 |
| Fire Services | 331 | 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, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Current (less than 30 days) | $ 1,339,922 | 1,359,559 |
| 30 to 59 days | 39,898 | 34,402 |
| 60 to 89 days | 20,804 | 21,226 |
| 90 to 179 days | 39,665 | 36,525 |
| Over 180 days | 130,974 | 103,787 |
| | 1,571,263 | 1,555,499 |
| Accrued Interest on Delinquent Balances | 81,896 | 51,839 |
| | 1,653,159 | 1,607,338 |
| Less: Reserve for Uncollectible Accounts | 103,000 | 89,000 |
| | $ 1,550,159 | $ 1,518,338 |

**Note 6: CAPITAL ASSETS**

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

| | Balance January 01, 2012 | Additions (Deletions) | Balance December 31, 2012 |
|---|---|---|---|
| Land and Land Rights | $ 175,857 | | $ 175,857 |
| Intangible Plant | 32,181 | | 32,181 |
| Source of Supply | 3,292,517 | $ (145,531) | 3,146,986 |
| Pumping Plant | 2,267,185 | | 2,267,185 |
| Water Treatment Plant | 4,254,624 | | 4,254,624 |
| Transmission and Distribution Plant | 32,743,511 | $ 2,003,133 | 34,746,644 |
| General Plant | 4,498,768 | (193,155) | 4,305,613 |
| City of Camden Water Allocation Rights | 2,557,608 | | 2,557,608 |
| Capiltailed Interest | 207,130 | | 207,130 |
| | 50,029,381 | 1,664,447 | 51,693,828 |
| Less: Accumulated Depreciation | 24,378,448 | 1,212,280 | 25,590,728 |
| | $ 25,650,933 | $ 452,167 | $ 26,103,100 |

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

| | Balance January 01, 2011 | Additions (Deletions) | Balance December 31, 2011 |
|---|---|---|---|
| Land and Land Rights | $ 194,934 | $ (19,077) | $ 175,857 |
| Intangible Plant | 32,181 | | 32,181 |
| Source of Supply | 3,292,517 | | 3,292,517 |
| Pumping Plant | 2,267,185 | | 2,267,185 |
| Water Treatment Plant | 4,254,624 | | 4,254,624 |
| Transmission and Distribution Plant | 29,849,497 | 2,894,014 | 32,743,511 |
| General Plant | 704,490 | 3,794,278 | 4,498,768 |
| City of Camden Water Allocation Rights | 2,557,608 | | 2,557,608 |
| Capiltailed Interest | 207,130 | | 207,130 |
| Construction in Progress | 4,863,350 | (4,863,350) | - |
| | 48,223,516 | 1,805,865 | 50,029,381 |
| Less: Accumulated Depreciation | 22,781,330 | 1,597,118 | 24,378,448 |
| | $ 25,442,186 | $ 208,747 | $ 25,650,933 |

## 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, 2012 and 2011, 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 2012 construction account for the intended construction project and was $65,076 and $845,532, respectively.

**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, 2012 is due as follows:

| Year | Total | Principal | Interest |
|---|---|---|---|
| 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 | 160,785 | 142,860 | 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 | 77,724 | 75,474 | 2,250 |
| | $ 5,268,087 | 4,418,770 | 849,317 |
| Unamortized Discount | | 133,316 | |
| Books | | $ 4,552,086 | |

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 | 88.42% |
| | 100.00% |

## 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, 2012 are as follows:

| Year | Total | Principal | Interest |
|---|---|---|---|
| 2013 | $ 196,049 | $ 175,973 | $ 20,076 |
| 2014 | 187,817 | 170,572 | 17,245 |
| 2015 | 179,583 | 165,015 | 14,568 |
| 2016 | 171,545 | 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 | 63,302 | 62,922 | 380 |
| | $ 1,401,320 | $ 1,313,852 | $ 87,468 |

## 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.

On October 3, 2012, the bond anticipation note was re-issued with 1st Colonial National Bank and a new series of notes of the Commission was created (Series 2012). A principal amount of $2,780,000 was authorized to be issued and sold, and bears interest at the rate of 1.09%. Interest on the notes is due on October 22, 2013. Upon renewal of the bond anticipation note, one principal payment was made of $350,000.

**Note 10:** **NET ASSETS APPROPRIATED AND RESERVED**

As of December 31, 2012, the Commission had unrestricted, unreserved net assets of $3,086,206 which has been appropriated and reserved by the Commissioners as follows:

- **Appropriated for 2013 Capital Budget** – On October 22, 2012, the Commissioners appropriated $1,573,000 of net assets for use in the 2013 capital budget as submitted to the New Jersey Division of Local Government Services

- **Reserved for Infrastructure Maintenance** – The Commissioners have specifically reserved the $1,513,206 balance of net assets for critical repairs/upgrades including, but are not limited to; the repair and refinishing of the 1,000,000 gallon Cherry Hill elevated tank, the replacement of mains, the water meter replacement program and the GIS Program.

**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:

| Year | Normal Contribution | Accrued Liability | Non-Contributory Group Life Insurance | Total Liability | Paid by Commission |
|---|---|---|---|---|---|
| 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, 2012, 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 ending December 31, 2012, the Commission contributed $257,147 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:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Normal Cost | $ 377,515 | $ 365,184 | $ 327,517 |
| Amortization Payment | 687,055 | 629,410 | 584,075 |
| Interest on Net OPEB Obligation | 503,700 | 451,873 | 408,386 |
| Adjustment to ARC | (624,068) | (559,910) | (506,020) |
| Annual Required Contribution (Expense) | 944,202 | 886,557 | 813,958 |
| Cotributions Made | (257,147) | (257,147) | (229,883) |
| Net OPEB Obligation - Beginning of Year | 2,258,944 | 1,629,534 | 1,045,459 |
| Net OPEB Obligation - End of Year | $ 2,945,999 | $ 2,258,944 | $ 1,629,534 |

**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, 2012, actuarial valuation, the unit credit cost method was used in establishing the annual required contribution and actuarial accrued liability for participants.

In the December 31, 2011, actuarial valuation, the unit credit cost method was used. The actuarial assumptions included a 5.0 % investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6% for both Pre-Medicare and Post-Medicare medical benefits. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011, was twenty-six years.

**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, 2012 and 2011 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 $67,344 in 2012 and $86,599 in 2011.

Future commitments on operating leases are as follows:

| Year | Amount |
|---|---|
| 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, 2012, the Commission had ten different lease agreements. Rental income from these leases was $312,229 and $300,611 in 2012 and 2011, respectively.

Future minimum rentals on the leases are as follows:

| Year | Amount |
|---|---|
| 2013 | $ 324,174 |
| 2014 | 331,510 |
| 2015 | 329,157 |
| 2016 | 313,526 |

* 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, 2012, the Commission had a remaining balance of $4,500 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, 2012, 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 8, 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: 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, 2012 and 2011, $1,103,915 and $975,388, 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.

On December 3, 2012, this project was deemed to be completed. The first payment of $121,225 is scheduled to be collected in July of 2013.

## Note 20: SUBSEQUENT EVENTS

By resolution dated November 8, 2012, the Merchantville-Pennsauken Water Commission had authorized the issuance of $2,800,000 of debt for the painting of the three million gallon water tank at Park Avenue and subsequently submitted application to the New Jersey Environmental Infrastructure Trust (NJEIT) for participation in their 2013 series debt issuance. While all required documents had been filed, the NJEIT had failed to include the Merchantville-Pennsauken Water Commission in the 2013 series issuance. The NJEIT authorized the Commission to bid the project and subsequently the project was awarded to U.S. Tank Painting, Inc., for their total low bid price of $2,471,000. The NJEIT authorized the Commission to draw down $2,571,000 to be included in the 2014 series debt issuance for funding the contract and related costs.

Repayment terms of the $2,571,000 will be determined at closing in 2014.

**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% |
| 12/31/2011 | $ 0 | $ 9,037,466 | $ 9,037,466 | 0 % | $ 1,762,318 | 512.8% |

**Schedule RSI-2**

## REQUIRED SUPPLEMENTARY INFORMATION
## SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
|---|---|---|
| 2012 | $ 944,202 | 27.23% |
| 2011 | 886,557 | 29.01% |
| 2010 | 813,958 | 28.24% |
| 2009 | 770,547 | 29.83% |
| 2008 | 734,678 | 31.29% |

**THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION**
Note to Required Supplementary Information
For the Year Ended December 31, 2012

### Other Postemployment Benefits

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

| | |
|---|---|
| Valuation Date | December 31, 2012 |
| 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, 2012

| | | |
|---|---|---|
| Cash, Cash Equivalents and Investments, January 1 | | $ 4,253,521 |
| Cash Receipts: | | |
| Collection of Customer Accounts Receivable | $ 7,771,881 | |
| Tower Rentals | 312,229 | |
| Other Operating Receipts | 73,937 | |
| Connection and Developers' Fees | 85,859 | |
| Escrow Deposits | 1,636 | |
| Customer Prepayments | 99,702 | |
| N.J.D.E.P. Loan Draws | 799,682 | |
| Loss on Disposition of Capital Assets | | |
| Water Re-Use Grant Reimbursements | 121,885 | |
| Investment Income | 44,961 | |
| | | 9,311,772 |
| | | 13,565,293 |
| Cash Disbursements: | | |
| Current Year Cost of Operations | 5,556,347 | |
| Liquidation of Prior Year Accounts Payable and Accrued Liabilities | 663,314 | |
| Net Additions to Other Receivables | 45,838 | |
| Escrow Disbursements | 10,527 | |
| Interest Payments on City of Camden Water Allocation | 22,930 | |
| Interest Payments on Bond Anticipation Note | 49,941 | |
| Interest Payments on N.J.D.E.P. Loans | 126,745 | |
| Principal Payments on N.J.D.E.P. Loans | 343,998 | |
| Principal Payments on City of Camden Water Allocation | 181,657 | |
| Principal Payments on Bond Anticipation Note | 350,000 | |
| Water Re-Use Expenditures | 128,527 | |
| Additions to Capital Assets | 2,106,568 | |
| | | 9,586,392 |
| Cash, Cash Equivalents and Investments, December 31 | | $ 3,978,901 |

| | |
|---|---|
| Analysis of Balance: | |
| Cash and Cash Equivalents | $ 1,716,084 |
| Investments | 2,262,817 |
| | $ 3,978,901 |

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
## NON-GAAP BUDGETARY BASIS
## FOR THE YEAR ENDED DECEMBER 31, 2012

| | Adopted and Final Budget | Actual | Variance-- Favorable (Unfavorable) |
|---|---|---|---|
| Revenues: | | | |
| Operating Revenues: | | | |
| Metered Sales to General Public | $ 6,750,000 | $ 6,821,336 | $ 71,336 |
| Private Fire Protection | 995,000 | 1,013,065 | 18,065 |
| Public Fire Protection | 77,500 | 77,688 | 188 |
| Late Charges | 60,000 | 88,315 | 28,315 |
| Tower Rentals | 310,000 | 312,229 | 2,229 |
| Tapping Fees | 5,000 | 3,730 | (1,270) |
| Miscellaneous Income | 30,000 | 79,010 | 49,010 |
| Total Operating Revenues | 8,227,500 | 8,395,373 | 167,873 |
| Non-Operating Revenues: | | | |
| Investment Income | 45,000 | 42,609 | (2,391) |
| Connection and Developers' Fees | 46,000 | 85,859 | 39,859 |
| Loss on Disposal of Capital Assets | - | | |
| Total Revenues | 8,318,500 | 8,523,841 | 205,341 |
| Operating Expenses: | | | |
| Administration: | | | |
| Salaries and Wages | 767,009 | 753,802 | 13,207 |
| Fringe Benefits | 539,306 | 467,168 | 72,138 |
| Other Expenses: | | | |
| Customer Account Expense | 13,000 | 10,413 | 2,587 |
| Customer Records and Collections | 87,400 | 62,712 | 24,688 |
| I.T. Expense | 48,000 | 33,667 | 14,333 |
| Uniform Rental | 10,000 | 9,137 | 863 |
| Office Supplies | 48,000 | 50,119 | (2,119) |
| Employee and Community Relations | 32,000 | 32,623 | (623) |
| Professional / Outside Services | 114,500 | 91,127 | 23,373 |
| Insurance | 95,000 | 90,889 | 4,111 |
| Payment in Lieu of Taxes | 300,600 | 299,635 | 965 |
| Municipal Surcharge | 164,772 | 135,064 | 29,708 |
| Bad Debt Expense (Net Reserve Reduction) | 30,000 | 15,834 | 14,166 |
| Other | 26,000 | 29,218 | (3,218) |
| Total Administration Other Expenses | 969,272 | 860,438 | 108,834 |
| Total Administration | $ 2,275,587 | $ 2,081,408 | $ 194,179 |

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

| | Adopted and Final Budget | Actual | Variance-- Favorable (Unfavorable) |
|---|---|---|---|
| Cost of Providing Service: | | | |
| Salaries and Wages | $ 1,421,737 | 1,413,467 | $ 8,270 |
| Fringe Benefits | 1,011,263 | 875,993 | 135,270 |
| Other Expenses: | | | |
| Chemicals and Supplies | 131,600 | 103,809 | 27,791 |
| CCMUA Charges | 37,500 | 3,256 | 34,244 |
| Electric & Gas Expense | 1,001,400 | 886,384 | 115,016 |
| Maintenance of Wells and Treatment Equipment | 205,000 | (38,702) | 243,702 |
| Maintenance on Mains and Services | 240,500 | 187,622 | 52,878 |
| Maintenance on Structures | 122,500 | 98,036 | 24,464 |
| Maintenance on Generators and Power Equipment | 40,000 | 20,931 | 19,069 |
| Maintenance on Control Panels | 62,200 | 17,628 | 44,572 |
| Maintenance on Pumping and Chemical Equipment | 50,000 | 55,527 | (5,527) |
| Purchase of Water | 100,000 | 78,850 | 21,150 |
| Lab Work | 70,000 | 40,245 | 29,755 |
| Meter Repair and Maintenance | 14,500 | 14,341 | 159 |
| Communications | 15,500 | 25,440 | (9,940) |
| Fuel & Gas | 48,000 | 41,932 | 6,068 |
| Safety Equipment | 16,700 | 14,828 | 1,872 |
| Vehicle Expense | 75,000 | 67,344 | 7,656 |
| Total Cost of Providing Service Other Expenses | 2,230,400 | 1,617,471 | 612,929 |
| Total Cost of Providing Service | 4,663,400 | 3,906,931 | 756,469 |
| Total Principal Payments on Debt in Lieu of Depreciation | 618,287 | 336,627 | 281,660 |
| Total Operating Expenses | 7,557,274 | 6,324,966 | 1,232,308 |
| Non-Operating Expenses: | | | |
| Interest Payments on Debt | 199,755 | 174,109 | 25,646 |
| Total Non-Operating Expenses | 199,755 | 174,109 | 25,646 |
| Total Operating and Non-Operating Expenses | 7,757,029 | 6,499,075 | 1,257,954 |
| Excess of Revenues over Operating and Non-Operating Expenses | $ 561,471 | $ 2,024,766 | $ 1,463,295 |

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Reconciliation of Excess Revenues
over Expenses to Operating Loss

| | |
|---|---|
| Excess of Revenues Over Operating and Non-Operating Expenses | $ 2,024,766 |
| Add: | |
| Principal Payments on Debt | 336,627 |
| Interest Payments on Debt | 174,109 |
| Deduct: | |
| Other Post Employment Benefits Accrual Included in Employee Benefits | (687,055) |
| Investment Income | (42,609) |
| Gain on Sale of Capital Assets | |
| Connection and Developers' Fees | (85,859) |
| Depreciation and Amortization | (1,652,154) |
| Operating Income (Exhibit B) | $ 67,825 |

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

| | Balance January 1, 2012 | Additions | Paid | Discount Amortization | Balance December 31, 2012 |
|---|---|---|---|---|---|
| 2001 Infrastructure Trust Loan | 2,162,817 | | $ 197,251 | | $ 1,965,566 |
| 2003 Infrastructure Trust Loan | 363,456 | | 31,782 | | 331,674 |
| 2007 Infrastructure Trust Loan | 1,090,124 | | 57,120 | | 1,033,004 |
| 2010 Infrastructure Trust Loan | 1,139,000 | | 50,474 | | 1,088,526 |
| Unamortized Premium on Bonds | 140,687 | | | $ 7,371 | 133,316 |
| | $ 4,896,084 | $ - | $ 336,627 | $ 7,371 | $ 4,552,086 |

| | Balance January 1, 2012 | Balance December 31, 2012 |
|---|---|---|
| Analysis of Balance: | | |
| Current | $ 336,629 | $ 345,647 |
| Long-Term | 4,559,455 | 4,206,439 |
| | $ 4,896,084 | $ 4,552,086 |

Schedule 4

## THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## STATEMENT OF CUSTOMER ACCOUNTS RECEIVABLE

| | | |
|---|---|---|
| Balance January 1, 2012 | | $ 1,607,338 |
| Increased by Customer Billings: | | |
| Metered Sales Billings to General Public | $ 6,738,336 | |
| Private Fire Protection | 1,013,065 | |
| Public Fire Protection | 77,688 | |
| Late Charges | 88,315 | |
| | | 7,917,404 |
| | | 9,524,742 |
| Decreased by: | | |
| Collections | 7,771,881 | |
| Customer Prepayments Applied | 99,702 | |
| | | 7,871,583 |
| Balance December 31, 2012 | | $ 1,653,159 |

Schedule 5

## THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## STATEMENT OF ACCRUED INTEREST RECEIVABLE

| | |
|---|---|
| Balance January 1, 2012 | $ 4,177 |
| Interest Earned | 42,609 |
| | 46,786 |
| Interest Collected | 44,961 |
| Balance December 31, 2012 | $ 1,825 |

## THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## STATEMENT OF CAPITAL ASSETS

| Description | Balance January 1, 2012 | Additions (Deletions) | Balance December 31, 2012 |
|---|---|---|---|
| Land and Land Rights | $ 175,857 | | $ 175,857 |
| Intangible Plant: | - | | - |
| Organization Costs | 32,181 | | 32,181 |
| Source of Supply: | | | |
| Structures and Improvements | 700,600 | (145,531) | 555,069 |
| Wells and Springs | 1,780,084 | | 1,780,084 |
| SCADA Program | 382,981 | | 382,981 |
| Water Mapping - SCADA | 272,457 | | 272,457 |
| Supply Mains | 156,395 | | 156,395 |
| Pumping Plant: | | | |
| Structures and Improvements | 1,832,162 | | 1,832,162 |
| 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 | 1,371,276 | | 1,371,276 |
| Water Treatment Equipment | 2,883,348 | | 2,883,348 |
| Transmission and Distribution Plant: | | | |
| Structures and Improvements | 206,078 | 107,807 | 313,885 |
| Camden Avenue Tank | 1,569,625 | | 1,569,625 |
| Cherry Hill 1MG Tank | 3,006,585 | | 3,006,585 |
| 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 |
| Park Ave Project | 4,534,580 | | 4,534,580 |
| Park Ave Lime Building | 256,928 | | 256,928 |
| Service Wells and Motors | 542,320 | | 542,320 |
| Filter Media | 332,393 | (14,577) | 317,816 |
| Rehab National Highway Well 2 | 43,235 | | 43,235 |
| Browning Road Well 1 | 167,410 | | 167,410 |
| Tank Painting | 1,768,518 | 909,201 | 2,677,719 |
| Carbon Filter Project | 1,658,486 | | 1,658,486 |
| CC TV Park | 28,680 | | 28,680 |
| Valve Replacement | 142,235 | | 142,235 |
| Distribution Reservoirs and Standpipes | 2,830,658 | | 2,830,658 |
| Garden State Project | 28,423 | | 28,423 |
| Transmission and Distribution Mains | 6,868,397 | 23,570 | 6,891,967 |
| Water Main Replacement | 1,526,115 | 593,439 | 2,119,554 |
| Services | 1,983,004 | | 1,983,004 |
| Meters | 2,188,017 | 372,027 | 2,560,044 |
| Hydrants | 428,484 | 11,666 | 440,150 |
| General Plant: | | | |
| Administration Office | 3,743,474 | | 3,743,474 |
| Structures and Improvements | 148,756 | (124,082) | 24,674 |
| Office Furniture and Equipment | 225,151 | (52,456) | 172,695 |
| Software | 84,487 | | 84,487 |
| Transportation Equipment | 155,613 | (15,688) | 139,925 |
| Tools Shop and Garage Equipment | 30,290 | | 30,290 |
| Power Operated Equipment | 90,321 | (929) | 89,392 |
| Telephone Equipment | 20,676 | | 20,676 |
| City of Camden Water Allocation | 2,557,608 | | 2,557,608 |
| Capitalized Interest | 207,130 | | 207,130 |
| | $ 50,029,381 | $ 1,664,447 | $ 51,693,828 |

## THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## STATEMENT OF ACCRUED INTEREST PAYABLE

| | | | |
|---|---|---|---|
| Balance January 1, 2012 | | $ | 75,057 |
| Accrued Interest: | | | |
| N.J.D.E.P. Loans | 101,238 | | |
| Bond Anticipation Note | 49,941 | | |
| City of Camden Water Allocation | 22,930 | | |
| | | | 174,109 |
| | | | 249,166 |
| Less Interest Paid: | | | |
| N.J.D.E.P. Loans | 126,745 | | |
| Bond Anticipation Note | 49,941 | | |
| City of Camden Water Allocation | 22,930 | | |
| | | | 199,616 |
| Balance December 31, 2012 | | $ | 49,550 |

| | | |
|---|---|---|
| Reconciliation of Interest Expense: | | |
| Accrued Interest | $ | 174,109 |
| Amortization of Bond Discount | | (7,371) |
| Interest on Debt | $ | 166,738 |

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
## FOR THE YEARS 2012 AND 2011

| | 2012 | 2011 | Increase (Decrease) |
|---|---|---|---|
| Revenues: | | | |
| Operating Revenues: | | | |
| Metered Sales to General Public | $ 6,821,336 | $ 6,528,402 | $ 292,934 |
| Private Fire Protection | 1,013,065 | 966,333 | 46,732 |
| Public Fire Protection | 77,688 | 72,210 | 5,478 |
| Late Charges | 88,315 | 63,242 | 25,073 |
| Tower Rentals | 312,229 | 300,611 | 11,618 |
| Tapping Fees | 3,730 | 4,055 | (325) |
| Miscellaneous Income | 79,010 | 105,180 | (26,170) |
| Total Operating Revenues | 8,395,373 | 8,040,033 | 355,340 |
| Non-Operating Revenues: | | | |
| Investment Income | 42,609 | 85,795 | (43,186) |
| N.J.D.E.P. GAC Grant | - | 133,879 | (133,879) |
| Gain On Sale of Capital Assets | - | 131,528 | (131,528) |
| Connection and Developers' Fees | 85,859 | 103,997 | (18,138) |
| Total Revenues | 8,523,841 | 8,495,232 | 28,609 |
| Operating Expenses: | | | |
| Personal Services: | | | |
| Administrative Salaries | 753,802 | 735,127 | 18,675 |
| Seasonal Salaries | 29,480 | 26,556 | 2,924 |
| Water Treatment Salaries | 410,063 | 393,267 | 16,796 |
| Repair and Maintenance Salaries | 471,913 | 483,927 | (12,014) |
| Service Salaries | 206,666 | 223,876 | (17,210) |
| Plant Operators Salaries | 295,345 | 273,759 | 21,586 |
| Total Personal Services | 2,167,269 | 2,136,512 | 30,757 |
| Employee Benefits: | | | |
| Health Benefits | 574,179 | 609,344 | (35,165) |
| Prescription | 246,044 | 218,578 | 27,466 |
| Social Security Tax | 164,943 | 160,721 | 4,222 |
| Public Employees' Retirement System | 95,676 | 104,323 | (8,647) |
| Unemployment and Disability | 8,090 | 8,295 | (205) |
| Workers' Compensation Insurance | 68,473 | 65,496 | 2,977 |
| Dental, Vision and Other Employee Benefits | 185,756 | 172,042 | 13,714 |
| Post Employment Benefits Obligation Other than Pension | 687,055 | 629,410 | 57,645 |
| Total Employee Benefits | $ 2,030,216 | $ 1,968,209 | $ 62,007 |

(Continued)

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## COMPARATIVE STATEMENT OF REVENUES AND EXPENSES
## FOR THE YEARS 2012 AND 2011

| | 2012 | 2011 | Increase (Decrease) |
|---|---|---|---|
| Administrative Expenses: | | | |
| Customer Account Expense | $ 10,413 | $ 10,553 | $ (140) |
| Customer Records and Collections | 62,712 | 59,711 | 3,001 |
| Uniform Expenses | 9,137 | 8,978 | 159 |
| Office Supplies | 50,119 | 50,879 | (760) |
| I.T. Expense | 33,667 | 62,905 | (29,238) |
| Employee and Community Relations | 32,623 | 28,814 | 3,809 |
| Professional/Outside Services | 91,127 | 86,173 | 4,954 |
| Insurance | 90,889 | 86,726 | 4,163 |
| Payment in Lieu of Taxes | 299,635 | 289,285 | 10,350 |
| Municipal Surcharge | 135,064 | - | 135,064 |
| Bad Debt Expense (Recovery) | 15,834 | 7,824 | 8,010 |
| Other | 29,218 | 27,721 | 1,497 |
| Total Administrative Expenses | 860,438 | 719,569 | 140,869 |
| Operating and Maintenance Expenses: | | | |
| Chemicals and Supplies | 103,809 | 88,353 | 15,456 |
| CCMUA Charges | 3,256 | 3,647 | (391) |
| Electric & Gas Expense | 886,384 | 939,965 | (53,581) |
| Maintenance of Wells and Treatment Equipment | (38,702) | 164,623 | (203,325) |
| Maintenance on Mains and Services | 187,622 | 169,277 | 18,345 |
| Maintenance on Structures | 98,036 | 91,850 | 6,186 |
| Maintenance on Generators and Power Equipment | 20,931 | 19,559 | 1,372 |
| Maintenance on Control Panels | 17,628 | 8,025 | 9,603 |
| Maintenance on Pumping and Chemical Equipment | 55,527 | 56,229 | (702) |
| Purchase of Water | 78,850 | 72,271 | 6,579 |
| Lab Work | 40,245 | 54,865 | (14,620) |
| Meter Repair and Maintenance | 14,341 | 6,233 | 8,108 |
| Communications | 25,440 | 15,188 | 10,252 |
| Fuel & Gas | 41,932 | 37,024 | 4,908 |
| Safety Equipment | 14,828 | 11,985 | 2,843 |
| Vehicle Expense | 67,344 | 86,599 | (19,255) |
| Total Operating and Maintenance Expenses | 1,617,471 | 1,825,693 | (208,222) |
| Depreciation and Amortization Expense | 1,652,154 | 1,613,008 | 39,146 |
| Total Operating Expenses | 8,327,548 | 8,262,991 | 64,557 |
| Other Expenses: | | | |
| Interest on Long-term Debt | 166,738 | 194,797 | (28,059) |
| Total Expenses | 8,494,286 | 8,457,788 | 36,498 |
| Net Income | $ 29,555 | $ 37,444 | $ (7,889) |

**THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2012**

# THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
## SCHEDULE OF PRIOR YEAR FINDINGS
## FOR THE YEAR ENDED DECEMBER 31, 2012

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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 in compliance with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs of the State of New Jersey.

## SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None

## 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