

**OLD BRIDGE  
MUNICIPAL UTILITIES AUTHORITY  
MIDDLESEX COUNTY  
NEW JERSEY**

**COMPREHENSIVE ANNUAL FINANCIAL  
REPORT**

**FOR THE YEAR  
ENDED MAY 31, 2010**

***HODULIK & MORRISON, P.A.***  
CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS  
HIGHLAND PARK, N.J.

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
MIDDLESEX COUNTY, NEW JERSEY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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## INTRODUCTORY SECTION

# Old Bridge Municipal Utilities Authority

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September 27, 2010

Members of the Old Bridge Municipal Utilities Authority  
Middlesex County, New Jersey

The Comprehensive Annual Financial Report of the Old Bridge Municipal Utilities Authority (the Authority) for the period ended May 31, 2010, is submitted herewith pursuant to the Service Agreement with the Township of Old Bridge, the Indenture of Trust on outstanding Revenue Bonds, and the provisions of Chapter 5A of Title 40A of the New Jersey Statutes Annotated, entitled "Local Authorities Fiscal Control Law". Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. This Comprehensive Annual Financial Report was prepared by the staff of the Authority's Department of Finance. We believe the data, as presented, is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Authority and that all disclosures necessary to enable the readers to gain the maximum understanding of the Authority's financial activity have been included.

The Authority's financial statements have been audited by Hodulik & Morrison, P.A., a firm of licensed certified public accountants and registered municipal accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the period ended May 31, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the period ended May 31, 2010, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

The Authority implemented the Government Accounting Standards Board (GASB) Statement 34, with the May 31, 2003 financial statements. GASB 34 is a dramatic change in governmental financial reporting. We believe this new presentation will provide better information to the users of the Comprehensive Annual Financial Report.

The Comprehensive Annual Financial Report is presented in five sections: introductory, financial, statistical, single audit and general comments and recommendations.

<b>Introductory Section</b>	This letter of transmittal and such other material as maybe useful in understanding the reporting entity.
<b>Financial Section</b>	The auditor's report and financial statements of the Authority which present fairly the financial position, results of operations, and cash flows. Also included are schedules of budget comparisons, including comparisons by line of service. revenue bonds payable, insurance coverage's, and state financial assistance, as well as the auditor's General Comments and Recommendations, which are required by regulations of the Local Finance Board, Department of Community Affairs, State of New Jersey.
<b>Statistical Section</b>	This unaudited section does contain substantial financial information, designed to assist the reader in understanding the Authority's service area and consumer base, and the Authority's historical growth and its future growth prospects. The tables presented in this section differ from the financial statements in that they may present certain nonaccounting data, cover more than two fiscal periods, and are designed to reflect demographic and economic trends as well as financial trends of the Authority.
<b>Single Audit Section</b>	Not required this year do to the amount of expenditures being less then \$500,000. Auditor's reports required by New Jersey OMB Circular 04-04 (State Single Audit Mandate) and the Schedule of Expenditures of State Financial Assistance, including the Notes thereto.
<b>General Comments and Recommendations</b>	Additional auditor reporting on New Jersey statutory compliance as required by regulations of the Local Finance Board, Department of Community Affairs, State of New Jersey.

## **THE REPORTING UNIT**

### **CREATION, POWERS AND RESPONSIBILITIES**

The Authority was created on November 4, 1985, by an ordinance of the Township of Old Bridge. The Authority resulted from consolidation of The Old Bridge Township Sewerage Authority ("OBTSA") and the former Old Bridge Municipal Utilities Authority ("OBMUA"), which was responsible for wastewater treatment and collection and water treatment and distribution, respectively. The combining of these operations has resulted in improved efficiency and cost-effectiveness of their operations under the Act, specifically N.J.S.A. 40:14-20, The Authority has certain powers, including but not limited to the ability:

To sue and to be sued;

To acquire, rent, uses and dispose of its service charges and other revenues and other monies;

To acquire, rent, hold, lease as lessor, use and dispose of personal property for the purpose of the Authority;

To acquire by purchase, gift, condemnation or otherwise, or lease as lessee, real property and easements therein, necessary or useful and convenient for the purposes of the authority;

To produce, develop, purchase, accumulate, distribute and sell water and water services, facilities and products within or without the Authority service area, provided that no water shall be sold at retail in any municipality outside the service area unless the governing body of such municipality shall have adopted a resolution requesting the authority to sell water at retail in such municipality, and the State Board of Public Utilities shall have approved such resolutions as necessary and proper for the public convenience;

To provide for and secure the payment of any bonds and the rights of the holders thereof, and to purchase, hold and dispose of any bonds;

To make and enforce by-laws or rules and regulations for the management and regulation of its business and affairs; and

To do and perform any acts and things authorized by the Act under, through or by means of its own officers, agents and employees, or by contract with any person.

## **COMPONENT UNIT STATUS**

The Authority is considered to be a "Component Unit" of the Township of Old Bridge under GAAP, based upon the oversight responsibilities of the Township, which include:

- Appointment of the Members of the Authority
- Approval of projects requiring the issuance of debt by the Authority, and
- Service Agreement provisions, which require the Township to finance any deficits of the Authority, effectively providing a guarantee of the Authority's debt service requirements.

The Township of Old Bridge follows a regulatory basis of accounting for financial statement preparation, which differs, significantly from GAAP. Of particular interest is the absence of reporting on component units based upon the separate legal status of these units. As such, the Township does not include the Authority as a component unit in its financial statements.

## **THE SYSTEM**

### **The Water System Overview**

The Authority is the only purveyor of water in the Township and provides, as of June 30, 2010, approximately 27,277 equivalent dwelling units in the Township with water service representing approximately 98% of users in the Township. The remainder of the residents of the Township obtains water from private wells. The Authority's water facilities (collectively, the "Water System") were principally constructed during the years 1955 through 1965 and 1983 through 2010. The overall condition of the facilities may be classified as good, and the Authority has an ongoing capital program for those of its facilities that are currently in need of rehabilitation.

Although the Authority has jurisdiction for supply of potable water to the residents of the Township, on June 17, 1988, the Authority also entered into an agreement with the Township of Aberdeen to sell that municipality up to 3.0 million gallons per day ("mgd") of finished water. The agreement provides for a minimum purchase of 0.8 mgd on a take-or-pay basis.



### **Water System Facilities**

The Authority's present Water System facilities consist of eight wells, two water treatment plants (Browntown and Old Bridge), nine available storage tanks and four pressure booster stations. All water supply service areas, which cover approximately three-quarters of the area available for development in the Township, are interconnected via an extensive distribution system consisting primarily of six inch to twenty-inch water mains.

The rated capacities of the Authority's two water treatment plants are 5.0 mgd for the Browntown plant and 3.0 mgd for the Old Bridge plant. However, due to backwashing requirements, the maximum usable production from the two plants is approximately 7.5 mgd. On November 17, 1986, the Authority entered into an agreement with the Middlesex Water Company ("MWC") for the purchase of up to 9.0 mgd of finished water. Additionally, the Authority has emergency interconnections with Perth Amboy, Monroe, Aberdeen and the Marlboro Municipal Utilities. On June 17, 1988, the Authority entered into an agreement with the Township of Aberdeen to purchase finished water from time to time through the interconnection.

The treatment plants treat raw water withdrawn from the Authority's eight wells. The Authority's New Jersey Department of Environmental Protection ("NJDEP") permit allows it to withdraw up to 1,542.06 million gallons ("mg") per year, which corresponds to an average rate of 4.22 mgd. The maximum monthly allocation is limited to 222.5 mg, or an average rate of 7.3 mgd. In addition, the Authority currently purchases between 2.0 and 8.0 mgd from MWC.

Peak demands are met by the utilization of storage facilities. The Authority has 20.75 mg of storage capacity in eight elevated and/or ground storage tanks.

Water consumption in 2009 was 2.319 billion gallons, or an average of 6.35 mgd. Maximum water use occurs during the summer months as a result of increased demand for lawn watering, filling pools and other outdoor uses. The maximum daily use in 2009 was 10.016mg on August 18, 2009 with the monthly average being 7.93 mgd. Withdrawals from storage are required during periods of maximum use.

In 2001 the Authority commenced installation of a radio read meter reading system to replace the time consuming practice of physically reading consumer water meters. Since the inception of this program to completion, the Authority connected all customer accounts to radio read meters using Authority force account employees. This completes our meter installation program where all 27,277 EDCU's are now radio reads.

A comparison of water use during calendar years 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009 is presented below:

<u>Year</u>	<u>Yearly Average Flow, mgd</u>	<u>Maximum Monthly Flow, mgd</u>
2000	6.61	July (9.21)
2001	6.92	July (8.88)
2002	6.76	July (9.70)
2003	6.45	July (8.93)
2004	6.47	July (8.22)
2005	7.04	Aug (9.50)
2006	6.91	Aug (9.42)
2007	7.13	July (9.02)
2008	6.91	July (9.75)
2009	6.35	Aug (8.64)

#### **Browntown Water Treatment Plant**

The Browntown Water Treatment Plant is located at the intersection of Route 9 South and Throckmorton Lane. The plant has a rated capacity of 5.0 mgd. The plant is serviced by four wells, which pump groundwater to the two forced draft aerators. The aerators are used for iron conversion and hydrogen sulfide removal. Flow from the aerators enters a 78-foot diameter clarifier rated at 5.0-mgd capacity. Coagulating chemicals are added to the clarifier for removal of iron and turbidity via settling of the treated water. After clarification, the water is pumped to five pressure filters, which remove turbidity and small floc containing residual iron. A backwash holding tank is used to recover backwash water from the filters and also to remove the solids from the recycled backwash water. Iron sludge from the clarifier and backwash detention tank is discharged into the Authority's sanitary sewer system.

Five service pumps are used to distribute water to the distribution system. Prior to the filtration, the treated water is disinfected with chlorine and pumped to either the 0.5 million gallon clear well or directly to the distribution system.

### **Old Bridge Water Treatment Plant**

The Old Bridge Water Treatment Plant has a rated capacity of 3.0 mgd and is served by four wells. The original plant pumped the water from the filters directly to the distribution system. In April 1996 the plant configuration was changed to encompass Oak Street Station as part of the Old Bridge Plant. The filters now pump the water to the two million-gallon tank on Oak Street, which water is then pumped out through the Oak Street Booster Station. A 2.5-mgd pump was also added to the Oak Street Station to give the station a total capacity of 6.0 mgd.

The reason for the plant improvement was to prevent the pressure from the pumps at the Old Bridge Plant from working against the pressures from the pumps in the Oak Street Station, and also to maintain a more consistent pressure in the South Old Bridge area.

Raw water is treated via forced draft aeration, clarification, filtration and disinfection prior to entering the 2.0 million-gallon tank on Oak Street. Two pressurized filters, each rated at 1.5 mgd, are installed at the plant.

### **Pressure Booster Stations**

The Oak Street Booster Station contains four pumps, two each rated at 1,800 gallons per minute ("gpm"), one at 1,500 gpm and one at 900 gpm. The station is used in conjunction with the Oak Street Water Storage Tank to pump water into the Water System during periods of low pressure.

The Cheesequake Booster Station has four pumps that are capable of pumping 3,500 gpm to the Cheesequake area of the Township. Three pressure reducing valves, installed in early 1986, are used in conjunction with the Booster Station to provide adequate water pressure to the Cheesequake Section of the Township.

The Perrine Road Booster Station contains five pumps rated at 1,800 gpm, 1,600 gpm, 1,600 gpm, 1,500 gpm and 1,200 gpm. The station is used in conjunction with the Perrine Road Water Storage Tank and the Sayrewoods Elevated Water Storage Tank to supply water into the system to supplement the Authority's groundwater supplies.

### **Water Storage Tanks**

The Authority has eight available water storage tanks with a total capacity of 20.75 mg.

<b><u>Location</u></b>	<b><u>Capacity, (million gallons)</u></b>	<b><u>Type</u></b>
Perrine Road	10.00	Ground
Higgins Road	3.00	Ground
Oak Street	2.00	Ground
Browntown Plant	0.50	Ground
Route 516	2.00	Ground
Sayrewoods	1.00	Elevated
Marlboro Road	2.00	Elevated
Route 35 (Laurence Harbor)	0.25	Elevated

### **Interconnection with Middlesex Water Company**

In accordance with the conditions of the Authority's Water Supply Allocation Permit No. 5340 dated November 26, 2001, and the authority granted to NJDEP under the Water Supply Management Act of 1981 (N.J.S.A. 58:1A-1 et seq.), the Authority is under ongoing regulatory mandate to reduce its dependence on groundwater supplies.

The Old Bridge wells are in the State's Critical Area No. 1 and as such, must reduce withdrawals of groundwater by 40-50 percent based on actual use in 1983. In order to accomplish these groundwater supply reductions, the Authority entered into an agreement (the "MWC Agreement") for a term of twenty years with the MWC to supply up to 9.0 mgd of surface water. The MWC Agreement was signed on November 17, 1986, and the Township began taking water under such MWC Agreement in May 1988. The MWC Agreement was extended on May 7, 2003 for an additional ten (10) years.

In accordance with the Authority's NJDEP Permit (W.S. Permit No. 5340), the Authority was permitted to divert 222.5 million gallons per month (an average of 7.3 mgd) of groundwater from their supply wells at a maximum rate of 6,000 gallons per minute. Beginning in May 1988, the effective date of use of water from the MWC, the Authority's allocation was reduced to 1,428.58 million gallons annually or an average of 3.9 mgd.

These cutbacks, which were in accordance with the requirements for reduction of groundwater withdrawals imposed by NJDEP, required that groundwater withdrawals from all wells in Critical Area No. 1 (which includes the Township) be reduced by 40 to 50 percent of 1983 use.

In 1995 the Authority purchased Diversion Rights from South Amboy increasing the groundwater withdrawal amount up to the current 1,542.06 million gallons or an average of .42 mgd.

In accordance with the MWC Agreement, the Authority is obligated to take-or-pay a minimum of 2.0 mgd. This minimum commitment will increase as the average and peak use of MWC water by the Township increases.

Based upon its current water usage projections, the Authority anticipates that based on the conjunctive use of the Authority wells and MWC water, sufficient supply is available through the year 2025. The present rate of water purchased from MWC is \$2,446.53 per million gallons.

The Authority's 2009 average daily water supply demand was 6.35 mgd, and such demand is currently projected to be 8.8 mgd in 2015, increasing up to 11.1 mgd by 2027. In order to meet these projected demands, the Authority must increase its dependence on surface water supplies or supplies from non-critical areas. At the present time, it is contemplated that these supplies will be provided by MWC. The contract with MWC provides for up to 9.0 mgd of supply.

### **The Sewer System Overview**

The Authority serves, as of June 30, 2010, was 26,380 equivalent dwelling units with sewage disposal services and provides such services throughout the Township. The majority of the pumping stations as well as much of the piping conveyance facilities (collectively, the "Sewer System") were constructed by private developers and subsequently accepted by the Authority. The Authority conducts an ongoing maintenance program on the Sewer System, including inspections, testing, flushing, repairs and replacements.

The Authority's Sewer Division has the responsibility for accomplishing, by all reasonable and economic means, the relief of the waters in and bordering the State from pollution arising from causes within the Township and the consequent improvement of conditions affecting the public health. The Authority has exclusive responsibility for sewage disposal development within the Township, and the establishment of competitive sewerage facilities is prohibited by the Act.

## **Sewage Disposal Facilities**

The Sewer System consists of two major components: the piping conveyance facilities and pumping stations. The Sewer System serves the seven main drainage areas of the Township. The Iresick, Tennents Brook, Deep Run, Pricketts Brook and Matchaponix drainage areas represent approximately eighty percent (80%) of the area of the Township and are sewered by Authority trunk sewers tributary to the South River Interceptor of the Middlesex County Utilities Authority ("MCUA"). This sewage flow is metered by two metering/sampling chambers and is treated at the MCUA's secondary treatment plant.

The Lake Lefferts and Raritan Bay drainage areas represent approximately the remaining twenty- percent (20%) of the Township and are sewered by Authority trunk sewers tributary to the South Bay Interceptor. This sewage flow is metered by a metering/sampling chamber located in Cliffwood Beach and is treated at the MCUA's secondary treatment plant.

## **MCUA Treatment**

Under an ongoing agreement between the Authority and MCUA ("MCUA Agreement"), the MCUA is responsible to treat sewage collected within the Township and discharged by the Authority to the MCUA. The MCUA imposes charges therefore at the same rates as for other customers for treatment services. Under the MCUA Agreement, the Authority discontinued treatment and conveys all sewage collected by it to the MCUA for treatment.

## **The Sewage Collection System**

The Authority owns and maintains an extensive system of collector and trunk sewers comprising approximately 210 miles of pipe, which serves all seven drainage areas of the Township. The Authority has four major trunk sewers, which are fed by many smaller collector systems. Gravity sewers range in size from 6 to 42 inches in diameter and force mains range between 3 and 20 inches in diameter.

Four major trunk sewers, the Iresick, the Deep Run, the Runyon and the Laurence Harbor trunk sewers, serve the seven drainage basins. The Laurence Harbor trunk sewer line through the swamps by Margarets Creek was replaced within the last year and should save substantial sums due to the reduction on inflow from the swamps.

The Authority owns, operates and maintains thirty-five sewage pumping stations which includes one ejector station.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the environment within which the Authority provides service.

### **Local Economy**

With over 66,000 people and a land area of approximately 40 sq. miles, Old Bridge is the third largest community in Middlesex County. When you think Old Bridge Township, your thoughts can be as diverse as the community itself. From the tranquility of the 1,569 acre Cheesequake State Park to the quaint bay front communities of Laurence Harbor and Cliffwood Beach; from rural farmlands to modern suburban neighborhoods; from lazy winding country roads to the lively activity of the Route 9 shopping corridor; Old Bridge continues to be a place where people can live, work and play in a manner suitable to their own unique needs. Nestled in the southeast corner of Middlesex County, Old Bridge has experienced steady growth while maintaining its commitment to preserve open space. State, County and Municipal parks and recreation areas conveniently dot the community offering a respite from the everyday hustle and bustle of modern day life. Whether you prefer a stroll on a sandy beach, a lakeside picnic, boating or a jog on a nature trail, Old Bridge continues to provide the perfect destination for enjoying nature's many gifts.

The Township's location makes it one of Central New Jersey's premier economic growth areas and economic development is a priority in Old Bridge. Traversed by the Garden State Parkway, Route 18, 9, 34 and 35, Old Bridge is fast becoming a place to grow a business or an industry. Whether your business or industry is local, state, national or international, Old Bridge offers easy access to major markets, a diverse workforce and a built in consumer base. Its proximity to Newark International Airport, Port Elizabeth and the New Jersey Turnpike make getting your product to and from Old Bridge a "snap". Available sites zoned to welcome commercial, office and industrial uses together with a "business friendly" atmosphere make Old Bridge the right destination to develop, relocate or expand your business. Whether it's hi-tech, biotech, light industrial, pharmaceutical or professional office, you'll feel at home in Old Bridge.

### **New Business**

The Authority continues to be customer and market driven. The FY 2010/11 budget includes funds and programs to focus on customer service and the upgrading and improvement of both our Water & Sewer Division's infrastructure, to accommodate an ever growing community.

## **Strategic Management Planning**

The Authority's Strategic Plan continues to promote interdepartmental communication and cooperation, and encourages increased employee involvement in achieving company goals that support the Authority's Mission Statement. Staff updated the Board concerning key issues in a meeting in early March 2010 to determine future direction of the utility. That discussion is ongoing at this time.

The Authority's Key Result Areas as presented in the FY 2011 Strategic Plan are as follows:

**Priority No. 1 - Customer Satisfaction and Expansion:**

Customer Satisfaction, Ease of Acquiring Service, New or Rejuvenated Revenue Sources, Economic Development, Market Share, and New Opportunities.

**Priority No. 2 - Corporate Culture:**

Values, Performance Based Organization, Goals and Accountability, Training, Communications, and Safety Performance.

**Priority No. 3 - Corporate Planning:**

Facilities Master Planning and Long-Range Planning.

**Priority No. 4 - Economic Decision Making:**

Spending (Capital, Operations and Maintenance).

**Priority No. 5 - Financial Performance:**

Cost of Service

## **Long Term Capital Planning**

The Authority's capital renewal, expansion, and improvements continue. The multiplicity of requirements by regulatory agencies also demands much capital. Renewals and replacements are necessary due to the aging infrastructure currently under way. Most replacements are the result of redevelopment efforts, which increase our costs and provide no additional revenue. In an effort to strategically expend the Authority's limited resources, Department Heads meet approximately twice annually to discuss and update capital plans. This allows for coordination between the numerous agencies the Authority's staff interacts with to accomplish its plans.



**Major projects include:**

- Higgins Rd Tank Connection (\$5,500,000)
- SCADA & GIS System Sewer Division (\$4,000,000)
- Relining LH Area Transmission Lines (\$3,150,000)
- Groundwater infiltration reduction and sewer main lining projects (Multi Year Plan) (\$3,150,000)
- Cheesequake Booster/OB WTP (\$2,500,000)
- Bulkhead at Laurence Harbor Offices (\$2,500,000)
- Valve Automation & SCADA Water Division (\$500,000)
- LH Plant Demolition (\$500,000)
- Arbors Pump Station VFD Upgrade (\$150,000)

Since many of the projects rehabilitate deteriorating lines in the older sections of town, the impact on operating and maintenance expenses related to that rehabilitation is expected to be favorable. Due to the increased usage of low flow devices there has been drop in the overall discharge of effluent to MCUA thereby saving the Authority additional fees in the treatment of our sewerage flow. The ongoing relining project has also had a huge impact on the reduction of infiltration and inflow to the Authority's lines, reducing operating costs on an ongoing basis. This has saved the authority approximately \$1.5 million per year in reduced processing fees. Current and future planned projects will increase this calculated savings.

**Budgets**

The Department of Finance prepares estimates for departmental review. Department Heads review and revise them where necessary and respective Directors sign off on these revised budgets.

The Budget Review Committee, consisting of the Executive Director, Chief Financial Officer and Internal Auditor, discusses the budgets with the respective Department Heads and revise as needed. The Authority's Board of Commissioners reviews and approves each of the two prefatory budgets (Operations Budget – Personnel and O&M combined, and Capital Budget).

With the implementation of SCADA (supervisory control and data acquisition) system, automating plant operations through consolidating control to the Browntown Plant, the upgrade of our meter reading system to radio reads, resulting in the elimination of meter reading positions, and the reassignment of responsibilities of the existing staff to cover the duties of employees who have resigned or retired to eliminate the need for replacement, there has been a reduction of 24 employees within the last 8 years.

The budget is prepared on the accrual basis, with modifications where required to comply with the governing regulations; accordingly, revenues and expenses are budgeted for specific periods of time and are recorded as incurred, along with acquired assets, without regard to the date of receipts or payment of cash.

The Authority is required by N.J.A.C. 5:31-2.1(j) and 5:31-2.3 to prepare, adopt, and provide an annual budget no later than 60 days prior to the beginning of its fiscal year. The annual budget and any amendments thereto shall not be in effect until approved by the Authority, and the Director of the Division of Local Government Services. Once approved, the Annual Budget becomes the basis for operating and for capital expenditures during the ensuing fiscal year. Budgetary control is provided by monthly revenue and expense reports. Monthly financial statements are provided to the Board of Commissioners for review in advance of a verbal presentation of financial activity at regularly scheduled Board meetings.

The statutory budget and the financial reporting thereon differ in certain respects from GAAP. A reconciliation of the reported results on the budgetary basis to GAAP is included as part of the other supplementary information schedules.

Due to available Retained Earnings in both the Water and Wastewater Divisions there were no increases in either Division for the Fiscal Year that started June 1, 2010.

### **Internal Controls**

The Authority operates within a system of internal accounting controls established and continually reviewed by management to provide reasonable assurance that assets are adequately safeguarded and transactions are recorded in accordance with Authority policies and procedures. When establishing and reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization.

Management normally maintains or implements only those controls for which its value adequately exceeds its costs. Recent audits have not noted any weaknesses in internal controls.

### **Cash Management**

The Authority has a consolidated banking service agreement with a local depository bank, which provides that all funds earn interest through either certificates of deposit or investment securities. "Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of Authority funds:

- (i) direct obligations of or obligations unconditionally guaranteed by the United States of America;
- (ii) obligations issued or guaranteed by any agency or instrumentality of the United States of America, which obligations are fully secured as to the payment of both principal and interest by or entitled to the full faith and credit of the United States of America;
- (iii) general obligations issued or guaranteed by any state of the United States of America or any political subdivision of any such state; provided that such obligations of such state or political subdivision are rated in either of the two highest rating categories by Moody's Investors Service and Standard & Poor's Corporation, or upon the discontinuance of either or both such rating services, by at least one other nationally recognized rating service then providing such rating services;
- (iv) Interest-bearing demand or time deposits (including certificates of deposit) in banks (including the Trustee) and savings and loan associations, which banks or savings and loan associations or holding companies by which such banks or savings and loan associations are owned, have a consolidated capital, surplus and undivided profits of at least \$25,000,000 at the time of the investment and any renewal thereof and such deposits are secured at all times, in the manner and to the extent provided by law, by collateral security described in clauses (i) or (ii) of this definition and of a market value of no less than the amount of moneys so invested; provided, however, the requirements for consolidated capital, surplus and undivided profits and collateralization above shall not apply to investments in deposits of an issuer which at the time of issue is certified by the New Jersey Department of Banking as eligible pursuant to the New Jersey Governmental Unit Deposit Protection Act, or in interest bearing demand or time deposits to the extent such deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation;
- (v) Repurchase agreements collateralized by securities described in (i) or (ii) above with (a) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, or (b) any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "Prime-1" "Aa-3" or better by Moody's Investors Service and "A-1" or "AA-" or better by Standard & Poor's Corporation, provided (a) a specific written agreement governs the transaction; (b) the securities are held free and clear of any lien by the Trustee (unless the Trustee is obligated under the repurchase agreement) or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank (ii) a bank which is a member of the Federal Deposit Insurance Corporation and

has combined capital, surplus and undivided profits of not less than \$25,000,000, or (iii) a bank approved in writing for such purpose by the Bond Insurer, and the Trustee shall have received written confirmation from said third party that it holds said securities, free and clear of any lien, as agent for the Trustee; (c) a perfected first security interest under the Uniform Commercial Code or the book entry procedures described in 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; (d) the repurchase agreement has a term to maturity of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; (e) the repurchase agreement, if held in the Debt Service Fund, shall mature at least ten days (or other appropriate liquidation period) prior to an Interest Payment Date; and (f) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 100%; and

(vi) Money markets investing solely in obligations of (i) or (ii) of this definition

The passive cash management program involves a theory of keeping principal and earnings free from risk, maintaining reasonable liquidity to meet maturing obligations and maximizing return through the use of competitive rate comparisons from various investment sources. An average investment rate of .51% was earned on cash balances, down from the 1.89% from the previous year. The continued decrease in interest income is a direct result of the interest rate environment that has accompanied decreases in the discount rate set by the Federal Reserve Bank.

### **Risk Management**

The Authority has a comprehensive risk management program. In addition, quarterly meetings are held with management, the risk management consultant and insurers to review coverage and risks. A schedule of insured risks and coverage amounts is included in the insurance coverage's Note 10 covers the risk related to the Authority's self-funded employee and retiree health plan and the reinsurance program in effect to limit both individual and aggregate losses.

## **Pension and Other Post Employment Benefits**

The Authority participates in the Public Employees' Retirement System ("PERS"), a State of New Jersey administered, cost-sharing multi-employer defined benefit plan. Note 7 provides more specific information on the plan.

The Authority offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. Plan participation is optional to Authority employees, and the Authority has no fiduciary responsibility for the plan. Additional information relating to the deferred compensation plan can be found in Note 4.

In addition to providing pension benefits, the Authority provides health benefits to certain retirees and their spouses and dependent children. Eligibility is based upon the attainment of a specified age and/or years of eligible service. Note 9 provides details of the eligibility criteria, as well as GASB 45 details.

Beginning with Fiscal Year Ended May 31, 2009 the Authority implemented GASB 45 reporting in recording the ongoing liability of the Authorities future OPEB costs.

## **Debt Management**

At May 31, 2010, the Authority had outstanding insured revenue bonds in the amount of \$46,790,968. Debt service schedules go out to 2030. Interest rates range from 0.0% on Bonds issued as part of the state sponsored New Jersey Wastewater Treatment Trust Fund and New Jersey Environmental Infrastructure Trust Fund (NJEITF) to 5.70% on the bonds. Use of the NJEITF as the financing vehicle for OBMUA capital projects results in both lower over-all interest costs and a reduction in the costs associated with the issuance of debt. All outstanding bonds are insured and rated AAA. Principal payments are due November 1 of each year. The principal for the bonds due November 1, 2010, is \$3,716,643. Management and the Authority's Financial Advisor constantly monitor market conditions to determine if interest rate declines present opportunities for savings through the refunding of outstanding debt. The Authority has taken comprehensive actions to limit the costs in the current debt service maturity schedule. Utilization of the NJEITF financing program for eligible capital projects over a seventeen-year period from 1993 through 2010 has resulted in interest savings to the Authority in excess of \$5.24 million. Current and advance refundings of existing debt in 2002, 2004, 2006, and 2009 based upon improving market conditions, resulted in additional aggregate savings to the Authority of \$4.26 million. Such refundings require the approval of the New Jersey Local Finance Board and generally must yield a net present value savings of at least 3% of debt service cash flows. Full details of the specific Bond Issues outstanding may be found in Note 5 and the Schedule 1 of the statistical section.

## **Service Agreement**

### **SUMMARY OF CERTAIN PROVISIONS OF THE SERVICE AGREEMENT WITH THE TOWNSHIP OF OLD BRIDGE**

The Agreement establishes conditions under which the Authority shall operate the System and from time to time enlarge, alter, renew and replace the same. The following is an outline of certain provisions of the Agreement, with various comments thereon, and does not purport to be a full and complete statement of the provisions of the Agreement, which should be read in full for a complete understanding thereof.

#### **Establishment of Rates**

The Agreement provides that the Authority will charge Service Charges in accordance with the Act at least to the extent required by the Agreement and at the rates established in accordance with the Agreement. In order to finance deficits, as described below, the Authority will charge the Township Annual Charges computed in accordance with the Agreement. The Annual Charges made by the Authority to be paid by the Township for or with respect to any Fiscal Year shall include and make provisions for all of the amounts (not actually paid from Service Charges, bond proceeds, insurance proceeds, interest income, contributions received by or for account of the Authority until after the payment in full of all other obligations of the Authority including its bonds, original or refunding or both, or reserves available at the beginning of such year) necessary (1) to pay or provide for the expenses of operation and maintenance of the System, including (without limitation) sewerage treatment charges, water purchases, water charges, insurance, renewals, replacements, extensions, enlargements, alterations and betterments, but excluding depreciation, (2) to pay or provide for principal or redemption price of and interest on outstanding bonds, notes or other evidences of indebtedness of the Authority becoming due during such Fiscal Year, (3) to pay or provide for any deficits of the Authority resulting from failure to receive sums payable to the Authority by the Township, any other municipality, any county or any person, or from any other cause, and (4) to maintain such reserve or sinking fund to provide for expenses of operation and maintenance of the System or for any interest on or principal or redemption price of bonds, notes or other evidences of indebtedness of the Authority or for any such deficits as may be required by the terms of any contract, indenture or bond resolution of the Authority or be deemed necessary or desirable by the Authority.

### **Payment of Annual Charges by Township**

For or in connection with the sale and supplying of water and the treatment and disposal of sewage or other wastes in the Township by means of the System during each Fiscal Year, the Township shall pay to the Authority Annual Charges made and charged by the Authority to and payable by the Township for such Fiscal Year computed by the Authority as provided in this Article. Within thirty (30) days after the end of each Fiscal Year, the Authority shall notify the Township of the estimated Annual Charges for the preceding Fiscal Year. Within sixty (60) days after the end of each Fiscal Year, the Authority will make and deliver to the Township its certificate stating the amount of the Annual Charges (if any) for such preceding Fiscal Year (the "Prior Annual Charges Deficiency Notice") computed in accordance with this Agreement accompanied by the written approval, signed by an Accountant, of the statements in such certificate. The Annual Charges for each Fiscal Year, to the extent that any part thereof shall not have been theretofore paid, shall in all events be due and payable within forty-five (45) days of receipt by the Township of the Prior Annual Charges Deficiency Notice, but current provision for and payment of part of such Annual Charges on an annualized basis shall be made by the Township in accordance with the following paragraphs of this Section.

By the first business day of each Fiscal Year, the Authority will make an estimate of the amount of the Annual Charges which will become payable by the Township for such Fiscal Year and thereafter within thirty (30) days of the commencement of such Fiscal Year. In the event that any part of any Annual Charges theretofore becoming payable by the Township shall not have been paid, the Authority will include in such certificate an additional provision separately stating the amount of such unpaid part (hereinafter called the "Prior Annual Charges Deficiency).

The Township will in each year make all budgetary and other provisions or appropriations necessary to provide for and authorize the payment by the Township to the Authority during each Fiscal Year of the estimated amount of the Annual Charges Deficiency (if any) stated in the certificate delivered in such Fiscal Year to it by the Authority as aforesaid.

Within forty-five (45) days of receipt of any Prior Annual Charges Deficiency Notice, the Township will pay to the Authority the amount of the Prior Annual Charges Deficiency stated in the certificate delivered in such Fiscal Year to it by the Authority as aforesaid. The Township will pay to the Authority that part of the estimated amount of the Annual Charges stated in the certificate delivered in such Fiscal Year to it by the Authority as aforesaid in three equal installments on the first day of August, November and February of each Fiscal Year (in a Fiscal Year ending May 31) or the equivalent of the first day of the month sixty (60) days, one hundred fifty (150) days and two hundred forty (240) days following the receipt of any Prior Annual Charges Deficiency Notice.

In the event that the amount of the Annual Charges made and charged by the Authority to and payable by the Township for any Fiscal Year computed as provided in this Article shall be less than the estimated amount of such Annual Charges (as aforesaid) stated in the certificate delivered in such Fiscal Year to it by the Authority, the Authority will credit the difference between said amounts to the Township against the amount of the next payment becoming due to the Authority from the Township.

The Authority has agreed to repay to the Township all moneys paid to the Authority under the Agreement, except for Service Charges on property owned by the Township itself, within five years after such payment by the Township, without interest only from Surplus Revenues of the Authority.

#### **Rates of Service Charges**

The Service Charges to be prescribed, fixed and charged by the Authority pursuant to the Agreement shall be computed in accordance with and at the rates shown on the schedule of such charges annexed to the Agreement, which is the Authority's rate schedule as presently in effect. The Authority shall not without the written consent of the Township adopt or make any amendment to said schedule if (a) with respect to any Fiscal Year after the end of the second Fiscal Year after the date of the Agreement, there has been an Annual Charge payable in either of the two Fiscal Years next preceding the adoption of such amendment, (b) with respect to any Fiscal Year, the Authority anticipates that an Annual Charge will be payable or (c) at the time of the adoption of such an amendment there remains any Annual Charges that have not been repaid to the Township by the Authority. However, the Authority may adopt or make any amendment to said schedule if such amendment (a) imposes or affects only a connection charge to be made to the Authority for or with respect to each making or discontinuing of a service connection to the System, or (b) is required by the terms of any final judgment or decree of a court of competent jurisdiction or (c) is required by any of the terms or provisions of, or any of the covenants made for the benefit of holders of Bonds.



### **Miscellaneous Provisions**

In the Agreement the Township agrees not to construct or permit the construction of any water supply, distribution system, sewage disposal plant or sewers or other facilities for distribution of water within, or the collection, treatment or disposal of sewage originating in, the Township unless the Authority shall have given its written consent to such construction. The Agreement provides that Authority shall not construct or acquire any extension of any water main as an extension of the Water System or any extension of any sewer as an extension of the Sewerage System without a certificate of a consulting engineer stating the opinion that the estimated Service Charges to be collected with respect to the System, together with other available funds and revenues, other than Annual Charges, exceed the estimated operating expenses with respect to the System for a period of not less than three years after the time of placing in operation of such extension.

Notwithstanding anything to the contrary, the Authority shall not enlarge, alter or improve the Water System or the Sewer System or renew or replace any part thereof which requires the issuance of debt by the Authority, unless the Township first receives a written notice of the Authority's intent to issue debt and estimated total debt to be issued from the Authority's Executive Director at least thirty (30) days prior to the issuance of debt.

In the Agreement the Authority may assign or pledge for the benefit and security of the holders of Bonds all of its rights under the provisions of the Agreement to receive payments from the Township and thereafter the Agreement may not be terminated, modified or changed by either the Authority or the Township except in the manner (if any) and subject to the conditions (if any) permitted by the terms and provisions of such assignment or pledge. The Agreement may be terminated by either party after such time that Bonds are no longer outstanding, but only upon two years' prior written notice to the other party.

## **AWARDS and ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its CAFR for the fiscal year ended May 31, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the Authority published an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and legal requirements. The Authority has received a Certificate of Achievement from the GFOA for the last six (6) consecutive fiscal years (fiscal years ended 2004-2009).

A Certificate of achievement is valid for one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Authority's Department of Finance. The Authority's Finance Department was honored to receive the "Award of Excellence in Financial Reporting" for the 2009 Comprehensive Annual Financial Report. I would like to express my appreciation to all members of the Department who assisted and contributed to its preparation. I would also like to express my thanks to the to the Board of Commissioners, the Executive Director, our in house Engineer and the entire Authority staff for their interest and support in planning and conducting the financial operations in a responsible and progressive manner. The staff especially appreciates the invaluable guidance and encouragement of the Authority's external auditor, Hodulik & Morrison, P.A.

Respectfully submitted,

*Stephen A. Florek II, Chief Financial Officer*

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Old Bridge Municipal  
Utilities Authority, New Jersey

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
May 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# DIRECTORY

## **Board Members**

Nicholas R. Smolney, Chairman  
Edward Testino, Vice Chairman  
Thomas Galante, Secretary  
Kiran Desai, Treasurer  
Rocco Donatelli/Commissioner  
Reginald Butler, Asst. Secretary/First Alternate Commissioner  
Richard Greene, Asst. Treasurer/Second Alternate Commissioner

## **Management Team**

Guy Donatelli, Executive Director/Superintendent Water Division  
Stephen A. Florek II, Comptroller  
Michael Roy, P.E.  
Al Lunkenheimer, Superintendent Sewer Collection  
Clem Donatelli, General Office Manager  
Michelle Smith, CPA, Internal Audit

## **General Counsel**

Louis E. Granata, Esquire  
Matawan, New Jersey

## **Independent Certified Public Accountants/ Registered Municipal Accountants**

Hodulik & Morrison, P.A.  
Highland Park, New Jersey

## **Bond Counsel**

Gluck Walrath, LLP  
Trenton, New Jersey

## **Financial Advisor**

ACACIA Financial Group, Inc.  
Montclair, New Jersey

## **Consulting Engineers – Sewer Division**

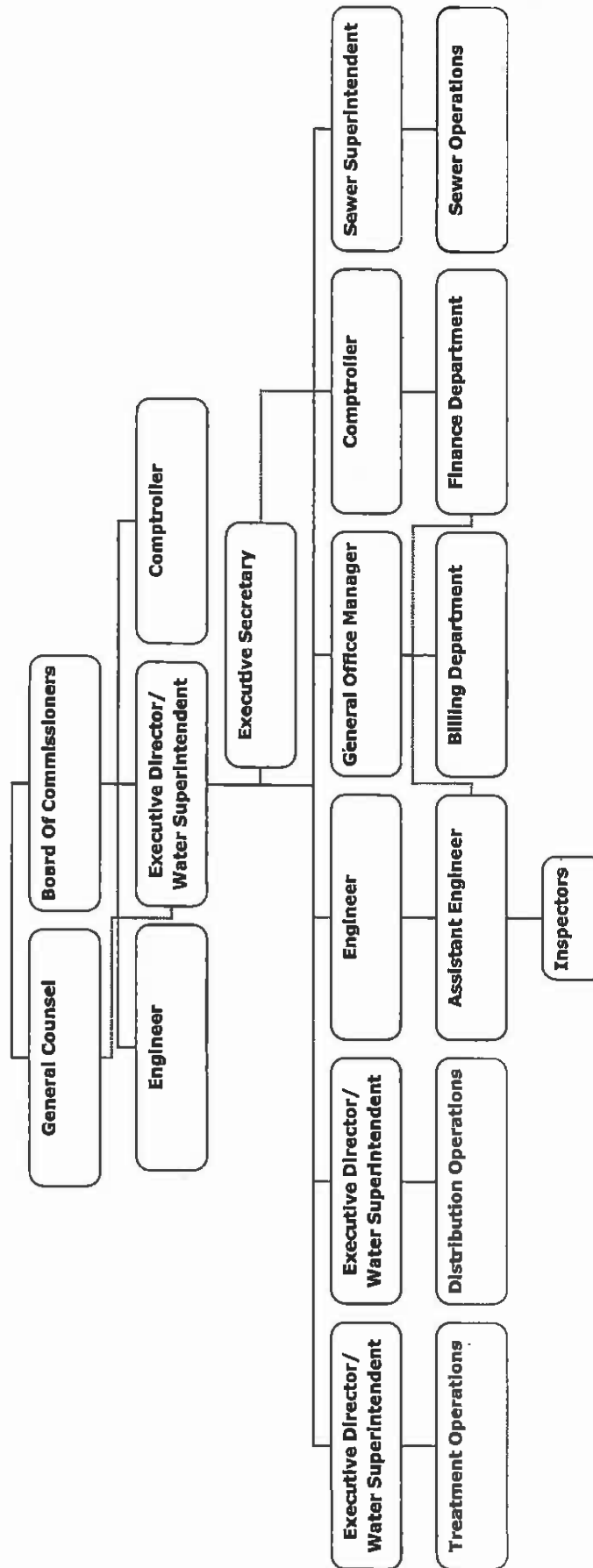
R<sup>3</sup>M Engineering, Inc.  
Old Bridge, New Jersey

## **Consulting Engineers – Water Division**

C.M.E. Associates  
Parlin, New Jersey

# Old Bridge Municipal Utilities Authority

## Authority Overview



FINANCIAL SECTION

**HODULIK & MORRISON, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS  
REGISTERED MUNICIPAL ACCOUNTANTS  
PUBLIC SCHOOL ACCOUNTANTS  
1102 RARITAN AVENUE, P.O. BOX 1450  
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(732) 393-1196 (FAX)

ANDREW G. HODULIK, CPA, RMA, PSA  
ROBERT S. MORRISON, CPA, RMA, PSA

JO ANN BOOS, CPA, PSA

MEMBERS OF:  
AMERICAN INSTITUTE OF CPA'S  
NEW JERSEY SOCIETY OF CPA'S  
REGISTERED MUNICIPAL ACCOUNTANTS OF N.J.

**INDEPENDENT AUDITOR'S REPORT**

Honorable Chairman and Members of the  
Old Bridge Municipal Utilities Authority  
Middlesex County, New Jersey

We have audited the accompanying balance sheets of the Old Bridge Municipal Utilities Authority ("Authority"), Middlesex County, New Jersey for the years ended May 31, 2010 and May 31, 2009, and the related statements of revenues, expenses and change in net assets and cash flows for the periods then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as of May 31, 2010 and May 31, 2009 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

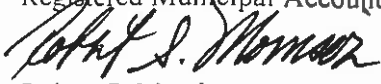
In accordance with Government Auditing Standards, we have also issued our reports dated September 27, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 32 through 40 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The statistical section has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements of the Old Bridge Municipal Utilities Authority, Middlesex County, New Jersey, taken as a whole. The other supplementary information and supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Hodulik & Morrison, P.A.*

HODULIK & MORRISON, P.A.  
Certified Public Accountants  
Registered Municipal Accountants



Robert S. Morrison  
Registered Municipal Account  
No. 412

Highland Park, New Jersey  
September 27, 2010



**HODULIK & MORRISON, P.A.**  
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REGISTERED MUNICIPAL ACCOUNTANTS  
PUBLIC SCHOOL ACCOUNTANTS  
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REGISTERED MUNICIPAL ACCOUNTANTS OF N.J.

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

Honorable Chairman and Members of the  
Old Bridge Municipal Utilities Authority  
Middlesex County, New Jersey

We have audited the financial statements of the Old Bridge Municipal Utilities Authority, Middlesex County, as of and for the year ended May 31, 2010 and have issued our report thereon dated September 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

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

This report is intended solely for the information and use of the members and, management of the Old Bridge Municipal Utilities Authority, the Amboy National Bank, as Trustee, and the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.



HODULIK & MORRISON, P.A.  
Certified Public Accountants  
Registered Municipal Accountants

Highland Park, New Jersey  
September 27, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Old Bridge Municipal Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on May 31, 2010. Please read it in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- ☐ Net Increase of Cash and Cash Equivalents by \$16.3 million or 158.8% offset by a reduction in investments of \$14.2 million or 55.8%.
- ☐ The Authority's Total Assets increased by \$6.0 million or 4.0%.
- ☐ Capital contributions of the Authority increased by \$5.2 million or 12.5% in the current year for a total aggregate of \$47.0 million.
- ☐ Overall increase in customer base over the last nine years by 13.1% or 3,113 EDCU's in conjunction with a decrease of 26 employee's or 29.5%, helps to maintain and preserve our current rates.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority is a single enterprise fund even though it provides various utility services. The Comprehensive Annual Financial Report is presented in five sections: Introductory, Financial, Statistical, Single Audit and General Comments and Recommendations. The Introductory section includes a letter of transmittal, the Authority's Organizational Chart, and a System Overview. The Financial section includes Management's Discussion and Analysis, Financial Statements with accompanying notes, Supplementary Information, and the Independent Auditor's Report. The Statistical section includes selected financial, operational, and demographic information, generally presented on a multi-year basis. The Single Audit section includes additional financial information and Independent Auditor reporting required by New Jersey OMB Circular 04-04. The Single Audit wasn't required this year due to the amount of expenditures being less than \$500,000.00. The General Comments and Recommendations section presents required additional auditor reporting on New Jersey statutory compliance. The Authority adopted Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal period ending May 31, 2003, and Other Post Employment Benefits (GASB) Statement 45 starting in fiscal year ended May 31, 2009.

## REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The ***Statement of Net Assets*** includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the ***Statement of Revenues, Expenses, and Changes in Net Assets***. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges. This statement also measures the Authority's profitability and credit worthiness.

The other required financial statement is the ***Statement of Cash Flows***. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?"

## FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority, and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

## Net Assets

The Authority's total net assets increased from last year by \$5.07 million or 5.6%. The analysis which follows focuses on the Authority's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1  
Net Assets  
(Dollars in Thousands)

	<u>May 31,</u> <u>2010</u>	<u>May 31,</u> <u>2009</u>	<u>May 31,</u> <u>2008</u>	<u>2010-2009</u> <u>Increase/(Decrease)</u>		<u>2009-2008</u> <u>Increase/(Decrease)</u>	
				<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Current and Other Assets	\$49,504	\$46,926	\$43,831	\$2,578	5.5%	\$3,095	7.1%
Capital Assets	105,792	102,381	90,786	3,411	3.3%	11,595	12.8%
Total Assets	<u>\$155,296</u>	<u>\$149,307</u>	<u>\$134,617</u>	<u>\$5,989</u>	4.0%	<u>\$14,690</u>	10.9%
Long-Term Liabilities	\$48,628	\$50,799	\$44,090	-\$2,171	-4.3%	\$6,709	15.2%
Other Liabilities	12,298	9,212	9,806	3,086	33.5%	-594	-6.1%
Total Liabilities	<u>\$60,926</u>	<u>\$60,011</u>	<u>\$53,896</u>	<u>\$915</u>	1.5%	<u>\$6,115</u>	11.3%
Invested in Capital Assets, Net of Debt	\$59,001	\$53,579	\$47,614	\$5,422	10.1%	\$5,965	12.5%
Restricted	12,053	11,925	15,172	128	1.1%	-3,247	-21.4%
Unrestricted	23,316	23,792	17,935	-476	-2.0%	5,857	32.7%
Total Net Assets	<u>\$94,370</u>	<u>\$89,296</u>	<u>\$80,721</u>	<u>\$5,074</u>	5.6%	<u>\$8,575</u>	10.6%

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

**Table 2**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
(Dollars in Thousands)

	FY 2010	FY 2009	FY 2008	2010-2009 Increase(Decrease)		2009-2008 Increase (Decrease)	
				\$	%	\$	%
<u>Operating Revenues</u>							
Water Charges	\$11,838	\$12,468	\$12,168	-630	-5.1%	300	2.5%
Sewer Charges	11,639	11,454	11,025	185	1.6%	429	3.9%
Connection Fees	243	487	455	-244	-50.1%	32	7.1%
Other	384	505	655	-121	-24.0%	-150	-22.9%
<u>Non Operating Revenues</u>							
Interest Income	342	862	1,600	-520	-60.3%	-738	-46.2%
Miscellaneous	14	16	-	2	-12.5%	16	100.0%
Total Revenues	24,460	25,792	25,903	-1,332	-5.2%	-111	-4%
<u>Operating Expenses</u>							
Personnel Costs	8,498	8,737	7,580	-239	-2.7%	1,157	15.3%
Administrative & Office	1,904	1,475	1,538	429	29.1%	-63	-4.1%
Engineering	26	27	30	-1	-3.7%	-3	-10.0%
Operations & Maintenance	3,111	2,535	2,726	576	22.7%	-191	-7.0%
Contractual Services & Charges	5,387	5,483	5,906	-96	-1.8%	-423	-7.2%
Depreciation	2,344	2,103	1,836	241	11.5%	267	14.6%
Interest and Amortization	2,026	2,329	1,950	-303	-13.0%	379	19.5%
Total Expenses	23,296	22,689	21,566	607	2.7%	1,123	5.2%
Income (Loss) Before Contributions & Transfers And Extraordinary Items	1,164	3,103	4,337	-1,939	-62.5%	-1,234	-28.5%
Extraordinary Income (Expenses)	-1,312	-	-	-1,312	-100.0%	-	-
Capital Contributions	5,222	5,472	1,148	-250	-4.6%	4,324	376.7%
Change in Net Assets	5,074	8,575	5,485	-3,501	-40.8%	3,090	56.4%
Beginning Net Assets	89,296	80,721	75,236	8,575	10.6%	5,485	7.3%
Special item of Revenue: Reclassification of Prior Period Expenses	-	-	-	-	-	-	-
Ending Net Assets	\$94,370	\$89,296	\$80,721	5,074	5.7%	\$8,575	10.7%

While the Balance Sheets show the change in financial position of net assets, the Statements of Revenues, Expenses and Changes in Net Assets, provide answers as to the nature and source of these changes. As can be seen in Table 2 above, the "Income Before Contribution" of \$1.16 million, "Capital Contributions" of \$5.22 million, and "Extraordinary Expenses" of -\$1.31 million was the three sources of change in net assets of \$5.07 million in Fiscal 2010. A closer examination of the individual categories affecting the source of changes in net assets is discussed below.

## **Revenues:**

Table 2 shows that **"Total Revenues"** decreased by \$1.3 million or 5.2% to \$24.5 million in Fiscal 2010 down from \$25.8 million in Fiscal 2009. Upon closer review, you will notice **"Operating Revenues"** were down \$.6 million or 5.1 percent versus last year in the water division, and up \$.2 million or 1.2% in the sewer division. There was also a decrease in interest income of \$.5 million as interest rates are still very depressed. Operating revenues decreased in the water division due to the very wet summer in 2009.

## **Expenses:**

A further review of Table 2 reveals that **"Total Expenses"** increased by \$.6 million or 2.7% in Fiscal 2010 vs. expense increases of \$1.1 million of 5.2% in 2009 vs. 2008. The increase in expenses was do largely to the increased litigation costs with a developer \$.23 million, and additional engineering costs of \$.17 million.

## **Operating Expenses:**

In Reviewing **"Total Expenses"** in detail you notice that these expenses were \$23.3 million in Fiscal 2010, or an increase of only \$.61 million compared to Fiscal Year 2009. Contractual services of the authority decreased by \$.09 million due to decreased water purchased from Middlesex Water Co., and decreased flow processing costs for sewerage sent to the Middlesex County Utilities Authority. Operations and maintenance increased by \$.58 million due primarily to additional repairs on a sewer division truck line and an additional well redevelopment in the water division. Personnel costs also decreased by \$.24 million in the current fiscal year due primarily to attrition of Authority personnel.

## **Income:**

In reviewing **"Income (Loss) before contributions and transfers"** you will notice that income decreased to \$1.1 million for Fiscal 2010 VS. \$3.1 million for Fiscal 2009. This represents a decrease in income of \$1.9 million or 62.5% from Fiscal 2009. A major category for this was the reduction of water sales by \$.63 million, connection fees by \$.24 million and increased cost of \$.61 million.

## **Extraordinary Expenses:**

These expenses increase by \$1.3 million vs. fiscal year 2009. This is due entirely to the Township of Old Bridge requesting 5.0% of our operating budget as allowed by N.J.S.A. 40:A:5A-12.1. This has been requested due to the lack of revenues being collected by the Township of Old Bridge.

## **Capital Contributions:**

Capital Contributions decreased \$.25 million to \$5.22 million in Fiscal 2010 from a \$5.47 million increase in Fiscal Year 2009. This represents a decrease of 4.6%, and is a direct result of developments not being built due to the continued deterioration of the economy.

## STATUTORY OPERATING RESULTS

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal. Page 1 of Supplementary Schedule 1 shows that on a budgetary basis, the Authority as a whole realized a favorable variance of \$2.95 million on budgeted expenses of \$21.88 million for the fiscal period ended May 31, 2010. This was coupled with the fact that budgeted revenues were not realized, which led to budgetary basis net income of \$4.0 million. As shown by the reconciliation of the budgetary basis to GAAP on page 2 of the schedule, adjustments to the budgetary basis are required to:

- Eliminate Appropriated retained Earnings from Revenues
- Eliminate Maturing Bond Principal from Expenses
- Eliminate Fixed Capital Acquired through Budgeted Capital Outlay from Expenses
- Add Unrecorded Depreciation and Amortization Expenses
- Add Capital Contributions

Management meets at least monthly to review water consumption data and other significant revenue sources. In the event that current projected revenues lag behind budget amounts, adjustments to discretionary spending and/or rate impact analyses are performed. However, in order to present a true budgetary comparison, the statutory budget is amended only in instances wherein planned spending will exceed legal appropriation amounts.

The Authority was not required to increase its rates during the twelve-month period ending May 31, 2010 to balance its budget. Rate increases were adopted to recoup additional costs from rate increases charged by its outside water supplier (Middlesex Water) and sewer treatment authority (Middlesex County Utilities Authority).

Readers should be cautioned that the Statutory Operating Results presented in supplementary schedule 1 are not intended to present and do not present financial results in accordance with GAAP.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At May 31, 2010, the Authority had \$141,133,121 invested in a broad range of utility capital assets, including its water treatment plant, water storage facilities, water mains, sewer collection system; pump stations, and related lands, facilities, and equipment. This amount represents an increase (net of increases and decreases) of \$5,637,570 or 4.16% over the amounts reported at May 31, 2009.

The following tables summarize the Authority's capital assets and changes therein, for the year ended May 31, 2010. These changes are presented in detail in Note 3 to the financial statements.

Table 3  
Gross Capital Assets  
(Dollars in Thousands)

	May 31, 2010	May 31, 2009	May 31, 2008	2010-2009 Increase (Decrease)	2009-2008 Increase (Decrease)
<b>Gross Utility Plant</b>					
Water	\$63,610	\$56,674	\$45,612	\$6,936	\$11,062
Wastewater	69,377	66,442	63,051	2,935	3,391
Construction In Progress	<u>8,146</u>	<u>12,380</u>	<u>13,253</u>	<u>-4,234</u>	<u>-873</u>
<b>Total Utility Plant</b>	<u>\$141,133</u>	<u>\$135,496</u>	<u>\$121,916</u>	<u>\$5,637</u>	<u>\$13,580</u>

Table 4  
Gross Capital Assets  
(Dollars in Thousands)

	May 31, 2010	May 31, 2009	May 31, 2008	2010-2009 Increase (Decrease)		2009-2008 Increase (Decrease)	
				\$	%	\$	%
<b>Gross Utility Plant</b>							
Land	\$1,126	\$1,126	\$1,126	\$-	0.0%	\$-	0.0%
Transmission, Distribution & Collection Systems	116,467	106,910	94,903	9,557	8.9%	12,007	12.7%
Equipment	3,905	3,758	3,656	147	3.9%	102	2.8%
Structures & Improvements	11,489	11,322	8,978	167	1.5%	2,344	26.1%
Construction In Progress	<u>8,146</u>	<u>12,380</u>	<u>13,253</u>	<u>-4,234</u>	<u>-34.2%</u>	<u>-873</u>	<u>-6.6%</u>
<b>Total Utility Plant</b>	<u>\$141,133</u>	<u>\$135,496</u>	<u>\$121,916</u>	<u>\$5,637</u>	<u>4.2%</u>	<u>\$13,580</u>	<u>11.1%</u>

Capital additions funded through the operating budget during the fiscal period ending May 31, 2010 included:

**Water System**

Building Equipment	43,119
Machinery & Equipment	7,490
Office Furniture	1,086

**Sewer System**

Collection System	62,867
Pump Stations	14,152
Building Equipment	13,617
Office Furniture	6,014

The Authority's FY 2010/11 capital budget plans for investing another \$5.14 million in capital expenditures and projects, which includes the following:

**Water Division:**

Cheesequake Booster Pump	\$ 2,500,000
Valve Automation & SCADA Upgrade	500,000
LH Plant Demolition	500,000
Vehicles	120,000
Plant Valves & Actuators Replacement	150,000
Meter Upgrading	242,005
Well Redevelopment	50,000
Lap Top Computer	4,000
Engineering Equipment	<u>19,000</u>
Sub-total Water Division	\$4,085,005

**Sewer Division:**

Various Sewer Relining	\$ 150,000
Arbors PS VFD Upgrade	150,000
Trunk Sewer Easement Maintenance	150,000
Easement Rehab – Ram's Field	100,000
Pump Station Man Lifts	100,000
Vehicles	92,000
Pump Station Upgrades & Communications	83,000
Easement Rehabilitation Rams Field	50,000
Arbors VFD Communitior Upgrade	50,000
Blacktop LH Plant	50,000
I & I Study LH Drainage	50,000
Maintenance Garage, & Collection System	<u>34,500</u>
Sub-total Sewer Division	<u>\$1,059,500</u>
Total Authority	<u>\$5,144,505</u>

The Authority plans on using existing cash and new Bond proceeds as well as the New Jersey Infrastructure Trust Loans to fund the capital budget for the upcoming years, assuming that budgetary projections are realized and no disasters or emergencies occur.

At May 31, 2010, the Authority had outstanding insured revenue bonds in the amount of \$46,790,968. Debt Service Schedules go out through fiscal year 2030. Interest rates range from 0.0% on Bonds issued as part of the state sponsored Wastewater Treatment Trust Fund and Environmental Infrastructure Trust Fund to 5.70% on regular bonds. All outstanding bonds are insured and rated AAA. Principal payments are due November 1 of each year. The principal for the bonds due November 1, 2010, is \$3,716,643. Management and the Authority's Financial Advisor constantly monitor market conditions to determine if interest rate declines present opportunities for savings through the refunding of outstanding debt. Such refunding requires the approval of the Local Finance Board and generally yields a net present value savings of at least 3% of debt service cash flows. Full details of the specific Bond Issues outstanding may be found in Note 5 and the supplementary schedules.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Authority's FY 2010 -11 Budget will cover the fiscal year ending May 31, 2011. Based upon historical consumption data and the existing rate structure, projected revenues and retained earnings were sufficient to support budgeted expenses (budgetary basis) of \$31.9 million. No rate increases were adopted as part of the FY 2010 -11 Budget.

### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Authority's rate payers, creditors and bond holders with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stephen A. Florek II, the Authorities Chief Financial Officer at Old Bridge Municipal Utilities Authority, P.O. Box 1006, Laurence Harbor, NJ 08879-4006, or e-mail [sflorek@obmua.com](mailto:sflorek@obmua.com)

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

Exhibit - A  
Page 1 of 2

COMPARATIVE STATEMENT OF NET ASSETS  
MAY 31, 2010 AND MAY 31, 2009

<u>ASSETS</u>	<u>BALANCE</u>	<u>BALANCE</u>	<u>LIABILITIES AND NET ASSETS</u>		<u>BALANCE</u>	<u>BALANCE</u>
	<u>MAY</u> <u>31, 2010</u>	<u>MAY</u> <u>31, 2009</u>			<u>MAY</u> <u>31, 2010</u>	<u>MAY</u> <u>31, 2009</u>
<b>Current Assets:</b>			<b>Current Liabilities Payable from Unrestricted Assets:</b>			
Cash and Cash Equivalents	\$ 16,443,902	\$ 7,258,597	Accounts Payable	\$ 1,167,583	\$ 773,614	
Investments	106,173	9,448,395	Unearned Revenues	589,000	595,691	
Petty Cash and Change Accounts	160	160	Customer Overpayments	61,925	62,260	
Customer Accounts Receivable, Net of Allowance	4,173,242	4,030,845	Accrued Expenses	900,116	217,076	
for Uncollectible Accounts of \$1,060,333			Payroll Taxes Payable	5,600	48,723	
in 2010 and \$766,980 in 2009			Compensated Absences	213,563	250,058	
Miscellaneous Receivables	340,616	601,437				
Accrued Interest Receivable	2,988	20,616	Subtotal Current Liabilities Payable from			
Inventory	335,796	369,508	Unrestricted Assets:	2,937,787	1,947,422	
<b>Prepaid Expenses</b>	<b>238,426</b>	<b>618,319</b>				
<b>Restricted Assets:</b>			<b>Current Liabilities Payable from Restricted Assets:</b>			
Customer Deposits:			Reserve for Water Deposits	29,781	26,781	
Cash and Cash Equivalents	29,781	26,781	Reserve for Escrow and Inspection Deposits	4,669,971	3,076,766	
Debt Service Account:			Accrued Interest Payable on Revenue Bonds	943,775	924,494	
Cash and Cash Equivalents	4,031,810	729	Revenue Bonds Payable	3,716,643	3,236,272	
Investments	1,265,000	4,818,438				
Escrow Deposits:						
Cash and Cash Equivalents	4,496,765	2,917,167	Subtotal Current Liabilities Payable from			
Miscellaneous Receivable	173,206	159,599	Restricted Assets:	9,360,170	7,264,313	
<b>Total Current Assets</b>	<b>31,637,865</b>	<b>30,270,591</b>	<b>Total Current Liabilities</b>	<b>12,297,957</b>	<b>9,211,735</b>	
<b>Noncurrent Assets:</b>			<b>Noncurrent Liabilities:</b>			
Restricted Assets:			Long-Term Revenue Bonds Payable	43,074,325	45,565,935	
Operating Account:			Bond Premium Payable	138,109	112,891	
Cash and Cash Equivalents	1,499,570	669	Less: Unamortized Bond Discount	237,104	260,631	
Investments	4,140,000	5,469,181	Deferred Amount on Refunding	499,126	538,455	
Bond Service Reserve Account:						
Cash and Cash Equivalents	4,779	4,839		42,476,204	44,859,740	
Investments	4,427,771	4,455,763				
Construction Account:			Provision for Capital Appreciation Bonds	3,865,251	4,230,791	
Cash and Cash Equivalents	26,521	40,958	Other Post-Employment Benefits	1,723,507	895,200	
Investments	1,318,500	1,295,000	Compensated Absences	563,081	813,503	
State Loans Receivable	4,831,138	3,722,518				
Accrued Interest Receivable	811	987	Total Noncurrent Liabilities	48,628,043	50,799,234	
<b>Total Restricted Assets</b>	<b>16,249,090</b>	<b>14,989,915</b>	<b>Total Liabilities</b>	<b>60,926,000</b>	<b>60,010,969</b>	

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

Exhibit - A  
Page 2 of 2

COMPARATIVE STATEMENT OF NET ASSETS  
MAY 31, 2010 AND MAY 31, 2009

ASSETS	BALANCE MAY 31, 2010	BALANCE MAY 31, 2009	LIABILITIES AND NET ASSETS	BALANCE MAY 31, 2010	BALANCE MAY 31, 2009
Noncurrent Assets:					
Property, Plant and Equipment	\$ 141,133,121	\$ 135,495,551	Net Assets:		
Less: Accumulated Depreciation	<u>35,340,712</u>	<u>33,114,463</u>	Investment in Capital Assets, net of related debt	\$ 59,001,441	\$ 53,578,881
Net Property, Plant and Equipment	<u>105,792,409</u>	<u>102,381,088</u>	Restricted		
			Operating	5,639,570	5,469,850
Other Assets:			Capital Projects	1,345,021	1,335,958
Unamortized Debt Issue Costs	1,317,124	1,365,354	Debt Service	5,068,942	5,119,003
Diversionary Rights	<u>300,000</u>	<u>300,000</u>	Unrestricted	<u>23,315,514</u>	<u>23,792,287</u>
Total Other Assets	<u>1,617,124</u>	<u>1,665,354</u>	Total Net Assets	<u>94,370,488</u>	<u>89,295,979</u>
Total Noncurrent Assets	<u>123,658,623</u>	<u>119,036,357</u>			
Total Assets	<u>\$ 155,296,488</u>	<u>\$ 149,306,948</u>	Total Liabilities and Net Assets	<u>\$ 155,296,488</u>	<u>\$ 149,306,948</u>

Note: See Notes to Financial Statements

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED MAY 31, 2010 AND MAY 31, 2009

	YEAR ENDED ENDED MAY 31, <u>2010</u>	YEAR ENDED ENDED MAY 31, <u>2009</u>
Operating Revenues:		
Water Charges	\$ 11,838,288	\$ 12,468,440
Sewer Charges	11,639,281	11,453,889
Connection Fees	242,731	487,470
Other	<u>383,771</u>	<u>503,754</u>
Total Operating Revenues	<u>24,104,071</u>	<u>24,913,553</u>
Operating Expenses:		
Personnel Costs	8,497,720	8,736,264
Administrative Expenses	1,754,815	1,321,201
Office Expenses	148,895	153,035
Engineering Expenses	25,872	27,140
Operations and Maintenance	3,110,423	2,535,239
Contractual Services and Charges	5,386,862	5,483,229
Depreciation	<u>2,344,142</u>	<u>2,103,160</u>
Total Operating Expenses	<u>21,268,729</u>	<u>20,359,268</u>
Operating Income	<u>2,835,342</u>	<u>4,554,285</u>
Non-Operating Revenues (Expenses):		
Interest Income	341,813	861,918
Interest Expense	(1,904,507)	(2,211,395)
Transfer to Township	(1,312,157)	
Amortization of Debt Issue Costs	(121,734)	(117,496)
Miscellaneous	<u>13,663</u>	<u>16,038</u>
Total Non-Operating Revenues (Expenses)	<u>(2,982,922)</u>	<u>(1,450,935)</u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED MAY 31, 2010 AND MAY 31, 2009

	YEAR ENDED ENDED MAY 31, <u>2010</u>	YEAR ENDED ENDED MAY 31, <u>2009</u>
Net Income Before Contributions and Transfers	\$ (147,580)	\$ 3,103,350
Capital Contributions	<u>5,222,089</u>	<u>5,471,654</u>
Net Income	5,074,509	8,575,004
Net Assets, Beginning	<u>89,295,979</u>	<u>80,720,975</u>
Net Assets, Ending	\$ <u><u>94,370,488</u></u>	\$ <u><u>89,295,979</u></u>

Note: See Notes to Financial Statements

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
FOR THE YEARS ENDED MAY 31, 2010 AND MAY 31, 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 25,699,809	\$ 25,330,591
Cash Payments for Goods & Supplies	(11,927,940)	(13,274,466)
Cash Payments for Employee Expenses	(6,196,391)	(5,930,733)
Cash Received from Developer		12,144
Net Cash Provided by Operating Activities	<u>7,575,478</u>	<u>6,137,536</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Bond Maturities	(3,268,558)	(3,736,181)
Interest Paid on Bond Maturities	(2,103,846)	(1,707,489)
Bond Issuance Disbursements	(78,327)	(327,486)
Bond Proceeds		5,557,805
Proceeds from State Loans Receivable	109,668	1,755,164
Acquisition and Construction of Capital Assets	<u>(533,374)</u>	<u>(8,293,421)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,874,437)</u>	<u>(6,751,608)</u>
Cash Flows from Investing Activities:		
Purchase/Redemption of Investments (net)	14,221,839	(2,004,824)
Interest on Investments and Deposits	<u>360,508</u>	<u>872,669</u>
Net Cash Provided (Used) in Investing Activities	<u>14,582,347</u>	<u>(1,132,155)</u>
Net Increase in Cash and Cash Equivalents	16,283,388	(1,746,227)
Cash and Cash Equivalents at Beginning of Year	<u>10,249,900</u>	<u>11,996,127</u>
Cash and Cash Equivalents at End of Year	<u>\$ 26,533,288</u>	<u>\$ 10,249,900</u>



OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
FOR THE YEARS ENDED MAY 31, 2010 AND MAY 31, 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 2,835,342	\$ 4,554,285
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation - Net	2,344,142	2,103,160
Bad Debt Expense	293,353	236,409
Changes in Assets and Liabilities:		
Decrease (Increase) in Customer Receivables	(435,751)	(724,627)
Decrease (Increase) in Miscellaneous Receivables	260,822	(416,898)
Decrease (Increase) in Escrow Receivables	(13,607)	2,284
Inventory	33,711	74,652
Prepaid Expenses	379,893	29,912
Accounts Payable/Other Liabilities	3,189,730	278,359
Transfer to Township of Old Bridge	<u>(1,312,157)</u>	<u></u>
Total Adjustments	<u>4,740,136</u>	<u>1,583,251</u>
Net Cash Provided by Operating Activities	\$ <u>7,575,478</u>	\$ <u>6,137,536</u>

Noncash investing, capital, and financing activities:

The Old Bridge Municipal Utilities Authority accepted water and sewer infrastructure constructed by private developers. The fair value of this donated property was \$5,222,089.

The market value of the investments not reported as cash equivalents is \$39,589 less than the carrying amount.

Note: See Notes to Financial Statements

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
MIDDLESEX COUNTY, NEW JERSEY

COMPARATIVE NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Old Bridge Municipal Utilities Authority ("Authority") was created by an ordinance of the Township of Old Bridge, which was adopted on November 4, 1985. This ordinance provided for the consolidation of sewage and water services provided to the residents of the Township of Old Bridge. Prior to the creation of the consolidated Authority, sewage services were provided to residents by the Old Bridge Township Sewerage Authority, which was created by an ordinance of the Township adopted on May 17, 1954, and water services were provided by the former Old Bridge Municipal Utilities Authority, which was created by ordinance adopted on August 22, 1960. The Authority provides water service from ground water sources, to the extent permitted by law, and through contractual bulk purchases of surface water from a third party supplier. Wastewater is transmitted through its collector system to the Middlesex County Utilities Authority (MCUA) for treatment. The MCUA bills participants for its operations and maintenance costs and debt service costs based on a combination of flow and pollutant loading.

New Jersey Statutes provide for the creation, dissolution and operations of separate bodies corporate and politic for the purpose of fostering the provision and distribution of an adequate supply of water and the collection, treatment, disposal and recycling of waste water and sewage sludge. These statutes were enacted as the "Municipal and Counties Utilities Authorities Act", and are codified in New Jersey Statutes Annotated as NJSA 40:14B-1 et seq. Additional statutory requirements relating to the financial operations of independent local authorities were established as the "Local Authorities Fiscal Control Law", which is codified as NJSA 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs, State of New Jersey, as oversight agencies for the creation, project financing, budgeting and overall financial condition of local authorities.

The governing body of the Authority consists of five regular members and two alternates, who are appointed by the Municipal Council of the Township of Old Bridge and serve staggered five year terms. Alternate members may participate in discussions of proceedings but may not vote except in the absence or disqualification of a regular member. The Authority bills and collects its revenue from the users of the systems. The Authority has entered into a service agreement with the Township of Old Bridge which requires the Authority to receive written consent from the Township for any projects which will require the issuance of debt by the Authority, and obligates the Township to pay to the Authority such sum or sums of money as may be necessary to provide for deficits (if any) resulting from the failure or disability of the Authority to derive adequate revenues from the operation of the system.

The financial statements of the Authority have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB pronouncements constitute GAAP for governmental units. In accordance with Governmental Accounting Standards Board, the Authority has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for enterprise funds.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

A. Reporting Entity

The Authority is considered to be a "Component Unit" of the Township of Old Bridge under GAAP however, the Township of Old Bridge does not follow GAAP for accounting and financial reporting purposes rather it follows a regulatory basis of accounting, utilizing accounting principles which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Township's financial statements of potential component units, based on the separate legal status of these units. Accordingly, the financial statements of the Township do not include the Authority as a component unit.

B. Basis of Presentation

The financial statements of the Authority have been prepared in accordance with GAAP applicable to enterprise funds of state and local governments. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability or other purposes.

C. GASB Statement No. 34

The Authority adopted the provisions of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments during the eight months ended May 31, 2003. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management’s Discussion and Analysis section, a Balance Sheet, a Statement of Revenues, Expenses and Change in Net Assets and a Statement of Cash Flows. It requires the classification of Net Assets into three components – Invested in Capital Assets, net of related debt; Restricted for Debt Service; and Unrestricted.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets, presentation of the Statement of Cash Flows using the direct method, and the inclusion of Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.

D. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

#### E. Basis of Accounting

The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and measurable, and expenses are recognized when incurred, if measurable.

#### F. Cash and Cash Equivalents

Cash and cash equivalents include interest bearing accounts and short term investments with a maturity of three months or less carried at cost, which approximates market.

#### G. Investments

Investments consist of direct obligations of the United States or obligations guaranteed by the United States, certificates of deposit and repurchase agreements collateralized by guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association ("GNMAs"), carried at cost, which approximates market. Premiums paid and discounts received on the purchase of investment securities are amortized over the stated term of the securities using the straight-line method.

#### H. Inventory

Inventories of replacement parts, chemicals and supplies are maintained on a consumption basis of accounting. Expenses are recognized as the items are consumed. Inventories are stated at cost as determined utilizing the first-in, first-out valuation method. No determinations have been and no allowances have been recorded with respect to obsolete or surplus inventories.

#### I. Capital Assets

Capital Assets are stated at cost, which includes direct construction and acquisition costs and other costs related to construction. Capital Assets are defined by the Authority as assets with an individual cost in excess of \$1,000. System construction costs are aggregated by individual project and considered Construction in Progress until such time as the project is deemed complete and placed in service.

Depreciation is recorded on a straight-line basis for all plant and equipment. At May 31, 2010 Capital Assets and the useful lives for determination of annual depreciation, were as follows:

Structures and Improvements	30-70 years
Machinery and Equipment	5-15 years
Transmission, distribution, and other collection plants.	40-100 years

#### J. Customer Accounts Receivable

Customer accounts receivable, net of allowance for uncollectible accounts of \$1,060,333 and unbilled receivables of \$1,102,811 at May 31, 2010 totaled \$4,173,242 and consisted of billings for water usage and ancillary water system charges in the amount of \$2,535,599 and sewer user charges and related service and remediation charges in the amount of \$1,637,643.

Customer accounts receivable, net of allowance for uncollectible accounts of \$766,980 and unbilled receivables of \$1,049,889 at May 31, 2009 totaled \$4,030,845 and consisted of billings for water usage and ancillary water system charges in the amount of \$2,471,081 and sewer user charges and related service and remediation charges in the amount of \$1,559,764.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### J. Customer Accounts Receivable (Cont'd.)

Unbilled service receivable represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period).

An aging of the reported customer accounts receivable, by fiscal year billed, is as follows:

<u>PERIOD ENDED</u>	<u>MAY 2010 AMOUNT</u>	<u>MAY 2009 AMOUNT</u>
2010	\$2,907,659	
2009	823,356	\$2,728,187
2008	186,918	683,308
2007	19,328	136,435
2006	5,261	7,532
2005	24,722	28,954
2004	17,573	17,573
2003	67,508	67,508
2002	718	718
2001	882	882
2000	8,143	8,143
1999	5,639	5,639
1998	238	238
1997	1,583	1,583
1996	389	389
1995	279	279
1994	292	292
1993	147	147
1992	23,187	23,187
1991	8,362	8,362
1990	8,475	8,475
1989	(1,202)	(1,202)
1988	4,595	4,595
1987	6,120	6,120
1986	2,611	2,611
1984	2,189	2,189
1983	5,792	5,792
Add: Unbilled Receivable	1,102,811	1,049,889
Less: Allow. For Uncoll. Accts	<u>1,060,333</u>	<u>766,980</u>
	<u>\$4,173,242</u>	<u>\$4,030,845</u>

### K. Miscellaneous Accounts Receivable

Miscellaneous accounts receivable at May 31, 2010 totaled \$340,616 and consisted of water system charges of \$217,290 and sewer system charges of \$123,326 and at May 31, 2009 totaled \$601,437 and consisted of water system charges of \$369,469 and sewer system charges of \$231,968. Miscellaneous accounts receivable consist primarily of charges for water and sewer services, and are segregated solely to reflect special circumstances relating to billing cycles, bulk purchases or contractual terms.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

L. Bond Discounts/Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using a straight-line method. Bond discounts are presented as a reduction of the face amount of the bonds payable, whereas issuance costs are recorded as other assets.

M. Restricted Accounts

Pursuant to the provisions of the "Indenture of Trust Between Old Bridge Municipal Utilities Authority and Amboy-Madison National Bank, as Trustee", dated August 11, 1986, as amended and supplemented, the Authority has established the following cash and investment accounts for the deposit, in the order and priority as listed, of all revenues received:

Revenue Account - All revenues of the Authority, except for certain investment earnings on debt proceeds. Funds deposited to the Revenue Account shall be transferred to the following accounts:

Operating Account - The amount necessary to result in a balance equal to operating expenses for a three-month period projected by the annual budget. The use of this account is restricted to the payment of operating expenses.

Debt Service Account - The amount necessary to result in a balance equal to the Debt Service Requirement. Prior to May 1, the Debt Service Requirement is equal to the interest due (and past due and unpaid) on the next succeeding Interest Payment Date on all Bonds outstanding, plus one-third of the principal due (and past due and unpaid) on the next succeeding Principal Installment Date on all Bonds outstanding as of such date. On or after May 1, the Debt Service Requirement for principal due increases to the full amount of the principal due (and past due and unpaid) on the next succeeding Principal Installment Date.

Funds on deposit in this account are restricted to the payment of the principal of and interest on outstanding bonds. Excesses in this account may be transferred, at the discretion of the Authority, to the General Account.

Any amount required to be held in the Debt Service Account at year end that is attributable to interest that will accrue in the subsequent fiscal year is reported as net assets restricted for payment of future debt service.

Debt Service Reserve Account - The amount necessary to result in a balance equal to the maximum amount of Debt Service (cash basis) for the then current or any future Bond Year (12 month period ending October 31st) on the Bonds then outstanding. Funds in this account may only be transferred to the Debt Service Account. Pursuant to the terms of the Ninth Supplemental Indenture, dated August 1, 2002, Article V of the Prior Indenture was amended to permit the Debt Service Reserve Fund Requirement to be satisfied in full or in part by a Qualified Surety Bond ("QSB"). Any amounts released from the Debt Service Reserve Account through the substitution of a QSB may be used for any corporate purpose of the Authority, subject to receipt of an opinion from a nationally recognized Bond Counsel that such a release would not adversely affect the exclusion from gross income of the Holders of Bonds for federal income tax purposes.

The existing Authority funds to be transferred from the Debt Service Fund and the Debt Service Reserve Fund amounted to \$223,941 which amounts are attributable to the 2004 A Refunding Bonds.

The Authority has not utilized a QSB for the purpose of funding any portion of its Debt Service Reserve Requirement at May 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

M. Restricted Accounts (Cont'd.)

General Account - The balance of Revenues. Balances in the General Account shall be utilized first to make up deficiencies in any of the preceding accounts, and then for any lawful purpose.

Construction Account - Pursuant to the applicable Supplemental Indentures, proceeds from debt issued to finance System improvements, certain investment earnings on such proceeds, and grants-in-aid must be deposited to the Construction Account. These funds are restricted to the payment of costs of authorized system improvements. Excesses remaining in this account after completion of improvements and allocation of excess investment earnings, if any, must be transferred to the Debt Service Account or Debt Service Reserve Account if deficiencies exist. Any remaining amount may be used for the retirement of Bonds or other authorized system improvements, or may be transferred to the General Account.

Rebate Account (Component of Construction Account) - Amounts determined by the Authority as arbitrage earnings on debt proceeds and due to the United States government pursuant to applicable provisions of the Internal Revenue Code and regulations. These funds may be utilized only to make required rebates. Excesses in this account, which may result from negative arbitrage earnings for a period, revert to the Construction Account.

In addition to the restricted accounts required by the Indenture of Trust and the Supplemental Indentures, the Authority has established additional restricted use accounts as follows:

Customer Deposits Account - Advance payments required as a condition for approval for water users (generally, construction related) to obtain water directly from hydrants. These moneys are refunded to customers upon settlement of all water billings, or applied to these billings.

Escrow Account - Advance payments and deposits required as a condition for the Authority to commence engineering reviews and inspections on new development, and cash in lieu of bonds required by the Authority. Moneys held for reviews and inspections become earned revenues of the Authority as the services are performed, and amounts remaining at project completion, including a portion of interest earnings, are returned to the developer. Cash held in lieu of bonds is refunded in the same manner, and following the same procedures, as those for the release of bonds required by the Authority.

N. Deferred Amount from Refunding

During the year ended September 30, 1993, in accordance with the provisions of GASB Statement 23, the amount of \$794,275 was established upon the advance refunding and defeasance of \$4,855,000 of 1989 Current Interest Bonds through the issuance of \$5,570,000 1993 Series "B" Bonds. The amount deferred is being amortized over the life of the 1993 Series "B" Bonds using the straight line method.

During the year ended September 30, 2002, in accordance with the provisions of GASB Statement 23, the amount of \$357,161 was established upon the advance refunding and defeasance of \$17,330,000 of Series 1992 Bonds through the issuance of \$17,805,000 2002 Revenue Refunding Series "A" Bonds. The amount deferred is being amortized over the life of the 2002 Revenue Refunding Series "A" Bonds using the straight line method.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

#### N. Deferred Amount from Refunding (Cont'd.)

During the year ended May 31, 2004, in accordance with the provisions of GASB Statement 23, the amount of \$76,900 was established upon the advance refunding and defeasance of \$2,975,000 of 1993 Series A Bonds and \$4,715,000 of 1993 Series B Bonds through the issuance of \$8,055,000 2004 Revenue Refunding Series "A" Bonds. The amount deferred is being amortized over the life of the 2004 Revenue Refunding Series "A" Bonds using the straight-line method.

Deferred Amounts from Refunding are presented in the financial statements as a reduction of the face amount of the bonds payable.

### NOTE 2: DEPOSITS AND INVESTMENTS

#### A. Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agencies of the United States that insures deposits, or the State of New Jersey Cash Management Fund. N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA").

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

- (a) The market value of the collateral must equal 5 percent of the average daily balance of public funds; or
- (b) If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.
- (c) All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature within one year. Collateralization of Fund investments is generally not required. "Other Than State" participants contribute one tenth of one percent per year of the value of the aggregate units owned by them to establish a Reserve Fund, which is supplemented by the proportional interest of "Other Than State" participants in gains on investment transactions realized. The Reserve Fund is available to cover losses of "Other Than State" participants occasioned by the bankruptcy of an issuer of an investment held by the Fund and losses on sales of securities.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: DEPOSITS AND INVESTMENTS (Cont'd.)

#### A. Deposits (Cont'd.)

As of May 31, 2010 and May 31, 2009, cash and cash equivalents of the Authority consisted of the following:

	<u>2010</u>	<u>2009</u>
Cash Accounts	\$22,467,128	\$5,118,740
Change Funds (On-Hand)	160	160
Certificates of Deposit	<u>4,066,000</u>	<u>5,131,000</u>
Total	<u>\$26,533,288</u>	<u>\$10,249,900</u>

The carrying amount of the Authority's cash and cash equivalents at May 31, 2010 and May 31, 2009 was \$26,533,288 and \$10,249,900, respectively and the bank balance was \$26,549,397 and \$11,318,678, respectively. Of the bank balance, during May 31, 2010 and May 31, 2009, \$250,000 was covered by federal depository insurance and \$26,299,397 and \$11,068,678, respectively was covered by a collateral pool maintained by the banks as required by New Jersey statutes.

#### B. Investments

New Jersey Statutes establish the following securities as eligible for the investment of Authority funds:

- (a) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, including securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the "Investment Company Act of 1940," 54 Stat. 847 (15 U.S.C. 80a-1 et seq.), purchased and redeemed only through the use of National or State banks located within this State, if the portfolio of that investment company or investment trust is limited to bonds or other obligations of the United States of America, bond or other obligations guaranteed by the United States of America and repurchase agreements fully collateralized by bonds or other obligations of the United States of America, which collateral shall be delivered to or held by the investment company or investment trust, either directly or through an authorized custodian;
- (b) Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal Land Bank, Federal National Mortgage Associates or of any United States Bank for Cooperatives which have a maturity date not greater than twelve months from the date of purchases.
- (c) Bonds or other obligations, having a maturity date of not more than twelve months from the date of purchase, that are approved by the Division of Investment of the Department of the Treasury for investment by local units.
- (d) Effective January 18, 1992, qualified mutual funds with portfolios limited to:
  - (i) bonds or other obligations of, or guaranteed by, the United States of America; and
  - (ii) repurchase agreements fully collateralized by such obligations.

These investments must be transacted only through national or state banks located within New Jersey.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2: DEPOSITS AND INVESTMENTS (Cont'd.)

#### B. Investments (Cont'd.)

During the years ended May 31, 2010 and May 31, 2009, the Authority invested a portion of its idle funds in Long-term (Greater than 90 day term) Certificates of Deposit, GNMA Bonds, and Private Export Funding Corp. Notes.

Governmental Accounting Standards Board Statement No. 40 – Deposit and Investment Risk Disclosures requires the Authority to disclose its deposits and investment policies regarding certain type of investment risks.

**Custodial Credit Risk – Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of May 31, 2010, based upon the insured balances as provided by FDIC and NJGUDPA coverage, no amount of the Authority's bank balance of \$26,549,397 was considered exposed to custodial risk.

**Interest Rate Risk** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The Authority's investment policy follows the Trust Indenture as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

The Authority's investments at year-end May 31, 2010 were as follow:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Certificate of Deposit	\$11,121,300	\$11,121,300		
GNMA	96,555		\$5,551	\$91,004

**NOTE 3 - DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS**

Capital asset activity for the year ended May 31, 2010 was as follows:

Depreciation is recorded on a straight-line basis for all plant and equipment. At May 31, 2010 and May 31, 2009, Capital Assets and the useful lives used for determination of annual depreciation, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Useful Lives (Years)</u>
<b>Business-type Activities:</b>					
<b>Capital Assets That Are Not Being Depreciated:</b>					
Land & Easements	\$ 1,125,629	\$	\$	\$ 1,125,629	
Construction in Progress	<u>12,379,604</u>	<u>505,998</u>	<u>4,739,921</u>	<u>8,145,681</u>	
Total Capital Assets Not Being Depreciated	<u>13,505,233</u>	<u>505,998</u>	<u>4,739,921</u>	<u>9,271,310</u>	
<b>Capital Assets That Are Being Depreciated:</b>					
Treatment Plant	9,869,066	4,241,659		14,110,725	75
Pump Equipment	5,432,601	9,127		5,441,728	45
Buildings & Additions	2,885,775	166,951		3,052,726	40
Collection System	45,289,092	2,921,075		48,210,167	75
Vehicles	3,048,880	2,473	117,893	2,933,460	5
Office Furniture & Equipment	307,524	256,793		564,317	15
Machinery & Equipment	241,369	6,078		247,447	15
Plant, Other	141,026			141,026	40
Wells	1,428,891			1,428,891	45
Water Mains	17,070,456	1,345,886		18,416,342	100
Fire Hydrants	1,435,382	166,783		1,602,165	50
Structures & Improvements	8,435,912			8,435,912	70
Miscellaneous Water Equipment	160,009			160,009	50
House Connections	3,243,511	562,549		3,806,060	50
Valves & Fittings	1,828,284	306,353		2,134,637	30
Meters	1,472,049	3,659		1,475,708	50
Standpipes & Storage Tanks	10,649,353			10,649,353	50
Pump Stations - 2 Appurtenances	<u>9,051,138</u>			<u>9,051,138</u>	45
Totals at Historical Cost	<u>121,990,318</u>	<u>9,989,386</u>	<u>117,893</u>	<u>131,861,811</u>	
<b>Less Accumulated Depreciation For:</b>					
Treatment Plant	1,906,676	344,381		2,251,057	
Pump Equipment	1,755,608	120,927		1,876,535	
Buildings & Additions	430,464	75,355		505,819	
Collection System	12,412,229	631,885		13,044,114	
Vehicles	2,363,592	218,096	117,893	2,463,795	
Office Furniture & Equipment	170,329	30,193		200,522	
Computers & Equipment	23,990	5,638		29,628	
Machinery & Equipment	200,380	7,641		208,021	
Plant, Other	94,860	2,490		97,350	
Wells	769,072	31,753		800,825	
Water Mains	2,108,193	184,118		2,292,311	
Fire Hydrants	372,007	32,043		404,050	
Structures & Improvements	3,674,893	120,513		3,795,406	
Miscellaneous Water Equipment	160,009			160,009	
House Connections	1,701,046	51,382		1,752,428	
Valves & Fittings	595,687	67,145		662,832	
Meters	366,239	26,441		392,680	
Standpipes & Storage Tanks	1,717,036	193,005		1,910,041	
Pump Stations - 2 Appurtenances	<u>2,292,153</u>	<u>201,136</u>		<u>2,493,289</u>	
Total Accumulated Depreciation	<u>33,114,463</u>	<u>2,344,142</u>	<u>117,893</u>	<u>35,340,712</u>	
Total Capital Assets Being Depreciated (Net of Accumulated Depreciation)	<u>88,875,855</u>	<u>7,645,244</u>		<u>96,521,099</u>	
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ <u>102,381,088</u></b>	<b>\$ <u>8,151,242</u></b>	<b>\$ <u>4,739,921</u></b>	<b>\$ <u>105,792,409</u></b>	

Assets acquired through donation or with moneys received from donations and grants-in-aid are recorded with an offset to the Contributed Capital Account. Depreciation on assets acquired with Contributed Capital is recorded as a reduction of Contributed Capital.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4: DEFERRED COMPENSATION PLAN

The Old Bridge Municipal Utilities Authority Deferred Compensation Plan was established pursuant to Section 457 of the Internal Revenue Code and under provisions of N.J.S.A. 43:15B-1. The Plan is an arrangement whereby a public employer may establish a plan and permit its employees to voluntarily authorize a portion of their current salary to be withheld and invested in one or more of the types of investments permitted under the governing regulations. Contributions are recognized when received by the Administrator, withdrawals and administrative fees when paid by the Administrator, and earnings when the Administrator is notified by the company with which the funds are invested. Investments are managed by the Plan trustees under various investment options offered by the Variable Annuity Life Insurance Company ("VALIC").

Statutory and regulatory requirements governing the establishment and operation of Deferred Compensation Plans have been codified in the New Jersey Administrative Code as N.J.A.C. 5:37. The more significant of these provisions include no personal liability to the employer for negative return on investments, retention of assets by the employer, eligible investment types and the requirement for an independent review of all Plan funds if a private contractor is retained to administer the Plan.

The Small Business Job Protection Act of 1996 ("Act") requires plans created before August 20, 1996 to be held in trust for the exclusive benefit of participating employees and not be accessible by the Authority or its creditors by January 1, 1999. In addition, the Act permits certain in-service distributions of \$3,500.00 or less to Plan participants and provides the indexing of the previous \$7,500.00 annual contribution limit for inflation.

On January 28, 1998, the Authority established a Trustee Account for its Deferred Compensation Plan as required by Section 457 of the Internal Revenue Code of 1986, as amended.

### NOTE 5: LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended May 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Debt	<u>\$48,802,207</u>	<u>\$1,225,033</u>	<u>\$3,236,272</u>	<u>\$46,790,968</u>	<u>\$3,716,643</u>
Total Bonds Payable	<u>48,802,207</u>	<u>1,225,033</u>	<u>3,236,272</u>	<u>46,790,968</u>	<u>3,716,643</u>
Other Liabilities:					
Compensated Absences Payable	<u>1,063,561</u>	<u>197,209</u>	<u>484,126</u>	<u>776,644</u>	<u>213,563</u>
Total Other Liabilities	<u>1,063,561</u>	<u>197,209</u>	<u>484,126</u>	<u>776,644</u>	<u>213,563</u>
Total Bonds Payable and Other Liabilities	<u>\$49,865,768</u>	<u>\$ 1,422,242</u>	<u>\$3,720,398</u>	<u>\$47,567,612</u>	<u>\$3,930,206</u>

NOTE 5: LONG-TERM OBLIGATIONS (Cont'd.)

A. New Jersey Waste Water Treatment Trust Financing

The Authority issued 1993 Revenue Series A and B bonds, dated September 22, 1993 to the New Jersey Wastewater Treatment Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$1,080,000 for the Revenue Series A bonds and \$1,023,865 for the Revenue Series B bonds.

The maximum financing from the trust will not exceed the \$1,080,000 and repayment commenced on November 1, 1994 with final payment on November 1, 2012. The zero interest financing from the State will not exceed \$1,023,865. The principal payment commenced on November 1, 1994 with final payment on November 1, 2012.

B. New Jersey Waste Water Treatment Trust Financing

The Authority issued 1997 Revenue Series A bonds, dated November 6, 1997 to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$1,355,000 for the Revenue A bonds.

The maximum financing from the trust will not exceed the \$1,355,000 and repayment commenced on November 1, 1998 with final payment on November 1, 2016. The Authority received savings credits of \$381,320 from the New Jersey Environmental Infrastructure Trust during the year ended May 31, 2007. The savings credits apply to payments commencing on November 1, 2008 and ending November 1, 2016.

C. New Jersey Waste Water Treatment Trust Financing

The Authority issued 1999 Revenue Series B and C bonds, dated November 4, 1999, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various water rehabilitation projects. The allowable costs for these projects total \$535,000 for the Revenue B bonds and \$527,031 for the Revenue C bonds. The total of all funds is \$1,062,031.

The maximum financing from the trust will not exceed the \$535,000 and repayment commenced on November 1, 2000 with final payment on November 1, 2018. The zero interest financing from the State will not exceed \$527,031. The principal payment commenced on November 1, 2000 with final payment on November 1, 2018. The Authority received savings credits of \$15,328 from the New Jersey Environmental Infrastructure Trust during the year ended May 31, 2007. The savings credits apply to payments commencing on November 1, 2010 and ending November 1, 2018.

D. New Jersey Waste Water Treatment Trust Financing

The Authority issued 1999 Revenue Series B and C bonds, dated November 4, 1999, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$1,060,000 for the Revenue B bonds and \$1,050,013 for the Revenue C bonds. The total of all funds is \$2,110,013.

The maximum financing from the trust will not exceed the \$1,060,000 and repayment commenced on November 1, 2000 with final payment on November 1, 2018. The zero interest financing from the State will not exceed \$1,050,013. The principal payment commenced on November 1, 2000 with final payment on November 1, 2018. The Authority received savings credits of \$45,538 from the New Jersey Environmental Infrastructure Trust during the year ended May 31, 2007. The savings credits apply to payments commencing on November 1, 2010 and ending November 1, 2018.

NOTE 5: LONG-TERM OBLIGATIONS (Cont'd.)

E. Revenue Bonds (2002 Series A) and Refunding Revenue Bonds (2002 Series A)

On June 27, 2002, the Authority issued \$1,415,000 Revenue Bonds (2002 Series A). The Bonds, which were dated August 1, 2002, consisted of \$1,415,000 serial bonds which are due in various amounts from November 1, 2002 through 2016, and bear interest at various rates ranging from 3.00% on the earliest maturity to 4.30% on the ultimate maturity. The net proceeds of this issue are designated to be used to finance a portion of the costs of improvements to the system; make deposits to the Debt Service Reserve Fund as required by the Indenture of Trust; and pay the costs of issuance of the Bonds, including the premium for a municipal bond insurance policy.

On June 27, 2002, the Authority issued \$17,805,000 Revenue Refunding Bonds (2002 Series A). The Bonds were dated August 1, 2002 and consisted of \$17,805,000 serial bonds, which are due in various amounts on November 1, 2003 through 2016.

Interest on the 2002 Series A Bonds is payable on November 1, 2002 and semi-annually thereafter on each succeeding May 1 and November 1 until maturity or early redemption thereof.

Defeasance of 1992 Bonds - Pursuant to an Escrow Deposit Agreement dated June 27, 2002, the Authority deposited \$18,140,059 of the proceeds of the 2002 Series A Refunding Bonds to advance refund the outstanding 1992 Bonds. The amount is net of accrued interest receivable of \$54,941 from September 30, 2002 through November 1, 2002. The amounts deposited with the trustee include \$321,300 of Bond premium and interest payable of \$543,478 due November 1, 2002. All funds so deposited were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Bonds. As a result, the 1992 Bonds are considered defeased and the liability for those bonds of \$17,330,000 has been removed from the Authority's balance sheet.

For the year ended September 30, 2002, the Authority in effect reduced its aggregate debt service payments over the next 14 years and obtained a gross savings of \$2,479,608 and a present value savings of \$2,426,006.

F. New Jersey Environmental Infrastructure Trust Financing

The Authority issued 2003 Series A and B bonds, dated November 3, 2003, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various water rehabilitation projects. The allowable costs for these projects total \$3,120,000 for the Series A bonds and \$2,787,329 for the Series B bonds. The total of all funds is \$5,907,329.

The maximum financing from the trust will not exceed the \$3,120,000 and repayment will commence on November 1, 2005 with final payment on November 1, 2022. The zero interest financing from the State will not exceed \$2,787,329. The principal payment will commence on November 1, 2005 with final payment on November 1, 2022.

G. New Jersey Environmental Infrastructure Trust Financing

The Authority issued 2003 Series A and B bonds, dated November 3, 2003, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$1,000,000 for the Series A bonds and \$890,327 for the Series B bonds. The total of all funds is \$1,890,327.

The maximum financing from the trust will not exceed the \$1,000,000 and repayment will commence on November 1, 2004 with final payment on November 1, 2022. The zero interest financing from the State will not exceed \$890,327. The principal payment will commence on November 1, 2004 with final payment on November 1, 2022.

## NOTE 5: LONG-TERM OBLIGATIONS (Cont'd.)

H. Revenue Bonds (2004 Series A) and Refunding Revenue Bonds (2004 Series A)

On February 13, 2004, the Authority issued \$370,000 Revenue Bonds (2004 Series A). The Bonds, which were dated February 26, 2004, consisted of \$370,000 serial bonds which are due in various amounts from May 1, 2005 through 2014, and bear interest at various rates ranging from 2.00% on the earliest maturity to 4.25% on the ultimate maturity. The net proceeds of this issue are designated to be used to finance a portion of the costs of improvements to the system; make deposits to the Debt Service Reserve Fund as required by the Indenture of Trust; and pay the costs of issuance of the Bonds, including the premium for a municipal bond insurance policy.

On February 13, 2004, the Authority issued \$8,055,000 Revenue Refunding Bonds (2004 Series A). The Bonds were dated February 26, 2004 and consisted of \$8,055,000 serial bonds, which are due in various amounts on May 1, 2005 through 2023.

Interest on the 2004 Series A Bonds is payable on May 1, 2004 and semi-annually thereafter on each succeeding November 1 and May 1 until maturity or early redemption thereof.

2004 Series A Bonds maturing on or after November 1, 2015 are subject to redemption prior to maturity, at the option of the Authority as a whole at any time or in part on any interest payment date on or after November 1, 2014, in inverse order of maturity and within a maturity by lot or in any customary manner of selection as determined by the trustee, any such redemption to be made at the applicable redemption price expressed below as a percentage of the principal amount of the 2004 Bonds to be redeemed, plus interest accrued to the redemption date.

Defeasance of 1993 Bonds - Pursuant to an Escrow Deposit Agreement dated February 26, 2004, the Authority deposited \$7,921,763 of the proceeds of the 2004 Series A Refunding Bonds to advance refund the outstanding 1993 Bonds. The amount is net of accrued interest receivable of \$6,363 from November 1, 2003 through April 1, 2004. The amounts deposited with the trustee include \$76,900 of Bond premium and interest payable of \$161,176 due April 1, 2004. All funds so deposited were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Bonds. As a result, the 1993 Bonds are considered defeased and the liability for those bonds of \$7,690,000 has been removed from the Authority's balance sheet.

For the year ended May 31, 2004, the Authority in effect reduced its aggregate debt service payments over the next 20 years and obtained a gross savings of \$810,540 and a present value savings of \$765,739.

I. New Jersey Environmental Infrastructure Trust Financing Bonds

The Authority issued 2005 Series A and B bonds, dated November 10, 2005, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various water rehabilitation projects. The allowable costs for these projects total \$1,625,000 for the Series A bonds and \$1,530,940 for the Series B bonds. The total of all funds is \$3,155,940.

The Authority is in the process of drawing down the financing proceeds as construction progresses. The maximum financing from the trust will not exceed the \$1,625,000 and repayment will commence on November 1, 2006 with final payment on November 1, 2024. The zero interest financing from the State will not exceed \$1,530,940. The principal payment will commence on November 1, 2006 with final payment on November 1, 2024.

NOTE 5: LONG-TERM OBLIGATIONS (Cont'd.)

J. New Jersey Environmental Infrastructure Trust Financing

The Authority issued 2006 Series A and B bonds, dated November 9, 2006, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$3,350,000 for the Series A bonds and \$3,167,000 for the Series B bonds. The total of all funds is \$6,517,000.

The Authority is in the process of drawing down the financing proceeds as construction progresses. The maximum financing from the trust will not exceed the \$3,350,000 and repayment will commence on November 1, 2007 with final payment on November 1, 2025. The zero interest financing from the State will not exceed \$3,167,000. The principal payment will commence on November 1, 2007 with final payment on November 1, 2025.

K. New Jersey Environmental Infrastructure Trust Financing

The Authority issued 2008 Series A and B bonds, dated November 6, 2008, to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various water rehabilitation projects. The allowable costs for these projects total \$1,950,000 for the Series A bonds and \$1,781,000 for the Series B bonds. The total of all funds is \$3,731,000.

The Authority is in the process of drawing down the financing proceeds as construction progresses. The maximum financing from the trust will not exceed the \$1,950,000 and repayment will commence on November 1, 2010 with final payment on November 1, 2027. The zero interest financing from the State will not exceed \$1,781,000. The principal payment will commence on November 1, 2010 with final payment on November 1, 2027.

L. Revenue Bonds (2008C Series)

On December 23, 2008, the Authority issued \$5,625,000 Revenue Bonds (2008C Series). The Bonds, which were dated December 23, 2008, consisted of \$5,625,000 serial bonds which are due in various amounts from November 1, 2009 through 2028, and bear interest at various rates ranging from 4.50% on the earliest maturity to 5.375% on the ultimate maturity. The net proceeds of this issue are designated to be used to reimburse the Authority for the costs of various water and sewer improvements with respect to Woodhaven Village and construction of a maintenance building; make an additional deposit to the Debt Service Reserve Fund as required in connection with the issuance of the 2008 Bonds; and pay the costs of issuance of the 2008 Bonds, including the premium for the hereinafter defined Policy (the "2008 Project").

M. Refunding Revenue Bonds (2009A Series)

On May 28, 2009, the Authority issued \$3,050,000 Revenue Refunding Bonds (2009A Series). The Bonds were dated May 28, 2009 and consisted of \$3,050,000 serial bonds, which are due in various amounts on November 1, 2009 through 2018. The 2009 Bonds are being issued to provide funds to currently refund the Authority's \$3,205,000 outstanding Revenue Bonds (1999 Series) (the "Refunded Bonds") maturing on and after November 1, 2009 and pay the costs of issuance of the 2009 Bonds.

Interest on the 2009A Series Bonds is payable on November 1, 2009 and semi-annually thereafter on each succeeding May 1 and November 1 until maturity or early redemption thereof.

2009A Series Bonds are not subject to redemption prior to their stated maturities.



NOTE 5: LONG-TERM OBLIGATIONS (Cont'd.)

M. Refunding Revenue Bonds (2009A Series) (Cont'd.)

Defeasance of 1999 Bonds - Pursuant to an Escrow Deposit Agreement dated May 28, 2009, the Authority deposited \$3,342,155 of the proceeds of the 2009A Series Refunding Bonds to advance refund the outstanding 1999 Bonds. The amounts deposited with the trustee include \$112,891 of Bond premium. All funds so deposited were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 Bonds. As a result, the 1999 Bonds are considered defeased and the liability for those bonds of \$3,205,000 has been removed from the Authority's balance sheet.

For the year ended May 31, 2009, the Authority in effect reduced its aggregate debt service payments over the next 10 years and obtained a gross savings of \$183,598 and a present value savings of \$158,780.

N. New Jersey Environmental Infrastructure Trust Financing

The Authority issued 2010 Series A and B bonds, dated March 10, 2010 to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance various sewer rehabilitation projects. The allowable costs for these projects total \$600,000 for the Series A bonds and \$625,033 for the Series B bonds. The total of all funds is \$1,225,033.

The Authority is in the process of drawing down the financing proceeds as construction progresses. The maximum financing from the trust will not exceed the \$600,000 and repayment will commence on November 1, 2010 with final payment on November 1, 2028. The zero interest financing from the State will not exceed \$625,033. The principal payment will commence on November 1, 2010 with final payment on November 1, 2028.

O. Schedule of Debt Service Payments – Cash Basis Bonds Issued And Outstanding on May 31, 2010\*

<u>Fiscal Year Ending</u> <u>May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$3,716,643	\$2,293,852	\$6,010,495
2012	3,734,297	2,216,578	5,950,875
2013	3,812,700	2,118,394	5,931,094
2014	3,805,848	2,022,453	5,828,301
2015	3,896,441	1,919,357	5,815,798
2016-2020	14,203,942	5,937,292	20,141,234
2021-2025	7,358,424	2,122,919	9,481,343
2026-2029	6,262,673	666,575	6,929,248

\*Includes principal and interest of New Jersey Environmental Infrastructure Trust Financing.

NOTE 6: COMPENSATED ABSENCES

The Authority has adopted policies which sets forth the terms under which an employee may accumulate earned, but unused, vacation and sick leave, establishes the limits on such accumulations and specifies the conditions under which the right to receive payment for such accumulations vests with the employee. General Policy is as follows:

A. Sick Leave

Permanent full-time unionized employees of the Authority accrue sick leave on the basis of one (1) day for each month worked during the first calendar year of employment. As of January 1st following the first full year of employment, and on every January 1st thereafter, each permanent full-time employee shall receive twelve (12) sick leave days and three (3) personal days. In the event any personal days are not used in the year they are earned, those personal days shall be converted to sick days. Employees hired prior to October 1, 1990 may accumulate a maximum of two hundred eighty (280) days; Employees hired after that date may accumulate a maximum of one hundred and fifty (150) days. During an employee's last year of employment, for purposes of determining reimbursement, sick leave accrual for "cash back" purposes shall be prorated at one and one-quarter (1 1/4) days per month worked into that last year.

The Policy also provides for the accrual of twelve (12) "bridge days" as of January 1st of each year following the first year of employment. The maximum allowable accumulation of bridge days is forty-eight (48) days. Bridge days are provided in conjunction with the Authority's disability plan, and may only be used to "bridge" the period from the exhaustion of the current year's sick leave until such time as the employee is placed on the disability plan. Employees hired after July 1, 1996 are not entitled to bridge days, and must use regular sick days, to the extent available, to cover the period until they are placed on the disability plan.

Non-union personnel accrue sick leave on the basis of one (1) day for each month worked during the first calendar year of employment. Thereafter, as of January 1 of each year, they receive twelve (12) sick leave days. In addition, each non-union employee is credited with fifteen (15) sick leave days as a "bank" at the end of each year.

Unionized employees may "cash in" from one to ten unused sick days of each calendar year allotment for full pay. If the employee has at least five unused sick days of the current calendar year allotment and an additional accumulation of twenty-five unused sick days, the employee may shelter five unused sick days, at full pay, in the deferred compensation plan. Upon retirement, an employee who is a member of a collective bargaining unit receives one-half day's pay for each day of accumulated unused sick pay, at current rates, subject to the maximum allowable accumulation and a cap on pay-outs of \$15,000.00. Non-union personnel receive payment annually for any unused sick leave days from their annual allotment, excluding "bank" days. Upon retirement, non-union employees receive payment, at current rates for each day of accumulated unused sick pay (bank days), subject to the maximum allowable accumulation and a cap on pay-outs of \$33,847, adjusted annually effective December 31, 2000 to reflect the change to the Consumer Price Index (CPI) for the year then ended.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6: COMPENSATED ABSENCES (Cont'd.)

#### B. Vacation

Personnel hired prior to May 1 shall receive five (5) working days paid vacation for that calendar year. Personnel hired on or after May 1 shall receive no paid vacation for that calendar year. Thereafter, length of annual paid vacation shall be determined in accordance with the following schedules:

Schedule 1 - Employees hired on or before October 1, 1990:

<u>Years of Service</u>	<u>Working Days Paid Vacation</u>
1 to 4	10
5 to 9	15
10 to 15	20
16	21
17	22
18	23
19	24
20	25

Schedule 2 - Employees hired after October 1, 1990:

<u>Years of Service</u>	<u>Working Days Paid Vacation</u>
1 to 4	10
5 to 9	15
10 to 19	20
20	25

Vacation days for unionized employees which cannot be completed by the end of the calendar year may be carried over into the following calendar year with the approval of the Director. Upon separation of service, an employee is entitled, in time or in pay, to any unused vacation pay.

At May 31, 2010 and May 31, 2009, the payroll records of the Authority indicate the value of accumulated sick and vacation pay earned and unused to be \$776,644 and \$1,063,561, respectively. This amount has been established as a liability on the balance sheet. For the purpose of establishing the accrued liability, the Authority recognizes the full value of current accumulations calculated in accordance with the policies enumerated above, subject to the pay-out "cap".

NOTE 7: PENSION PLAN

The Authority participates in the Public Employees' Retirement System ("PERS"). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the Fund and charges participating public employer annually for their respective contributions. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. According to the State of New Jersey Administrative Code, all obligations of the PERS System will be assumed by the State of New Jersey should the System terminate. The Plan is a cost-sharing multiple-employer defined benefit Plan and, as such, does not maintain separate records for each participating public employer in the state and, therefore, the actuarial data for the Authority is not available. The Division of Pensions issued publicly-available financial reports for the Plan that includes financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions, PO Box 295, Trenton, NJ, 08625.

Covered employees are required by statute to contribute a percentage of their annual compensation to the Plan. PERS bills the Authority annually at an actuarially determinable rate for its required contribution. The current rate for each employee is 5.5% of annual covered payroll.

The contribution requirements of Plan members and the Authority are established and may be amended by the Board of Trustees of the Plan. The Authority's contribution to the Plan for the year ended May 31, 2010 was \$447,263 (9.0%). The Authority's contribution to the Plan for the years ended May 31, 2009 and May 31, 2008 were \$418,113 (8.6%) and \$307,627 (6.1%) respectively equal to the required contributions. During the years ended May 31, 2010, May 31, 2009, and May 31, 2008 normal employee contributions to the PERS System amounted to \$239,993, \$231,204, and \$218,883 respectively.

NOTE 8: ARBITRAGE REBATE

Pursuant to the Internal Revenue Code of 1986, Section 148, regarding excess earnings, the Authority is required to rebate excess arbitrage income to the United States Government. The rebate amount is the excess aggregate amount earned on unspent bond proceeds over the amount that would have been earned if the yield on such unspent proceeds had been equal to the bond yields. The Authority estimates that it has no rebatable arbitrage earnings at May 31, 2010.

NOTE 9: POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS – HEALTH CARE BENEFITS

The Authority provides health benefits through its group insurance plan to certain retirees, provided that the employee has:

- (a) Retired on a disability pension;
- (b) Retired after 25 years or more service credit in a state or locally administered retirement system and a period of service of five (5) years service to the authority or its predecessors; or
- (c) Retired upon or after attaining the age of 62 years and at least 15 years of service to the Authority or its predecessors.

The Authority also provides full coverage towards the cost of health benefits for the spouses and/or dependents of eligible retired employees. During the year ended May 31, 2010 and May 31, 2009, the Authority expended \$431,393 and \$364,514 for 31 and 30 eligible employees respectively.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 9: POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS – HEALTH CARE BENEFITS (Cont'd.)

This is the second year the Authority is recognizing its post employment healthcare plan benefit costs based upon the implementation requirements of GASB Statement 45.

The contribution requirements of plan members are established and may be amended by the Commissioners. The Authority's annual 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 over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, any amounts contributed to the plan and the Authority's net OPEB obligation.

	2010 <u>Total</u>	2009 <u>Total</u>
Net OPEB obligation – beginning of year	\$895,200	
Annual required contribution (ARC)	1,259,700	\$1,259,700
Less: Contributions	<u>431,393</u>	<u>364,500</u>
Net OPEB obligation – end of year	<u>\$1,723,507</u>	<u>\$ 895,200</u>

The funded status of the plan for the Authority as of June 1, 2008, is as follows:

	<u>Total</u>
Actuarial accrued liability (AAL)	\$17,271,100
Actuarial value of plan assets	<u>- 0 -</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$17,271,100</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$4,685,000
UAAL as a percentage of covered payroll	369.00%

The projection of future benefits for an ongoing plan involves 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 health-care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 9: POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS – HEALTH CARE BENEFITS (Cont'd.)

In the June 1, 2008 actuarial valuation, the projected unit credit cost method was used. A rate of 4.00% was utilized as the discount rate and the amount of increase in the normal cost amount. The unfunded accrued liability is being amortized as a level dollar amount using an open period of thirty (30) years.

NOTE 10: RISK MANAGEMENT

The Authority 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.

Property and Liability Insurance - During the year ended May 31, 2010, the Authority continued to transfer all insurable risks through the purchase of commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage during each of the past three fiscal years. During the year ended May 31, 2010 there were no significant reductions in coverages from those provided in the previous year.

The Authority provides health benefits to its employees and qualified retirees through a program that includes a significant risk retention component. Highmark Life Insurance Company was retained by the Authority's third party administrator, Governmental Risk Management Assoc. The Authority has procured specific and aggregate excess loss insurance coverages to limit its loss exposure, as follows:

Specific Excess - Coverage is 100% of losses per covered person in excess of \$40,000 retained risk, with a maximum lifetime benefit per covered person of \$5,000,000.

Aggregate Excess - Coverage is 100% of aggregate calendar year losses up to a maximum of \$1,000,000, subject to a limit per covered person of \$40,000.

NOTE 11: RESTRICTED NET ASSETS

At May 31, 2010, the Authority reports the following as Restricted Net Asset:

The amount of \$4,432,550 has been Restricted for Debt Service pursuant to the Debt Service Reserve Requirement, as set forth in the Bond Resolution. The amount of \$5,639,570 has been Restricted for Operations. This amount represents Operating Reserve Requirement pursuant to the Bond Resolution. The amount of \$1,345,021 has been Restricted for Capital Projects. The amount of \$636,392 has been Restricted for Future Debt Service which represents accrued interest on the bonds.

NOTE 12: UNRESTRICTED NET ASSETS

At May 31, 2010, the Authority reported \$23,315,514 as Unrestricted Net Assets. In accordance with GASB 45 an actuarial valuation was prepared and an amount of \$5,000,000 was calculated and designated to fund a portion of the actuarial Other Post Employment Benefits (OPEB) liability for retirees as of July 22, 2009. The remaining balance of \$18,315,514 is undesignated.

NOTE 13: LITIGATION

At May 31, 2010, the Authority was not aware of any litigation, claims or contingent liabilities not covered by the Authority's insurance carrier that would have a material financial impact on the Authority.

NOTE 14: SUBSEQUENT EVENT/IRREVOCABLE TRUST

On September 15, 2010, the Commissioners of the Old Bridge Municipal Utilities Authority authorized the establishment of an irrevocable trust for the funding of Other Post Employment Benefits.

OTHER SUPPLEMENTARY INFORMATION

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	2010 <u>BUDGET</u>	2010 <u>ACTUAL</u>	2009 <u>ACTUAL</u>
Revenues:			
Retained Earnings Appropriated	\$ 5,075,943	\$ 5,075,943	\$
User Charges and Fees	24,541,298	23,409,536	24,222,702
Delinquent Penalties	235,000	359,183	259,578
Interest on Investments and Deposits	900,000	341,813	861,918
Planned Unit Development or Developer Contribution			12,144
Engineering Service Fees	318,381	297,759	382,877
Video Sewer Lines	10,000	6,450	3,225
Miscellaneous	51,000	44,806	49,066
Total Revenues	<u>31,131,622</u>	<u>29,535,490</u>	<u>25,791,510</u>
Expenses:			
Operating Appropriations:			
Salaries and Wages	5,763,556	4,970,634	4,841,713
Employee Benefits	2,703,849	2,267,386	3,894,551
OPEB per GASB 45	1,348,300	1,259,700	
Administrative Expenses	1,715,684	1,754,814	1,321,201
Office Expenses	246,660	148,896	153,035
Engineering	36,800	25,872	27,140
Operations and Maintenance Expense	3,599,528	3,110,423	2,535,238
Contractual Services and Charges	6,465,025	5,386,862	5,483,229
Total Operating Appropriations	<u>21,879,402</u>	<u>18,924,587</u>	<u>18,256,107</u>
Interest Expense	<u>2,269,121</u>	<u>1,904,507</u>	<u>2,211,396</u>
Other Costs Funded by Operating Revenues:			
Principal Maturity	4,363,737	3,236,272	3,736,181
Capital Outlay	1,307,205	152,004	466,503
Transfer to Township of Old Bridge	1,312,157	1,312,157	
Total Costs Funded by Operating Revenues	<u>6,983,099</u>	<u>4,700,433</u>	<u>4,202,684</u>
Total Expenses	<u>31,131,622</u>	<u>25,529,527</u>	<u>24,670,187</u>
Budgetary Revenues Over Expenses	\$ <u>-</u>	\$ <u>4,005,963</u>	\$ <u>1,121,323</u>



OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	<u>2010</u>	<u>2009</u>
<u>Reconciliation of Budgetary Basis to Net Income</u>		
Budgetary Revenues Over Expenses	\$ <u>4,005,963</u>	\$ <u>1,121,323</u>
Adjustments to Budgetary Basis:		
Depreciation Expense	(2,344,142)	(2,103,161)
Retained Earnings Appropriated	(5,075,943)	
Bond Principal Maturity	3,236,272	3,736,181
Capital Outlay Expenditures	152,004	466,503
Amortization of Debt Issue Costs	(121,734)	(117,496)
Capital Contributions	<u>5,222,089</u>	<u>5,471,654</u>
Total Adjustments	<u>1,068,546</u>	<u>7,453,681</u>
Net Income	\$ <u><u>5,074,509</u></u>	\$ <u><u>8,575,004</u></u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF SEWER DEPARTMENT REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	2010 <u>BUDGET</u>	2010 <u>ACTUAL</u>	2009 <u>ACTUAL</u>
Revenues:			
Retained Earnings Appropriated	\$ 2,266,971	\$ 2,266,971	\$
User Charges and Fees	11,746,240	11,598,272	11,666,694
Delinquent Penalties	108,000	165,601	116,729
Interest on Invest. and Deposits	410,000	127,194	368,315
Planned Unit Development or Developer Contribution			1,000
Engineering Service Fees	159,190	158,146	208,854
Video Sewer Lines	10,000	6,450	3,225
Miscellaneous	<u>7,000</u>	<u>7,552</u>	<u>9,561</u>
Total Revenues	<u>14,707,401</u>	<u>14,330,186</u>	<u>12,374,378</u>
Expenses:			
Operating Appropriations:			
Salaries and Wages	2,368,507	1,913,345	1,859,820
Employee Benefits	1,107,973	883,054	1,635,588
OPEB per GASB 45	552,803	578,298	
Administrative Expenses	742,726	789,439	586,268
Office Expenses	111,546	61,699	71,238
Engineering	18,400	12,121	12,878
Operations and Maintenance Exp.	1,203,088	1,232,595	832,286
Contractual Services and Charges	<u>4,155,165</u>	<u>3,330,566</u>	<u>3,471,748</u>
Total Operating Appropriations	<u>10,260,208</u>	<u>8,801,117</u>	<u>8,469,826</u>
Interest Expense	<u>876,431</u>	<u>662,080</u>	<u>851,340</u>
Other Costs Funded by Operating Revenues:			
Principal Maturity	2,141,192	1,566,149	1,850,585
Capital Outlay	809,500	96,650	241,442
Transfer to Township of Old Bridge	<u>620,070</u>	<u>620,070</u>	
Total Costs Funded by Operating Revenues	<u>3,570,762</u>	<u>2,282,869</u>	<u>2,092,027</u>
Total Expenses	<u>14,707,401</u>	<u>11,746,066</u>	<u>11,413,193</u>
Budgetary Revenues Over Expenses (Expenses over Revenue)	\$ <u>-</u>	\$ <u>2,584,120</u>	\$ <u>961,185</u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY  
SCHEDULE OF SEWER DEPARTMENT REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	2010 <u>ACTUAL</u>	2009 <u>ACTUAL</u>
<u>Reconciliation of Budgetary Basis to Net Income (Loss):</u>		
Budgetary Revenues Over Expenses (Expenses Over Revenue)	\$ 2,584,120	\$ 961,185
Adjustments to Budgetary Basis:		
Depreciation Expense	(1,136,154)	(1,108,389)
Retained Earnings Appropriated	(2,266,971)	
Bond Principal Maturity	1,566,149	1,850,585
Capital Outlay Expenditures	96,650	241,442
Amortization of Debt Issue Costs	(51,948)	(51,568)
Capital Contributions	<u>2,840,518</u>	<u>38,666</u>
Total Adjustments	<u>1,048,244</u>	<u>970,736</u>
Net Income	\$ <u><u>3,632,364</u></u>	\$ <u><u>1,931,921</u></u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF WATER DEPARTMENT REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	2010 <u>BUDGET</u>	2010 <u>ACTUAL</u>	2009 <u>ACTUAL</u>
Revenues:			
Retained Earnings Appropriated	\$ 2,808,972	\$ 2,808,972	\$
User Charges and Fees	12,795,058	11,811,264	12,556,008
Delinquent Penalties	127,000	193,582	142,849
Interest on Investments and Deposits	490,000	214,619	493,603
Planned Unit Development or Developer Contribution			11,144
Engineering Service Fees	159,191	139,613	174,023
Miscellaneous	44,000	37,254	39,505
Total Revenues	<u>16,424,221</u>	<u>15,205,304</u>	<u>13,417,132</u>
Expenses:			
Operating Appropriations:			
Salaries and Wages	3,395,049	3,057,289	2,981,893
Employee Benefits	1,595,876	1,384,332	2,258,963
OPEB per GASB 45	795,497	681,402	
Administrative Expenses	972,958	965,375	734,933
Office Expenses	135,114	87,197	81,797
Engineering	18,400	13,751	14,262
Operations and Maintenance Exp.	2,396,440	1,877,828	1,702,952
Contractual Services and Charges	2,309,860	2,056,296	2,011,481
Total Operating Appropriations	<u>11,619,194</u>	<u>10,123,470</u>	<u>9,786,281</u>
Interest Expense	<u>1,392,690</u>	<u>1,242,427</u>	<u>1,360,056</u>
Other Costs Funded by Operating Revenues:			
Principal Maturity	2,222,545	1,670,123	1,885,596
Capital Outlay	497,705	55,354	225,061
Transfer to Township of Old Bridge	692,087	692,087	
Total Costs Funded by Operating Revenues	<u>3,412,337</u>	<u>2,417,564</u>	<u>2,110,657</u>
Total Expenses	<u>16,424,221</u>	<u>13,783,461</u>	<u>13,256,994</u>
Budgetary Revenues Over Expenses	\$ <u>-</u>	\$ <u>1,421,843</u>	\$ <u>160,138</u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF WATER DEPARTMENT REVENUES AND EXPENSES  
COMPARED TO BUDGET (BUDGETARY BASIS)  
FOR THE YEAR ENDED MAY 31, 2010  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2009)

	2010 <u>ACTUAL</u>	2009 <u>ACTUAL</u>
<u>Reconciliation of Budgetary Basis to Net Income (Loss):</u>		
Budgetary Revenues Over Expenses (Expenses Over Revenue)	\$ 1,421,843	\$ 160,138
Adjustments to Budgetary Basis:		
Depreciation Expense	(1,207,988)	(994,772)
Contributed Capital	2,381,571	5,432,988
Retained Earnings Appropriated	(2,808,972)	
Bond Principal Maturity	1,670,123	1,885,596
Capital Outlay Expenditures	55,354	225,061
Amortization of Debt Issue Costs	<u>(69,786)</u>	<u>(65,928)</u>
Total Adjustments	<u>20,302</u>	<u>6,482,945</u>
Net Income	\$ <u>1,442,145</u>	\$ <u>6,643,083</u>

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

REQUIRED SUPPLEMENTARY INFORMATION  
POSTEMPLOYMENT HEALTH BENEFITS  
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAAL as a Percentage of Covered Payroll</u>
06/01/07	\$ -	\$ 18,268,700	\$ 18,268,700	0.00%	\$ 4,386,500	416.48%
06/01/08	-	17,271,100	17,271,100	0.00%	4,685,000	368.65%

STATISTICAL SECTION

## **Statistical Section**

This part of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements says about the Authority's overall financial health.

### **Contents Financial Trends**

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

### **Revenue Capacity**

These schedules contain information to help the reader assess the factors affecting the Authority's ability to generate revenues.

### **Debt-Capacity**

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time and with other agencies.

### **Operating Information**

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the services the Authority provides and the activities it performs.



**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**COUNTY OF MIDDLESEX, NEW JERSEY**

**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**YEAR ENDED MAY 31, 2010**

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES		INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
			DATE	AMOUNT					
Capital Appreciation Bonds - Pay the Costs of Certain Improvements to the System, Fund the Debt Service Reserve and Pay the Costs of Issuance	06/15/89	\$2,830,313.50	11/01/10	\$1,060,000.00	Zero	\$1,762,233.00		\$264,783.90	\$1,497,449.10
			11/01/11	1,065,000.00	Zero				
			11/01/12	1,055,000.00	Zero				
			11/01/13	1,060,000.00	Zero				
			11/01/14	1,065,000.00	Zero				
			11/01/15	1,075,000.00	Zero				
			11/01/16	1,680,000.00	Zero				
1993 Revenue "C" Bonds - New Jersey Waste Water Treatment Trust Loan Agreement Pursuant to the Financing Program	09/22/93	1,080,000.00	11/01/10	75,000.00	4.80%	305,000.00		70,000.00	235,000.00
			11/01/11	80,000.00	4.80%				
			11/01/12	80,000.00	4.80%				
1993 Revenue "D" Bonds - New Jersey Waste Water Treatment Fund Loan Agreement Pursuant to the Financing Program	09/23/93	1,023,865.00	11/01/10	53,459.20	0.00%	129,262.97		52,497.34	76,765.63
			11/01/11	23,306.43	0.00%				
1997 Revenue "A" Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/06/97	1,355,000.00	11/01/10	80,000.00	5.00%	720,000.00		75,000.00	645,000.00
			11/01/11	85,000.00	5.00%				
			11/01/12	90,000.00	5.00%				
			11/01/13	90,000.00	5.00%				
			11/01/14	95,000.00	5.00%				
			11/01/15	100,000.00	5.00%				
			11/01/16	105,000.00	5.00%				
				(314,748.94)					
Future Principal Savings Credits	11/04/99	535,000.00	11/01/10	30,000.00	5.50%	345,000.00		25,000.00	320,000.00
			11/01/11	30,000.00	5.50%				
			11/01/12	30,000.00	5.50%				
			11/01/13	35,000.00	5.50%				
			11/01/14	35,000.00	5.50%				
			11/01/15	35,000.00	5.50%				
1999 NJEIT Trust Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance			11/01/16	40,000.00	5.50%				
			11/01/17	40,000.00	5.70%				
			11/01/18	45,000.00	5.70%				
				(15,328.08)					
Future Principal Savings Credits									

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
YEAR ENDED MAY 31, 2010

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES		INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
			DATE	AMOUNT					
1999 NJEIT Trust Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/04/99	\$1,060,000.00	11/01/10	\$55,000.00	5.50%	\$680,000.00		\$55,000.00	\$625,000.00
			11/01/11	60,000.00	5.50%				
			11/01/12	60,000.00	5.50%				
			11/01/13	65,000.00	5.50%				
			11/01/14	70,000.00	5.50%				
			11/01/15	75,000.00	5.50%				
			11/01/16	75,000.00	5.50%				
			11/01/17	80,000.00	5.70%				
			11/01/18	85,000.00	5.70%				
Future Principal Savings Credits				(45,537.58)					
1999 NJEIT Fund Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/04/99	527,031.00	11/01/10	28,972.45	0.00%	129,058.54		26,645.07	102,413.47
			11/01/11	27,913.09	0.00%				
			11/01/12	26,853.73	0.00%				
			11/01/13	18,674.20	0.00%				
1999 NJEIT Fund Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/04/99	1,050,013.00	11/01/10	54,635.23	0.00%	551,178.90		56,591.08	494,587.82
			11/01/11	55,912.19	0.00%				
			11/01/12	53,778.54	0.00%				
			11/01/13	54,871.69	0.00%				
			11/01/14	55,799.04	0.00%				
			11/01/15	56,542.59	0.00%				
			11/01/16	53,875.52	0.00%				
			11/01/17	54,441.26	0.00%				
			11/01/18	54,725.76	0.00%				
2002 Revenue "A" Bonds	08/01/02	1,415,000.00	11/01/10	95,000.00	3.625%	845,000.00		95,000.00	750,000.00
			11/01/11	100,000.00	3.800%				
			11/01/12	105,000.00	3.900%				
			11/01/13	105,000.00	4.000%				
			11/01/14	110,000.00	4.125%				
			11/01/15	115,000.00	4.250%				
2002 Revenue Refunding "A" Bonds	08/01/02	17,805,000.00	11/01/10	1,155,000.00	3.625%	9,535,000.00		1,120,000.00	8,415,000.00
			11/01/11	1,190,000.00	3.800%				
			11/01/12	1,240,000.00	3.900%				
			11/01/13	1,290,000.00	4.000%				
			11/01/14	1,335,000.00	4.125%				
			11/01/15	1,375,000.00	4.250%				
			11/01/16	830,000.00	4.300%				

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
YEAR ENDED MAY 31, 2010

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES DATE	AMOUNT	INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
2003 NJEIT Trust Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	10/15/03	\$3,120,000.00	11/01/10	\$145,000.00	5.00%	\$2,625,000.00		\$140,000.00	\$2,485,000.00
			11/01/11	150,000.00	5.00%				
			11/01/12	160,000.00	5.00%				
			11/01/13	165,000.00	5.00%				
			11/01/14	175,000.00	4.00%				
			11/01/15	180,000.00	4.00%				
			11/01/16	190,000.00	4.20%				
			11/01/17	195,000.00	4.25%				
			11/01/18	205,000.00	5.00%				
			11/01/19	215,000.00	5.00%				
			11/01/20	225,000.00	4.50%				
			11/01/21	235,000.00	4.75%				
2003 NJEIT Fund Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	10/15/03	2,787,329.00	11/01/10	155,836.74	0.00%	2,166,794.82		155,357.97	2,011,436.85
			11/01/11	154,490.19	0.00%				
			11/01/12	155,986.37	0.00%				
			11/01/13	154,190.96	0.00%				
			11/01/14	155,238.28	0.00%				
			11/01/15	154,041.34	0.00%				
			11/01/16	155,717.05	0.00%				
			11/01/17	153,933.62	0.00%				
			11/01/18	154,958.50	0.00%				
			11/01/19	154,808.87	0.00%				
			11/01/20	154,360.03	0.00%				
			11/01/21	154,285.22	0.00%				
2003 NJEIT Trust Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	10/15/03	1,000,000.00	11/1/2010-11	45,000.00	5.00%	815,000.00		45,000.00	770,000.00
			11/1/2012-13	50,000.00	5.00%				
			11/1/2014-15	55,000.00	4.00%				
			11/01/16	60,000.00	4.20%				
			11/01/17	60,000.00	4.25%				
			11/1/2018-19	65,000.00	5.00%				
			11/01/20	70,000.00	4.50%				
			11/1/2021-22	75,000.00	4.75%				
2003 NJEIT Fund Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	10/15/03	890,327.00	11/01/10	48,683.24	0.00%	677,717.31		49,497.18	628,220.13
			11/01/11	47,326.66	0.00%				
			11/01/12	48,984.69	0.00%				
			11/01/13	47,477.39	0.00%				
			11/01/14	48,984.70	0.00%				
			11/01/15	47,658.26	0.00%				
			11/01/16	49,346.45	0.00%				
			11/01/17	47,827.09	0.00%				
			11/01/18	49,304.25	0.00%				
			11/01/19	47,344.74	0.00%				
			11/01/20	48,399.86	0.00%				
			11/01/21	49,515.28	0.00%				
			11/01/22	47,367.52	0.00%				

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
YEAR ENDED MAY 31, 2010

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES DATE	AMOUNT	INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
2004 Revenue "A" Bonds	02/26/04	\$370,000.00	11/01/10 11/01/11 11/01/12 11/01/13 11/01/14	\$35,000.00 40,000.00 40,000.00 40,000.00 40,000.00	2.500% 2.750% 3.000% 3.250% 3.500%	\$230,000.00		\$35,000.00	\$195,000.00
2004 Revenue Refunding "A" Bonds	02/26/04	8,055,000.00	11/01/10 11/01/11 11/01/12 11/01/13 11/01/14 11/01/15 11/01/16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/01/22 11/01/23	460,000.00 465,000.00 485,000.00 500,000.00 510,000.00 530,000.00 540,000.00 565,000.00 595,000.00 615,000.00 200,000.00 205,000.00 220,000.00 230,000.00	2.500% 2.750% 3.000% 3.250% 3.375% 3.500% 3.625% 3.750% 4.000% 4.000% 4.000% 4.125% 4.200% 4.250%	6,560,000.00		440,000.00	6,120,000.00
2005 NJEIT Trust Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/15/05	1,625,000.00	11/01/10 11/01/11 11/12012-13 11/01/14 11/12015-16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/12022-23 11/01/24	65,000.00 70,000.00 75,000.00 80,000.00 85,000.00 90,000.00 95,000.00 100,000.00 105,000.00 110,000.00 115,000.00 120,000.00	5.00% 5.00% 5.00% 4.00% 4.00% 4.25% 4.25% 4.50% 4.375% 4.375% 4.375% 4.375%	1,450,000.00		65,000.00	1,385,000.00
2005 NJEIT Fund Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/15/05	1,530,940.00	11/01/10 11/01/11 11/01/12 11/01/13 11/01/14 11/01/15 11/01/16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/01/22 11/01/23 11/01/24	79,563.34 80,665.48 81,610.18 79,248.44 80,035.69 81,169.33 79,028.01 80,035.69 80,775.70 81,381.88 81,696.78 81,952.64 82,070.73 78,902.05 78,882.53	0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00%	1,288,628.65		81,610.18	1,207,018.47

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
YEAR ENDED MAY 31, 2010

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES DATE	AMOUNT	INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
2006 NJEIT Trust Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/09/06	\$3,350,000.00	11/01/10 11/01/11 11/01/12 11/01/13 11/01/14 11/01/15 11/01/16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/01/22 11/01/23 11/01/24 11/01/25	\$130,000.00 135,000.00 145,000.00 150,000.00 160,000.00 165,000.00 175,000.00 180,000.00 190,000.00 195,000.00 205,000.00 215,000.00 220,000.00 230,000.00 240,000.00 255,000.00	5.000% 5.000% 5.000% 5.000% 5.000% 5.000% 4.000% 4.000% 4.000% 4.000% 4.125% 4.125% 4.250% 5.000% 4.250%	\$3,115,000.00		\$125,000.00	\$2,990,000.00
2006 NJEIT Fund Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/09/06	3,167,000.00	11/01/10 11/01/11 11/01/12 11/01/13 11/01/14 11/01/15 11/01/16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/01/22 11/01/23 11/01/24 11/01/25	169,082.24 168,118.11 170,207.04 168,760.86 170,367.72 168,439.49 169,564.29 168,278.80 170,078.49 168,407.35 169,821.39 170,813.63 168,327.01 168,744.79 167,780.67 170,866.05	0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00%	2,876,740.16		169,082.23	2,707,657.93
2008 NJEIT Trust Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/06/08	1,950,000.00	11/01/10-11 11/01/12 11/01/13 11/01/14 11/01/15-16 11/01/17 11/01/18 11/01/19 11/01/20 11/01/21 11/01/22 11/01/23 11/01/24 11/01/25 11/01/26 11/01/27	70,000.00 75,000.00 80,000.00 85,000.00 90,000.00 95,000.00 100,000.00 105,000.00 115,000.00 120,000.00 125,000.00 130,000.00 140,000.00 145,000.00 155,000.00 160,000.00	5.00% 5.00% 5.00% 5.00% 5.00% 5.00% 5.25% 5.50% 5.50% 5.50% 5.50% 5.00% 5.00% 5.00% 5.00%	1,950,000.00			1,950,000.00

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COUNTY OF MIDDLESEX, NEW JERSEY

SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
YEAR ENDED MAY 31, 2010

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES		INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
			DATE	AMOUNT					
2008 NJEIT Fund Water Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance	11/06/08	\$1,781,000.00	11/01/10	\$97,702.93	0.00%	\$1,781,000.00			\$1,781,000.00
			11/01/11	98,436.00	0.00%				
			11/01/12	96,090.16	0.00%				
			11/01/13	97,427.29	0.00%				
			11/01/14	98,614.87	0.00%				
			11/01/15	96,714.75	0.00%				
			11/01/16	97,007.97	0.00%				
			11/01/17	97,154.58	0.00%				
			11/01/18	97,154.59	0.00%				
			11/01/19	97,008.08	0.00%				
			11/01/20	97,359.85	0.00%				
			11/01/21	100,526.74	0.00%				
			11/01/22	99,793.67	0.00%				
			11/01/23	98,913.97	0.00%				
			11/01/24	101,413.76	0.00%				
			11/01/25	103,451.72	0.00%				
			11/01/26	102,293.46	0.00%				
			11/01/27	103,935.61	0.00%				
2008 Revenue Bonds (2008C Series)	12/23/08	5,625,000.00	11/1/2010-20	25,000.00	4.500%	5,625,000.00		25,000.00	5,600,000.00
			11/1/2021-23	25,000.00	5.375%				
			11/01/24	480,000.00	5.375%				
			11/01/25	745,000.00	5.375%				
			11/01/26	985,000.00	5.375%				
			11/01/27	1,480,000.00	5.375%				
			11/01/28	1,560,000.00	5.375%				
2009 Revenue Refunding Bonds (2009A Series)	05/28/09	3,050,000.00	11/01/10	290,000.00	2.00%	3,050,000.00		100,000.00	2,950,000.00
			11/01/11	300,000.00	2.00%				
			11/01/12	305,000.00	2.50%				
			11/01/13	315,000.00	3.00%				
			11/01/14	325,000.00	3.00%				
			11/01/15	335,000.00	4.00%				
			11/01/16	345,000.00	4.00%				
			11/01/17	360,000.00	4.00%				
			11/01/18	375,000.00	4.00%				

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**COUNTY OF MIDDLESEX, NEW JERSEY**

**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**YEAR ENDED MAY 31, 2010**

PURPOSE	DATE OF ISSUE	AMOUNT ISSUED	MATURITIES		INTEREST RATE	BALANCE MAY 31, 2009	ISSUED	DECREASED	BALANCE MAY 31, 2010
			DATE	AMOUNT					
2008 NJEIT Trust Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance		\$600,000.00	11/1/2010-12	\$20,000.00	5.000%		\$600,000.00		\$600,000.00
			11/1/2013-16	25,000.00	5.000%				
			11/01/17	30,000.00	5.000%				
			11/01/18	30,000.00	4.000%				
			11/01/19	30,000.00	5.000%				
			11/01/20	35,000.00	3.000%				
			11/1/2021-23	35,000.00	4.000%				
			11/01/24	40,000.00	4.000%				
			11/01/25	40,000.00	3.500%				
			11/01/26	40,000.00	4.000%				
			11/1/2027-28	45,000.00	4.000%				
2008 NJEIT Fund Sewer Bonds - Pay the Cost of Certain Improvements to the System, Fund the Debt Service Reserve Fund and Fund and Pay Cost of Issuance		625,033.00	11/01/10	52,968.87	0.00%		625,033.00		625,033.00
			11/01/11	31,781.32	0.00%				
			11/01/12	31,781.32	0.00%				
			11/01/13	31,781.32	0.00%				
			11/01/14	31,781.32	0.00%				
			11/01/15	31,781.32	0.00%				
			11/01/16	31,781.32	0.00%				
			11/01/17	31,781.32	0.00%				
			11/01/18	31,781.32	0.00%				
			11/01/19	31,781.32	0.00%				
			11/01/20	31,781.32	0.00%				
			11/01/21	31,781.32	0.00%				
			11/01/22	31,781.32	0.00%				
			11/01/23	31,781.32	0.00%				
			11/01/24	31,781.32	0.00%				
			11/01/25	31,781.32	0.00%				
			11/01/26	31,781.32	0.00%				
			11/01/27	31,781.32	0.00%				
			11/01/28	31,781.69	0.00%				
Total						\$49,212,614.35	\$1,225,033.00	\$3,271,064.95	\$47,166,582.40
Gross Principal						\$49,212,614.35			\$47,166,582.40
Future NJEIT Savings Credits						(410,407.52)			(375,614.60)
Net Principal Balance						\$48,802,206.83			\$46,790,967.80
Detail:									
Current Portion									
Revenue Bonds									\$3,716,642.75
Long-Term Liability									43,074,325.05
Revenue Bonds									\$46,790,967.80
Total Revenue Supported Debt									

Source: Official Statements

INSURANCE COVERAGE

A multi-peril policy issued by the Selective Way Insurance Company for a one-year period expiring on April 15, 2011, payable over ten months, was in force during the period under review .

The policy provided for the following coverage:

Special Multi-Peril Policy (S 1730992)

Property:

Building and Contents (\$1,000.00 Deductible)	\$ 66,404,630.00
Blanket Extra Expense	1,000,000.00
Employee Benefit Program Coverage	1,000,000.00
Boiler and Machinery (\$1,000.00 Deductible)	2,000,000.00
Ordinance of Law Coverage	500,000.00
Pipeline Distribution System (\$5,000.00 Deductible)	5,000,000.00
Flood (\$25,000.00 Deductible)	5,000,000.00
Earthquake (\$25,000.00 Deductible)	5,000,000.00
Valuable Papers (\$1,000.00 Deductible)	75,000.00
Employee Dishonesty (\$1,000.00 Deductible)	25,000.00
Forgery (\$1,000.00 Deductible)	25,000.00
Theft (\$1,000.00 Deductible)	25,000.00
Miscellaneous Equipment	10,000.00
Auto Fleet Liability (Combined Single Limit)	1,000,000.00

Other Coverages in Effect:

Public Officials Liability (\$10,000.00 Deductible)	1,000,000.00
Arch Insurance Group (12POF4022300)	
Umbrella Liability	10,000,000.00
Selective Way Insurance Company	
Commercial General Liability (\$1,000.00 Deductible)	2,000,000.00
Selective Way Insurance Company	
Commercial Pollution Legal Liability (\$25,000.00 Deductible)	1,000,000.00
Lexington Insurance Company (PLC3775825)	

All of the insurance policies in force were examined. No attempt was made to determine the adequacy of coverage as part of this report. Adequacy of coverage is the responsibility of the Authority.



# **Old Bridge Municipal Utilities Authority** **Schedule of Number of Equivalent Domestic Consumer Units**

Fiscal Year	Water				Sewer				Total	
	Residential	Commercial	Industrial	Other	Residential	Commercial	Industrial	Other	Water Division	Sewer Division
05/31/10	17,938	8,650	125	561	17,628	8,295	1	491	27,274	26,415
05/31/09	17,910	8,626	125	561	17,603	8,279	1	491	27,222	26,374
05/31/08	17,885	8,549	125	495	17,567	8,253	1	447	27,054	26,268
05/31/07	17,845	8,480	125	469	17,510	8,207	1	444	26,919	26,162
05/31/06	17,668	8,184	125	424	17,334	7,945	1	399	26,401	25,679
05/31/05	17,338	8,046	125	329	16,989	7,835	1	313	25,838	25,138
05/31/04	17,104	7,956	125	268	16,753	7,755	1	269	25,453	24,778
05/31/03	17,008	7,883	125	266	16,651	7,700	2	259	25,282	24,612
09/30/02	16,796	7,842	125	158	16,444	7,661	2	134	24,921	24,241
09/30/01	16,468	7,558	100	118	16,120	7,408	2	114	24,244	23,644

Note: Information is from OBMUA Billing Summaries at the end of the fiscal year

Commercial includes Apartments and Multiple Business Malls

Other includes, Government Building, Schools, and Houses of Worship

# Old Bridge Municipal Utilities Authority

## SCHEDULE OF WATER PRODUCED/PURCHASED AND CONSUMED Last Ten Calendar Years

<b>Year</b>	<b>Gallons of Water Produced/Purchased</b>	<b>Gallons of Water Consumed</b>	<b>Gallons of Water Unbilled (1)</b>	<b>Average Percent Unbilled</b>
2009	2,277,731	2,075,260	202,471	8.89%
2008	2,524,749	2,320,744	204,005	8.08%
2007	2,560,625	2,284,646	275,979	10.78%
2006	2,500,255	2,294,256	205,999	8.24%
2005	2,540,120	2,388,126	151,994	5.98%
2004	2,361,970	2,223,752	138,218	5.85%
2003	2,352,638	2,210,804	141,834	6.03%
2002	2,470,084	2,296,003	174,081	7.05%
2001	2,547,297	2,391,080	156,217	6.13%
2000	2,415,706	2,303,776	111,930	4.63%

Sources: Water Utilization Report filed with NJ Bureau of Safe Drinking Water  
Note: Units are measured in 1,000,000 gallon increments.

(1) All unbilled water is not unaccounted for, a portion of this figure is accounted for with line flushing, fire hydrant testing, flow tests, fire fighting, etc.

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**NET ASSETS BY COMPONENT - LAST EIGHT YEARS**

	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Invested in Capital Assets, net of related debt	\$ 59,001,441	\$ 53,578,881	\$ 47,613,389	\$ 37,642,868	\$ 39,277,723	\$ 34,350,115	\$ 29,701,018	\$ 28,861,285
Restricted for Operations	5,639,570	5,469,850	5,004,790	4,684,517	4,506,345	4,303,510	4,042,384	3,777,043
Restricted for Capital Projects	1,345,021	1,335,958	4,274,668	5,590,934	3,213,943	3,438,526	3,890,781	3,975,481
Restricted for Debt Service	5,068,942	5,119,003	5,892,759	5,945,614	5,626,989	4,836,989	4,836,989	4,254,916
Restricted for Future Debt Services						580,205	527,361	599,182
Unrestricted	23,315,514	23,792,287	17,935,369	21,371,649	16,366,206	14,983,865	16,039,921	14,113,625
Total Net Assets	\$ 94,370,488	\$ 89,295,979	\$ 80,720,975	\$ 75,235,582	\$ 68,991,206	\$ 62,493,210	\$ 59,038,454	\$ 55,581,532
Percentage Increase	6%	11%	7%	9%	10%	6%	6%	

Note: The information shown is as of the first year of the implementation of GASB Statement No. 34, fiscal year 2003

Source: Authority Records

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**CHANGES IN NET ASSETS - LAST TEN YEARS**

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
OPERATING REVENUES	\$ 24,104,071	24,913,553	24,303,281	24,107,787	24,939,925	21,014,977	19,952,787	12,914,898	19,451,505	18,650,326
OPERATING EXPENSES	21,268,729	20,359,268	19,615,858	18,333,965	17,822,044	16,330,614	16,184,402	9,879,102	15,684,620	14,477,192
OPERATING INCOME/(LOSS)	2,835,342	4,554,285	4,687,423	5,773,822	7,117,881	4,684,363	3,768,385	3,035,796	3,766,885	4,173,134
TOTAL NON-OPERATING REVENUES/ (EXPENSES)	(2,982,922)	(1,450,935)	(350,404)	(323,399)	(1,000,274)	(1,379,139)	(1,629,907)	(1,232,578)	(1,941,354)	(2,264,397)
INCOME/(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(147,580)	3,103,350	4,337,019	5,450,423	6,117,607	3,305,224	2,138,478	1,803,218	1,825,531	1,908,737
CAPITAL CONTRIBUTIONS	5,222,089	5,471,654	1,148,374	793,953	380,389	149,532	1,318,444	431,943	7,356,997	504,096
CHANGE IN NET ASSETS	\$ 5,074,509	8,575,004	5,485,393	6,244,376	6,497,996	3,454,756	3,456,922	2,235,161	9,182,528	2,412,813

Source: Authority Records

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
REVENUES BY SOURCES - LAST TEN YEARS**

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
<b>OPERATING REVENUES</b>										
Water Charges	\$ 11,838,288	\$ 12,468,440	\$ 12,167,856	\$ 11,515,438	\$ 11,660,605	\$ 10,510,671	\$ 9,798,449	\$ 6,579,589	\$ 9,714,171	\$ 8,990,800
Sewer Charges	11,639,281	11,453,889	11,025,198	10,304,123	9,529,275	9,066,201	8,597,770	5,351,249	8,108,370	7,825,537
Connection Fees	242,731	487,470	454,822	1,218,980	2,893,424	706,642	916,966	593,064	1,122,453	1,280,411
Other	383,771	503,754	655,405	1,069,246	856,621	731,463	639,602	390,996	506,511	553,578
<b>TOTAL OPERATING REVENUES</b>	<b>24,104,071</b>	<b>24,913,553</b>	<b>24,303,281</b>	<b>24,107,787</b>	<b>24,939,925</b>	<b>21,014,977</b>	<b>19,952,787</b>	<b>12,914,898</b>	<b>19,451,505</b>	<b>18,650,326</b>
<b>NON-OPERATING REVENUES</b>										
Interest Income	341,813	861,918	1,599,913	1,536,950	983,793	499,038	413,839	301,734	594,591	972,216
Miscellaneous	13,663	16,038		296,474		2,626			82,180	43,754
<b>TOTAL NON-OPERATING REVENUES</b>	<b>355,476</b>	<b>877,956</b>	<b>1,599,913</b>	<b>1,833,424</b>	<b>983,793</b>	<b>501,664</b>	<b>413,839</b>	<b>301,734</b>	<b>676,771</b>	<b>1,015,970</b>
<b>TOTAL REVENUES</b>	<b>\$ 24,459,547</b>	<b>\$ 25,791,509</b>	<b>\$ 25,903,194</b>	<b>\$ 25,941,211</b>	<b>\$ 25,923,718</b>	<b>\$ 21,516,641</b>	<b>\$ 20,366,626</b>	<b>\$ 13,216,632</b>	<b>\$ 20,128,276</b>	<b>\$ 19,666,296</b>

Note: The OBMUA's most significant own-source revenue are residential consumers which make up 66% of the revenues. All others make up 34% of the revenues. See Schedule - 3 for the respective equivalent consumer units.

Source: Authority Records

OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
EXPENSES BY FUNCTION - LAST TEN YEARS

	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
<b>OPERATING EXPENSES</b>										
Personnel Costs	\$ 8,497,720	\$ 8,736,264	\$ 7,580,384	\$ 6,988,138	\$ 6,981,423	\$ 7,052,744	\$ 6,675,833	\$ 4,164,258	\$ 6,375,670	\$ 6,005,749
Administrative Expenses	1,754,815	1,321,201	1,401,920	1,302,134	1,181,872	982,731	1,029,838	649,713	804,438	677,055
Office Expenses	148,895	153,035	136,320	143,605	137,236	137,966	144,321	86,609	124,857	113,272
Engineering Expenses	25,872	27,140	30,020	33,998	29,729	27,203	27,427	20,653	28,293	28,197
Operations and Maintenance	3,110,423	2,535,239	2,725,536	2,808,150	2,448,680	1,987,587	2,538,762	1,216,879	2,401,261	2,024,489
Contractual Services and Charges	5,386,862	5,483,229	5,905,687	5,432,277	5,505,889	4,565,274	4,240,792	2,729,692	4,393,833	4,175,283
Depreciation	2,344,142	2,103,160	1,835,991	1,625,663	1,537,215	1,577,109	1,527,429	1,011,298	1,556,268	1,453,147
<b>TOTAL OPERATING EXPENSES</b>	<b>21,268,729</b>	<b>20,359,268</b>	<b>19,615,858</b>	<b>18,333,965</b>	<b>17,822,044</b>	<b>16,330,614</b>	<b>16,184,402</b>	<b>9,879,102</b>	<b>15,684,620</b>	<b>14,477,192</b>
<b>NON-OPERATING EXPENSES</b>										
Interest Expense	1,904,507	2,211,395	1,839,373	2,047,470	1,878,729	1,777,970	1,943,723	1,462,856	2,544,015	2,507,882
Transfer to Old Bridge Township	1,312,157	-	-	-	-	-	-	-	-	-
Miscellaneous	121,734	117,496	110,944	109,353	105,338	102,833	100,023	71,456	74,110	772,485
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>3,338,398</b>	<b>2,328,891</b>	<b>1,950,317</b>	<b>2,156,823</b>	<b>1,984,067</b>	<b>1,880,803</b>	<b>2,043,746</b>	<b>1,534,312</b>	<b>2,618,125</b>	<b>3,280,367</b>
<b>TOTAL EXPENSES</b>	<b>\$ 24,607,127</b>	<b>\$ 22,688,159</b>	<b>\$ 21,566,175</b>	<b>\$ 20,490,788</b>	<b>\$ 19,806,111</b>	<b>\$ 18,211,417</b>	<b>\$ 18,228,148</b>	<b>\$ 11,413,414</b>	<b>\$ 18,302,745</b>	<b>\$ 17,757,559</b>

Source: Authority Records

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**RATIO OF ASSESSED VALUATION TO ESTIMATED FULL CASH VALUE**

		<b>NET ASSESSED VALUATION TAXABLE</b>	<b>ESTIMATED FULL CASH VALUATIONS</b>	<b>PERCENTAGE OF NET ASSESSED TO ESTIMATED FULL CASH VALUATIONS</b>
FY 2010	\$	3,390,686,100	\$ 7,832,492,723	43.29%
FY 2009		3,388,609,200	8,001,438,489	42.35%
FY 2008		3,371,138,200	7,917,186,942	42.58%
FY 2007		3,335,270,600	7,335,101,386	45.47%
FY 2006		3,304,444,000	6,410,172,648	51.55%
FY 2005		3,265,492,900	5,677,143,428	57.52%
FY 2004		3,196,717,300	4,831,797,612	66.16%
FY 2003		3,162,773,038	4,191,879,441	75.45%
FY 2002		3,071,693,517	3,691,495,634	83.21%
FY 2001		3,033,544,783	3,345,698,449	90.67%

Source: Abstract of Ratables, Middlesex County Board of Taxation

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
COMPUTATION OF DEBT SERVICE COVERAGE - LAST TEN YEARS**

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2006</b>
Operating Revenues	\$ 24,104,071	\$ 24,913,553	\$ 24,303,280	\$ 23,855,463	\$ 24,839,925
Operating Expenditures	21,268,729	20,359,268	19,615,857	17,784,520	17,284,386
Net Operating Excess Revenues	2,835,342	4,554,285	4,687,423	6,070,943	7,555,539
Non Operating Excess Revenues (Expenses), Net	(2,982,922)	(1,450,935)	(350,404)	(365,028)	(900,274)
Net Income (Loss)	(147,580)	3,103,350	4,337,019	5,705,915	6,655,265
Retained Earnings					
Appropriated as Revenue	5,075,943	0	359,100	270,137	597,267
Net Excess (Deficit) of					
Operating Revenues	4,928,363	3,103,350	4,696,119	5,976,052	7,252,532
Debt Service Cost	1,904,507	2,211,395	1,839,373	2,047,470	1,878,729
Depreciation and Amortization	1,718,128	1,549,039	1,376,261	1,185,571	1,104,895
Revenues Available for					
Debt Service	8,550,998	6,863,784	7,911,753	9,209,093	10,236,156
Debt Service:					
Bond Principal	3,236,272	3,736,181	3,656,958	3,337,835	3,462,664
Interest on Bonds	2,136,132	1,707,489	1,601,071	1,535,984	1,745,089
Total Debt Service	\$ 5,372,404	\$ 5,443,670	\$ 5,258,029	\$ 4,873,819	\$ 5,207,753
Debt Service Coverage Factor	1.59%	1.26%	1.50%	1.89%	1.97%

Source: Authority Records



**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**COMPUTATION OF DEBT SERVICE COVERAGE - LAST TEN YEARS**

	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2003</b>	<b>FY 2002</b>	<b>FY 2001</b>
Operating Revenues	\$ 20,999,977	\$ 19,829,281	\$ 12,914,898	\$ 19,516,897	\$ 18,650,326
Operating Expenditures	15,798,911	15,705,691	9,567,509	15,169,248	14,098,539
Net Operating Excess Revenues	5,201,066	4,123,590	3,347,389	4,347,649	4,551,787
Non Operating Excess Revenues (Expenses), Net	(1,364,139)	(1,506,402)	(1,232,578)	(1,941,354)	(1,561,517)
Net Income (Loss)	3,836,927	2,617,188	2,114,811	2,406,295	2,990,270
Retained Earnings					
Appropriated as Revenue	1,055,797	246,456	586,139	559,185	
Net Excess (Deficit) of					
Operating Revenues	4,892,724	2,863,644	2,700,950	2,965,480	2,990,270
Debt Service Cost	1,777,970	1,943,723	1,462,856	2,544,015	2,507,882
Depreciation and Amortization	1,148,239	1,148,741	764,228	1,115,006	1,144,098
Revenues Available for					
Debt Service	7,818,933	5,956,108	4,928,034	6,624,501	6,642,250
Debt Service:					
Bond Principal	3,358,544	2,742,035	930,646	1,575,239	1,487,657
Interest on Bonds	1,715,099	1,943,723	1,462,856	2,544,015	2,507,882
Total Debt Service	\$ 5,073,643	\$ 4,685,758	\$ 2,393,502	\$ 4,119,254	\$ 3,995,539
Debt Service Coverage Factor	1.54%	1.27%	2.06%	1.61%	1.66%

Source: Authority Records

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
POPULATION AND SCHOOL ENROLLMENT DATA**

	<b>Township of Old Bridge Population*</b>	<b>County of Middlesex Population*</b>	<b>Old Bridge School Enrollment**</b>	<b>State of New Jersey***</b>
FY 2009	65,942	790,738	9,488	8,707,739
FY 2008	65,478	785,324	9,583	8,663,398
FY 2007	65,217	779,830	9,648	8,636,043
FY 2006	64,669	776,876	9,758	8,623,721
FY 2005	63,865	778,018	9,850	8,621,837
FY 2004	63,225	774,209	9,956	8,611,530
FY 2003	62,786	770,336	9,931	8,583,481
FY 2002	62,260	765,867	9,841	8,544,115
FY 2001	61,392	760,058	9,730	8,489,469
FY 2000	60,676	752,705	9,586	8,430,921

\* Dept of Labor New Jersey as of July 1

\*\* Township of Old Bridge School District

\*\*\* NJ Economic Indicators, NJ Div of Labor

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY  
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT  
COUNTY OF MIDDLESEX**

	County of Middlesex Labor Force	Employment	Unemployment	County Unemployment Rate	State Unemployment Rate	National Unemployment Rate	Total Personal Income	Per Capita Personal Income
FY 2009	426,713	389,744	36,969	8.7%	9.2%	9.3%	\$ 438,111	\$ 50,313
FY 2008	416,900	387,000	29,900	7.2%	5.5%	5.8%	441,236	50,919
FY 2007	420,000	401,500	18,500	4.4%	4.3%	4.6%	433,076	49,511
FY 2006	425,900	407,000	18,900	4.6%	4.6%	4.6%	412,096	46,813
FY 2005	418,600	401,400	17,200	4.3%	5.1%	5.1%	384,190	40,978
FY 2004	421,057	402,657	18,400	4.6%	5.5%	5.5%	371,430	39,621
FY 2003	418,300	395,800	22,500	5.7%	6.0%	6.0%	348,763	38,517
FY 2002	424,300	403,300	21,000	5.2%	5.8%	5.8%	336,291	38,107
FY 2001	413,674	398,518	15,156	3.6%	4.7%	4.7%	335,959	37,849
FY 2000	411,155	398,485	12,670	3.1%	4.0%	4.0%	330,775	36,492

Source: NJ Department of Labor, Bureau of Labor Force Statistics  
Regional Economic Information System, U.S. Department of Commerce

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**Authority Employees by Function**  
**Filled Positions Only at May 31**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Executive</b>	1	1	1	1	1	1	1
<b>Human Resources &amp; Administration</b>	4	5	5	5	5	6	7
<b>Engineering</b>	5	6	6	6	6	6	6
<b>Finance</b>	2	2	2	2	2	2	2
<b>Billing/Customer Service</b>	5	6	6	6	6	6	6
<b>Water Operations</b>	25	27	28	28	29	32	33
<b>Sewer Operations</b>	13	14	14	16	18	18	21
<b>Legal</b>	0	0	1	1	1	1	1
<b>Commissioners</b>	7	7	7	7	7	7	7
<b>Board Secretary</b>	1	1	1	1	1	1	1
<b>Office Cleaning</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
<b>Totals</b>	63	69	71	74	77	81	86

Source: Old Bridge MUA  
Data prior to 2004 not available

**OLD BRIDGE MUNICIPAL UTILITIES AUTHORITY**  
**Last Seven Fiscal Years**

	2010	2009	2008	2007	2006	2005	2004
Number of Employees	63	69	71	74	77	81	86
Service Area in Acres	24,832	24,832	24,832	24,832	24,832	24,832	24,832
Service Area in square miles	38.8	38.8	38.8	38.8	38.8	38.8	38.8
Assessed Valuation (million) *	\$ 3,390.7	\$ 3,388.6	\$ 3,371.1	\$ 3,335.3	\$ 3,304.4	\$ 3,265.5	\$ 3,196.7
Population Served **	66,300	***	65,478	65,217	64,669	63,865	63,225
Miles of Water Pipelines							
Number of Storage Tanks	9	9	9	9	8	8	8
Max Storage Capacity (million gal.)	22.75	22.75	22.75	22.75	19.85	19.85	19.85
Number of Water Treatment Plants	2	2	2	2	2	2	2
Sewerage Pump Stations	36	35	35	35	32	31	31
Ejector Stations	1	1	1	1	1	2	2
Avg. Sewer Flows per Day (MGD)	6.238	5.390	5.385	5.635	5.861	5.948	5.979

Note: Data not available for periods prior to fiscal year 2004

Source: Old Bridge MUA

\* Assessed Valuation, Middlesex County Board of Taxation

\*\* New Jersey Dept. of Labor

\*\*\* Estimated

\*\*\*\* Actual thru 06/30/10

Source: (1) Middlesex County Office of Economic Development; April 2010  
(2) Middlesex County Office of Economic Development; January 2004

## GENERAL COMMENTS AND RECOMMENDATIONS

## GENERAL COMMENTS

### INTERNAL CONTROL MATTERS

#### Documentation of Components of Internal Control

As required by Statement on Auditing Standards No. 115, entities subject to audit are required to provide documentation of the various components of its internal controls.

The Authority should consider documenting the various components of its internal controls.

With respect to the reporting of internal control matters, standards require that only a significant deficiency and/or a material weakness need be reported in writing to management and those charged with governance. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or other applicable accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The control deficiency reported above is not considered to be significant deficiencies nor material weaknesses. In addition, these control deficiencies are not required to be reported in writing, however, these control deficiencies are presented to management and those charged with governance in this report as a means to present those matters identified in review of the Authority's internal controls and as a means to inform management and those charged with governance as to the auditing standards requirements with respect to internal controls.

#### Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4

N.J.S.A. 40A:11-4 states "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost of the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate of \$21,000.00 except by contract or agreement."

The Commissioners and Executive Director of the Old Bridge Municipal Utilities Authority have the responsibility of determining whether the expenditures in any category will exceed \$21,000.00 during the fiscal year. Where question arises as to whether any contract or agreement might result in violation of this statute, the Authority Counsel's opinion should be sought before a commitment is made.



## GENERAL COMMENTS

Contracts and Agreements Required  
to be Advertised for N.J.S.A. 40A:11-4 (cont'd.)

The minutes indicate that bids were requested by public advertising for the following items:

### Materials, Supplies and Equipment:

Route 516/Cheesequake Booster Station

### Contracts:

Aerator Cleaning; Water Supply Materials, Electrical Services, Fiberglass Enclosures, Cheesequake Booster Station Upgrade and various system improvements, Radio Frequency Meter Reading Equipment, Chemical Supplies, Laboratory Testing of Drinking Water, Sewer Field Services, Redeveloping of Well No. 4,

The minute records and purchase orders also reflected significant utilization of state contracts for various supplies and equipment.

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

Examination of expenditures revealed no individual payments in excess of \$21,000.00 for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement.

Upon inquiry of various officials responsible for the purchases of materials, supplies, equipment, etc., for the authority in relation to the Local Public Contracts Laws regarding the solicitation of quotations when the cost is \$3,150.00 or more, monitoring of change orders, quantities and unit prices of contracts, except as noted in the preceding paragraph, procedures presently in place were found to be good.

The minutes also indicated that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

Any interpretation as to possible violation of N.J.S.A. 40A:11 and N.J.A.C. 5:30-14 would be in the province of the General Counsel.

During the year under review, we noted a general improvement in the centralization of the planning and procurement process for obtaining necessary goods and services. Although significant aspects of the planning process are still decentralized, efforts are being made to aggregate planned spending across operating divisions and greater diligence was noted in the administrative review process.

## GENERAL COMMENTS

### Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4 (Cont'd.)

The new Local Public Contracts Law provides a higher threshold for mandatory public bidding if the local unit employs a certified purchasing agent to administer a fully centralized purchasing function. The estimated costs and operating inefficiencies of such a procurement system should be weighed against the potential benefits and efficiencies that such a system might provide to determine if the Authority should consider the engagement of a certified purchasing agent and the full centralization of its procurement function.

### Payment of Claims

The examination did not and could not determine the character of services rendered for which payment had been made or for which charges had been set up nor could it determine the character, proper price or quantity of materials supplied for which claims had been passed. These details were necessarily covered by the internal review and control before approval of such claims by the governing body.

Claims were examined on a test basis for the year under review and they were found to be generally in good order. Audit tests that prior to payment, all claims were properly authorized, all documentation relating to receipt of goods, vendor certification of delivery, and proper pricing was on hand and available for the review of the Authority's Treasurer as part of his payment approval reviews. The audit evidence collected during our tests of the approval and payment process suggests that administrative reviews of claims are sufficient to assure that all claims presented to the Commissioners for approval are complete in all respects. Any items which are questioned by the Treasurer during his reviews are held until such time as the issues raised are answered to his satisfaction.

## RECOMMENDATIONS

None

\* \* \* \* \*

## ACKNOWLEDGMENT

During the course of our engagement, we received the full cooperation of the Management and staff of the Authority, and we greatly appreciate the courtesies extended to us.

Very truly yours,

HODULIK & MORRISON, P.A.

A handwritten signature in black ink, appearing to read "Robert S. Morrison". The signature is fluid and cursive, with a large, stylized initial "R".

Robert S. Morrison, CPA, RMA  
No. 412