

MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2011 AND 2010

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

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**THE MANCHESTER UTILITIES AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

We have audited the accompanying statement of net assets of the Manchester Utilities Authority (a Component Unit of the Borough of Haledon), as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Manchester Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Manchester Utilities Authority as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The Honorable Chairman and Commissioners
of the Manchester Utilities Authority
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In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2012 on our consideration of the Manchester Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

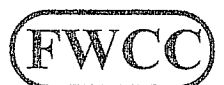
Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Manchester Utilities Authority's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedules of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

April 23, 2012



THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

As management of the Manchester Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2011 and 2010. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$12,803,840 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$12,795,561.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$11,830,569 include plant and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$111,281 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$861,990 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$897,726 to \$6,778,115 during the fiscal year.

Overview of the Financial Statements

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of 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 evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the authority.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

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 results of the Authority operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader 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, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Net Assets

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at fiscal year-end are \$12,803,840. This is a \$8,279 increase over last year's net assets of \$12,795,561. A summary of the Authority's statement of net assets is presented in the following table:

Condensed Statement of Net Assets

	<u>FY 2011</u> *	<u>FY 2010</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>FY 2009</u>
Current and Other Assets	2,949,176	4,103,791	(1,154,615)	(28.14)%	8,617,658
Capital Assets	<u>16,632,779</u>	<u>16,367,611</u>	<u>265,168</u>	1.62%	<u>13,261,518</u>
Total Assets	<u>19,581,955</u>	<u>20,471,402</u>	<u>(889,447)</u>		<u>21,879,176</u>
Current Liabilities	1,429,217	2,093,710	(664,493)	(31.74)%	3,685,400
Non-Current Liabilities	<u>5,348,898</u>	<u>5,582,131</u>	<u>(233,233)</u>	(4.18)%	<u>8,861,718</u>
Total Liabilities	<u>6,778,115</u>	<u>7,675,841</u>	<u>(897,726)</u>		<u>12,547,118</u>
Invested in Capital Assets, Net of Related Debt	11,830,569	11,968,576	(138,007)	(1.15)%	9,664,199
Restricted	111,281	125,887	(14,606)	(11.60)%	56,192
Unrestricted	<u>861,990</u>	<u>701,098</u>	<u>160,892</u>	22.95%	<u>(388,333)</u>
	<u>12,803,840</u>	<u>12,795,561</u>	<u>8,279</u>	0.06%	<u>9,332,058</u>

While the *Statement of Net Assets* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets increased by \$8,279.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Net Assets (Continued)

Condensed Statement of Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2009</u>
Operating Revenues	2,474,561	2,287,010	187,551	8.20%	2,249,512
Non-Operating Revenues	<u>33,948</u>	<u>1,010,673</u>	<u>(976,725)</u>	(96.64)%	<u>31,117</u>
Total Revenues	<u>2,508,509</u>	<u>3,297,683</u>	<u>(789,174)</u>		<u>2,280,629</u>
Depreciation and Amortization	332,232	257,883	74,349	28.83%	236,618
Other Operating Expenses	1,923,562	1,881,042	* 42,520	2.26%	1,818,352
Other Non-Operating Expense	<u>415,856</u>	<u>351,122</u>	<u>64,734</u>	18.44%	<u>438,329</u>
Total Expenses	<u>2,671,650</u>	<u>2,490,047</u>	<u>181,603</u>		<u>2,493,299</u>
Contributions	<u>171,420</u>	<u>2,655,867</u>	<u>(2,484,447)</u>	(93.55)%	
Change in Net Assets	8,279	3,463,503	(3,455,224)		(212,670)
Beginning Net Assets	<u>12,795,561</u>	<u>9,332,058</u>	<u>3,463,503</u>	37.11%	<u>9,544,728</u>
Ending Net Assets	<u>12,803,840</u>	<u>12,795,561</u>	<u>8,279</u>	0.06%	<u>9,332,058</u>

Budgetary Highlights

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.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

The following table provides a 2011 budget comparison:

Budget vs. Actual			
FY 2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	2,398,000	2,506,037	108,037
Non-operating	<u>68,000</u>	<u>39,472</u>	<u>(28,528)</u>
	<u>2,466,000</u>	<u>2,545,509</u>	<u>79,509</u>
Expenses:			
Operating	2,241,726	1,923,562	318,164
Non-operating	<u>224,274</u>	<u>477,989</u>	<u>(253,715)</u>
	<u>2,466,000</u>	<u>2,401,551</u>	<u>64,449</u>
Income Before Depreciation and Contributions	<u>0</u>	<u>143,958</u>	<u>143,958</u>

Capital Assets

At the end of 2011, the Authority had invested \$21,991,510 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$16,632,779. This is a \$265,168 increase over last year's net plant, property and equipment of \$16,367,611. A summary of the Authority's capital assets is presented in the following table:

Capital Assets

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>FY 2009</u>
Structures and Improvements	1,217,852	1,217,852	0	1,217,852
Water Supply and Distribution System	19,495,013	13,904,940	5,590,073	13,904,940
Equipment	<u>803,266</u>	<u>803,266</u>	<u> </u>	<u>803,266</u>
Total Capital Assets	<u>21,516,131</u>	<u>15,926,058</u>	<u>5,590,073</u>	<u>15,926,058</u>
Less:				
Accumulated Depreciation	<u>(5,358,731)</u>	<u>(5,024,889)</u>	<u>(333,842)</u>	<u>(4,765,395)</u>
	16,157,400	10,901,169	5,256,231	11,160,663
Construction in Progress	<u>475,379</u>	<u>5,466,442</u>	<u>(4,991,063)</u>	<u>2,100,855</u>
	<u>16,632,779</u>	<u>16,367,611</u>	<u>265,168</u>	<u>13,261,518</u>

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

The Authority's ongoing capital plan is reviewed each year by the Authority's consulting engineer.

Debt Administration

At December 31, 2011, the Authority had outstanding U.S.D.A. Rural Development Loans of \$2,898,373, an outstanding New Jersey Environmental Infrastructure Trust loan of \$2,450,525 and outstanding project notes of \$1,000,000. The Borough of Haledon Water Utility has a bond, payable in 2022, outstanding as of December 31, 2011. The principal and interest on this bond is payable by the users of the Manchester Utilities Authority.

Economic Factors, Future Years Budgets and Rates

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Manchester Utilities Authority, 510 Belmont Avenue, Haledon, New Jersey 07508.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Net Assets
December 31, 2011

	2011	2010
CURRENT ASSETS:		
Unrestricted :		
Cash and Cash Equivalents	\$ 425,136	\$ 603,960
Consumer Accounts Receivable	511,666	552,810
Due from Borough of Haledon	99,882	
Total Current Assets	1,036,684	1,156,770
NON-CURRENT ASSETS:		
Restricted:		
Debt Service Fund:		
Cash and Cash Equivalents	35,752	35,569
Revenue Fund		
Cash and Cash Equivalents	85,286	100,187
Money Market Account		
Cash and Cash Equivalents	652,572	1,000,987
Construction Fund:		
Cash and Cash Equivalents	19,753	29,863
Cost of Issuance Fund:		
Cash and Cash Equivalents	6,375	6,373
Series 2008 Ref. Fund:		
Cash and Cash Equivalents	5,577	5,576
Series 2008 Water Main Improvement Account:		
Cash and Cash Equivalents	81,899	100,164
Due From New Jersey Environmental Infrastructure Trust	968,017	1,607,860
	1,855,231	2,886,579
Capital Assets:		
Structures and Improvements	1,217,852	1,217,852
Water Supply and Distribution System Equipment	19,495,013	13,904,940
Less: Accumulated Depreciation	803,266	803,266
Construction in Progress	(5,358,731)	(5,024,889)
	475,379	5,466,442
Capital Assets (Net)	16,632,779	16,367,611
Other Assets:		
Unamortized Bond Issue Costs	57,261	60,442
Total Non-Current Assets	18,545,271	19,314,632
TOTAL ASSETS	\$ 19,581,955	\$ 20,471,402

See accompanying Notes to Financial Statements.

THE MANCHESTER UTILITIES AUTHORITY

(A Component Unit of the Borough of Haledon)

Statement of Net Assets

December 31, 2011

	<u>2011</u>	<u>2010</u>
LIABILITIES:		
Current Liabilities Payable from		
Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 171,694	\$ 331,632
Security Deposits Payable	3,000	
Due to Borough of Haledon		124,040
	<u>174,694</u>	<u>455,672</u>
Current Liabilities Payable from		
Restricted Assets:		
Accrued Interest Payable	9,757	9,869
Notes Payable	1,000,000	1,500,000
Current Portion of Bonds and Loans Payable	158,522	37,134
Unamortized Bond Premiums	86,244	91,035
	<u>1,254,523</u>	<u>1,638,038</u>
Non-Current Liabilities:		
Bonds Payable - NJEIT	2,450,525	2,645,266
Loan Payable - USDA	2,898,373	2,936,865
	<u>5,348,898</u>	<u>5,582,131</u>
TOTAL LIABILITIES	<u>6,778,115</u>	<u>7,675,841</u>
NET ASSETS:		
Invested in Capital Assets, net of Related Debt	11,830,569	11,968,576
Restricted:		
Debt Service	111,281	125,887
Unrestricted	861,990	701,098
TOTAL NET ASSETS	<u>\$ 12,803,840</u>	<u>\$ 12,795,561</u>

See accompanying Notes to Financial Statements.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31,

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Rents	\$ 2,269,572	\$ 2,167,404
Fire Hydrant Service	178,892	93,732
Sprinklers	<u>26,097</u>	<u>25,874</u>
Total Operating Revenue	<u>2,474,561</u>	<u>2,287,010</u>
Operating Expenses:		
Administration	200,841	145,124
Costs of Providing Services	1,722,721	1,735,918
Depreciation	<u>333,842</u>	<u>259,493</u>
Total Operating Expenses	<u>2,257,404</u>	<u>2,140,535</u>
Operating Income (Loss)	217,157	146,475
Non-Operating Revenues/(Expenses):		
Interest on Investments	2,472	4,664
Other Non Operating Revenue	31,476	36,882
Cancellation of Prior Years' Payables		969,127
Debt Service	(415,856)	(351,122)
Amortization of Issue Costs/Premiums	<u>1,610</u>	<u>1,610</u>
Total Non-Operating Revenues/(Expenses)	<u>(380,298)</u>	<u>661,161</u>
Income Before Contributions	(163,141)	807,636
Capital Contributions:		
USDA Grant	171,420	134,758
ARRA Principal Forgiveness		<u>2,521,109</u>
Change In Net Assets	8,279	3,463,503
Net Assets - January 1	<u>12,795,561</u>	<u>9,332,058</u>
Net Assets - December 31,	<u>\$ 12,803,840</u>	<u>\$ 12,795,561</u>

See accompanying Notes to Financial Statements.

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Cash Flows
Year Ended December 31,

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,547,181	\$ 2,466,423
Interest Received	2,472	4,664
Other Receipts	3,000	
Cash Paid to Vendors/Employees	<u>(2,307,422)</u>	<u>(2,135,919)</u>
Net cash provided (used) by operating activities	<u>245,231</u>	<u>335,168</u>
Cash Flows from Investing Activities:		
Purchase of Property, Plant and Equipment	(599,010)	(3,338,724)
Net cash provided (used) by investing activities	<u>(599,010)</u>	<u>(3,338,724)</u>
Cash Flows from Capital Financing Activities:		
Notes Issued	1,000,000	1,500,000
Note Maturities	(1,500,000)	(2,000,000)
Bond Principal Paid	(160,000)	(145,000)
USDA Loan Principal Paid	(37,133)	(28,121)
Interest Paid	(255,969)	(201,978)
USDA Loans/Grants Received	171,420	1,684,758
Received from NJEIT	<u>565,132</u>	<u>3,069,691</u>
Net cash provided (used) by non-capital financing activities	<u>(216,550)</u>	<u>3,879,350</u>
Net increase / (decrease) in cash and cash equivalents	(570,329)	875,794
Cash and cash equivalents, Beginning of Year	<u>1,882,679</u>	<u>1,006,885</u>
Cash and cash equivalents, End of Year	\$ <u>1,312,350</u>	\$ <u>1,882,679</u>
Reconciliation of Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:		
Change In Net Assets	\$ 8,279	\$ 3,463,503
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	333,842	259,493
Amortization	(1,610)	(1,610)
Capital Contributions	(171,420)	(2,655,867)
Debt Service	415,856	351,122
(Increase)/Decrease in:		
Consumer Accounts Receivable	41,144	142,531
Increase/(Decrease) in:		
Accounts Payable and accrued liabilities	(159,938)	171,083
Security deposits payable	3,000	
Due to Borough of Haledon	<u>(223,922)</u>	<u>(1,395,087)</u>
Net cash provided (used) by operating activities	\$ <u>245,231</u>	\$ <u>335,168</u>

See accompanying Notes to Financial Statements.

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**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1. GENERAL

The Manchester Utilities Authority (the Authority) is a public body politic and corporate created by Ordinance #2-18-2004A adopted March 17, 2004 by the Borough of Haledon under the Municipal and County Utilities Authorities Laws of the State of New Jersey (P.L. 1957, Chapter 183 as amended and supplemented.

The Authority is responsible for the acquisition, construction, maintenance, operation and improvement of the works for among other things, the accumulation, supply and distribution of water for the residents of the Borough of Haledon, County of Passaic, New Jersey.

The Authority shall consist of five (5) commissioners who shall be appointed in accordance with the procedures set forth and for the terms of office provided in N.J.S.A. 40:14B-4.

The Authority's fiscal year is the twelve-month period ending December 31, on any year, or such other twelve-month period, which the Authority may establish by Resolution.

As a public body, under existing statutes, the Authority is exempt from both Federal and State taxes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Manchester Utilities Authority have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations 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 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.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. Basis of Accounting

The Manchester Utilities Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

C. Cash and Cash Equivalents

Cash and cash equivalents include money market funds and short-term investments including certificates of deposit, with a maturity of three months or less carried at cost, which approximates market.

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15. Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds and a maturity date not greater than 12 months from the date of purchase. In addition, the Authority can invest in direct debt securities of the United States or obligations guaranteed by the United States, bonds and other obligations of the local municipality or bonds or obligations of school districts of which the Authority is a part or within which the Authority is located unless such investments are expressly prohibited by law.

D. Operating Fund Budget

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

E. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE MANCHESTER UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Property, Plant and Equipment

Property, plant and equipment are stated at estimated original cost as provided in a fixed asset appraisal performed by the Authority's engineer.

Depreciation is determined on a straight-line basis for all plant and equipment using the following estimated useful lives:

Structures and Improvements	12-75 years
Water Supply and Distribution System	75 years
Equipment	20 years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 60, Accounting and Financial Reporting for Services Concession Arrangements. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or private-public partnership. This Statement is effective for periods beginning after December 15, 2011 and will be applied retroactively for all periods presented. As of December 31, 2011, the Authority had no such service concession arrangements.

The Government Accounting Standards Board issued GASB Statement No. 61, The Financial Reporting Entity; Omnibus - an amendment to No. 14 and No. 34. This Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The Authority does not believe this Statement will materially affect its current practice. This Statement is effective for periods beginning after June 15, 2012.

THE MANCHESTER UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

H. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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

This Statement is effective for periods beginning after December 15, 2011 and will be applied retroactively for all periods presented.

The Government Accounting Standards Board issued GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources, inflows of resources, and net position as defined under the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Since the Authority reports only business-type activities as a program-specific entity, the provisions of this Statement are not applicable.

The Government Accounting Standards Board issued GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Authority has determined that this Statement is not applicable for the reporting period ending December 31, 2011.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 3. FINANCIAL REPORTING ENTITY

The Governmental Accounting Standards Board Statement No. 14 requires that disclosure be made in the financial statements regarding the financial reporting entity of governmental units.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and either the primary government is able to impose its will on the organization; or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

The Manchester Utilities Authority is a component unit of the primary government of the Borough of Haledon. The commissioners of the Manchester Utilities Authority are appointed by the Council of the Borough of Haledon, and under the deficiency agreement entered into by the Authority and the Borough of Haledon, the Borough is obligated to make up any deficiency in service charges.

NOTE 4. INTRALOCAL SERVICE AGREEMENT

The Authority has entered into an intralocal service agreement with the Borough of Haledon dated December 16, 2010. Under the terms of this agreement, the Borough will provide certain agreed upon services including daily labor services; emergency labor services; street closing services; administrative services; computer maintenance; general maintenance of Authority property; insurance; purchasing services; administrative space and equipment sharing; and vehicle parking and equipment storage. In consideration for the provision of these "Agreed Upon Services", the Authority will pay a fixed "Agreed Upon Services Payment" in monthly installments on the last business day of each month. The monthly installments will be calculated by dividing the Agreed Upon Services payment in twelve equal installments. All increases to the amount of the Agreed Upon Services Payment may be negotiated on an annual basis.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 4. INTRALOCAL SERVICE AGREEMENT, (continued)

In addition, the Authority shall be billed annually by the Borough for the debt service on bonds, payable in 2022, that the Borough has outstanding for improvements to the Authority's water system.

The term of this intralocal agreement is for a three-year period. The Authority may terminate this Agreement by notifying the Borough of its intent to terminate the arrangement six months prior to the intended termination date. If the Agreement is neither terminated nor expressly extended by written Agreement, then this agreement will be automatically extended for additional one year periods until such time as it is terminated or superseded by any other written agreement renegotiated between the parties.

NOTE 5. WATER DEFICIENCY AGREEMENT

The Authority has entered into an agreement with the Borough of Haledon for a Water Deficiency Agreement. Said agreement states:

"Section 301. Service Charges. (1) With respect to all water supplied by the Authority and for all use and services of the Water System, the Authority will charge Service charges in accordance with the Act. Said Service Charges shall be established at rates estimated to be sufficient to provide for the receipt by the Authority in each Fiscal Year of a sum of money at least equal to the sum of all the amounts necessary in such Fiscal Year (A) to pay or provide for the expenses of operation and maintenance of the Water System and the principal of and interest on any and all Bonds as the same become due, and (B) to maintain such reserves or sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolution, or as may be deemed necessary or desirable by the Authority, and (C) to comply in all respects with the terms and provisions of any Bond Resolution and with the Act, but nothing contained in this Section 301 or this Agreement shall prevent the Authority from charging Service Charges which shall be less than sufficient to comply with the foregoing requirement, provided that the Borough shall have given their written consent to such lesser Service Charges in the manner herein provided.

Section 302. Annual Charge. (1) In any year in which the Authority shall have a deficiency whereby its Service Charges are not sufficient to provide for the items listed in Section 301(1)(A) through (C), the Borough shall pay an Annual Charge. The Annual Charge made and to be charged by the Authority to and payable by the Borough for or with respect to any Fiscal Year shall be the sum of money equal to the excess (if any) of:

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5. WATER DEFICIENCY AGREEMENT, (continued)

(A) The sum of all of the amounts necessary or expended in the Fiscal Year of the Authority during such year (i) to pay or provide for the expenses of construction, acquisition, operation and maintenance of the Water System, including, without limitation, administrative and other expenses of the Authority, insurance, renewals, replacements, extensions, enlargements, alterations and betterments and the principal or redemption price of and interest on all other Bonds as the same become due; (ii) to maintain such reserves or sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolution, or as may be deemed necessary by the Authority; and (iii) to comply in all respects with the terms of any Bond Resolution and with the Act; from which is subtracted.

(B) The sum of the following amounts to the extent available to be used to pay or provide for the amounts described in Section 302(1)(A): (i) Service Charges; (ii) the proceeds of Bonds; (iii) the proceeds of insurance awards received by or for account of the Authority with respect to the Water System; (iv) contributions received by or for account of the Authority with respect to the Water System and not under any circumstances repayable by the Authority until after the payment in full of all other obligations of the Authority including its Bonds, original or refunding or both; or (v) any other funds on hand and available therefor at the beginning of the Fiscal Year.”

The deficiency for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Income/(Loss) Before Contributions	(\$163,141)	\$807,636
Add Back Depreciation	<u>333,842</u>	<u>259,493</u>
	<u>\$170,701</u>	<u>\$1,067,129</u>

There is no deficit under the Water Agreement for the years ending December 31, 2011 and 2010.

**THE MANCHESTER UTILITIES AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6. CASH AND CASH EQUIVALENTS

General Authorization

The Manchester Utilities Authority's deposit and investment practices are governed by New Jersey State Statute 40A:5-15.

GASB Statement No. 3, amended by GASB Statement No. 40, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units. These requirements are disclosed in detail in Note 2C.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2011, the carrying amount of the Authority's deposits was \$1,312,350 and the bank balance was \$1,421,347. Of the bank balance, \$763,191 was insured with Federal Deposit Insurance and \$658,156 was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2011, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7. INVESTMENTS

Investment Rate Risk

Investment rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The types of allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States; obligations of federal agencies not exceeding 397 days; bonds or other obligations of the local unit or school districts of which the local unit is a part; government money market mutual funds; local government investment pools; the State of New Jersey Cash Management Fund or agreements to repurchase fully collateralized securities as described in the Statutes.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

As of December 31, 2011, the Authority had no investments.

NOTE 8. PLANT, PROPERTY AND EQUIPMENT

The Authority's plant, property and equipment is valued at estimated acquisition cost based upon an appraisal performed by the Authority's engineer during fiscal year 2008. Subsequent to fiscal year 2008, property, plant and equipment additions are valued at acquisition costs.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed into operation.

**THE MANCHESTER UTILITIES AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8. PLANT, PROPERTY AND EQUIPMENT, (continued)

A description of the changes in the plant, property and equipment accounts of the Authority for the year ended December 31, 2011 is as follows:

	<u>Balance</u> <u>Dec.31.2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>Dec.31.2011</u>
Structures and Improvements	\$1,217,852		\$	\$1,217,852
Water Supply and Distribution System	13,904,940	\$5,590,073		19,495,013
Equipment	<u>803,266</u>			<u>803,266</u>
	15,926,058	5,590,073		21,516,131
Less: Accumulated Depreciation	<u>(5,024,889)</u>	<u>(333,842)</u>		<u>(5,358,731)</u>
	10,901,169	5,256,231		16,157,400
Construction in Progress	<u>5,466,442</u>		4,991,063	<u>475,379</u>
Net Property, Plant and Equipment	<u>\$16,367,611</u>	<u>\$5,256,231</u>	<u>4,991,063</u>	<u>\$16,632,779</u>

NOTE 9. LONG-TERM DEBT

U.S.D.A. Grant/Loan Program

On May 21, 2007, the Authority entered into a loan agreement with the United States Department of Agriculture in order to repay bond anticipation notes outstanding in the Borough of Haledon Water Utility Fund. Under this agreement, the Authority was awarded a grant of \$500,000 and was issued a loan in the amount of \$1,500,000 under the U.S.D.A. Rural Development Program. The loan has an interest rate of 3.25% and a term of 40 years. Payments of principal and interest are due twice annually on May 20 and November 20 of each year to maturity with a final maturity in 2046.

In April of 2010, the Authority entered into a loan agreement with the United States Department of Agriculture in order to fund outstanding Project Notes, Series 2008 issued to provide funds for various projects relating to the improvement of its water supply and distribution system. Under this agreement, the Authority was awarded a grant of \$450,000 and was issued a loan in the amount of \$1,550,000 under the U.S.D.A. Rural Development Program. This loan has an interest rate of 4.125% and a term of 40 years. Payments of principal and interest are due twice annually in March and September of each year to maturity with a final maturity in 2050.

**THE MANCHESTER UTILITIES AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 9. LONG-TERM DEBT, (continued)

U.S.D.A. Grant/Loan Program, (continued)

A summary of the Authority's activity under the U.S.D.A. Rural Development Loan Program for the year ended December 31, 2011 is as follows:

<u>Loan</u>	<u>Original Amount of Loan</u>	<u>Balance Dec.31.2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Dec.31,2011</u>
LN01	\$1,500,000	\$1,431,860	\$	\$20,924	\$1,410,936
LN03	<u>1,550,000</u>	<u>1,542,139</u>	<u> </u>	<u>16,210</u>	<u>1,525,929</u>
	<u>\$3,050,000</u>	<u>\$2,973,999</u>	<u>\$0</u>	<u>\$37,134</u>	<u>\$2,936,865</u>
		Current Portion			\$38,492
		Non-Current Portion			<u>2,898,373</u>
					<u>\$2,936,865</u>

New Jersey Environmental Infrastructure Trust Program

On March 10, 2011, the Authority issued bonds through the New Jersey Environmental Infrastructure Trust Program in order to finance the costs of various improvements to its water supply and distribution system. The \$5,166,375 bonds were issued to evidence loans from the New Jersey Environmental Infrastructure Trust and 0% loans from the State of New Jersey. The Authority is eligible for principal "forgiveness" of \$2,521,109 on the 0% loan under the New Jersey Environmental Infrastructure Trust's ARRA financing program.

In September of 2011, the Authority abandoned one of its projected financed by a direct loan from the New Jersey Environmental Infrastructure Trust Program in the amount of \$19,938 and a Fund Loan from the State of New Jersey in the amount of \$54,773. As a result, the amounts due from the NJEIT and the NJEIT loans payable accounts have been adjusted for the unused loans. This transaction is shown below as other adjustments.

THE MANCHESTER UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 9. LONG-TERM DEBT, (continued)

A summary of the activity under the New Jersey Environmental Infrastructure Trust Program for the year ended December 31, 2011 is as follows:

NJEIT Loans Payable

<u>Balance</u> <u>Dec.31.2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Other</u> <u>Adjustments</u>	<u>Balance</u> <u>Dec.31.2011</u>
<u>\$2,645,266</u>	\$ _____	\$ _____	<u>\$74,711</u>	<u>\$2,570,555</u>
		Current Portion		\$120,030
		Non-Current Portion		<u>2,450,525</u>
				<u>\$2,570,559</u>

NOTE 10. DUE FROM NJ ENVIRONMENTAL INFRASTRUCTURE TRUSTS

As described above, the Authority had loans with the New Jersey Environmental Infrastructure Trust to finance the cost of various improvements to its water supply and distribution system as follows:

<u>Balance</u> <u>Dec.31.2010</u>	<u>Loans</u> <u>Approved</u>	<u>Reimbursements</u> <u>Received</u>	<u>Other</u> <u>Adjustments</u>	<u>Balance</u> <u>Dec.31.2011</u>
<u>\$1,607,860</u>	\$ _____	<u>\$572,743</u>	<u>\$67,100</u>	<u>\$968,017</u>

NOTE 11. UNAMORTIZED BOND ISSUE COSTS

In connection with its New Jersey Environmental Infrastructure Trust financing, the Authority has incurred \$63,623 in deferred debt issuance costs. These costs are being amortized using the straight-line method over the life of the NJEIT loans. The activity and unamortized balance in this account at December 31, 2011 is as follows:

<u>Unamortized</u> <u>Balance</u> <u>Dec.31.2010</u>	<u>Issue</u> <u>Costs</u> <u>Paid</u>	<u>Amortization</u>	<u>Unamortized</u> <u>Balance</u> <u>Dec.31.2011</u>
<u>\$60,442</u>	\$ _____	<u>\$3,181</u>	<u>\$57,261</u>

**THE MANCHESTER UTILITIES AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 12. UNAMORTIZED BOND PREMIUM

In connection with its New Jersey Environmental Infrastructure Trust financing, the Authority has received a premium of \$95,827. This premium is being amortized using the straight-line method over the life of the NJEIT loans. The activity and unamortized balance in this account at December 31, 2011 is as follows:

Unamortized Balance <u>Dec.31.2010</u>	Premium Received	<u>Amortization</u>	Unamortized Balance <u>Dec.31.2011</u>
<u>\$91.035</u>	<u>\$ -0-</u>	<u>\$4,791</u>	<u>\$86.244</u>

NOTE 13. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to general liability, damage and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has obtained insurance coverage to guard against these events which will provide minimum exposure to the Authority should they occur.

NOTE 14. DUE FROM THE BOROUGH OF HALEDON

At December 31, 2011, the Authority had \$99,882 due from the Borough of Haledon. This amount represents amounts paid to the Borough of Haledon Water Utility fund on behalf of the Borough of Manchester Utilities Authority in excess of Borough expenses. This amount is reported as follows:

Unrestricted Assets	<u>\$99,882</u>
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NOTE 15. NOTES PAYABLE

In February of 2011, the Manchester Utilities Authority issued \$1,000,000 Project Notes, Series 2011, in order to provide funds for various projects relating to the improvement of its water supply and distribution system. The notes bear interest at a rate of 3.80% payable and matures February 2, 2012.

THE MANCHESTER UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 16. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

The Manchester Utilities Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 2009, the Manchester Utilities Authority authorized participation in the SHBP's post-retirement benefit program through resolution number 2009-53. Under the resolution adopted by the Authority, members enrolled in the New Jersey State Health Benefits Program who retire from the Manchester Utilities Authority with 25 years or more of service in the State of New Jersey pension system or retire on an approved disability retirement are eligible to participate in the SHBP's post-retirement benefit program, which includes surviving spouses and dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf>.

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Manchester Utilities Authority on a monthly basis. Currently, the Manchester Utilities Authority has no eligible retirees.

**THE MANCHESTER UTILITIES AUTHORITY
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**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 17. COMMITMENTS AND CONTINGENCIES

As of December 31, 2011 and the date of this report, Authority counsel advises that the Authority is involved in various litigation typical for this type of government that would not materially impact the financial statements.

NOTE 18. SUBSEQUENT EVENTS

On February 2, 2012 the Authority issued a \$500,000 Temporary Funding Note due February 1, 2013 at 2.75%.

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

Schedule of Revenue, Expenses and Changes in Net Assets
Restricted and Unrestricted
For The Year Ended December 31,

	Unrestricted	Restricted		Totals (Memo)	
		Invested In Capital Assets	Current Debt Service	2011	2010
Operating Revenues:					
Rents	2,269,572			2,269,572	2,167,404
Fire Hydrant Service	178,892			178,892	93,732
Sprinklers	26,097			26,097	25,874
Total Operating Revenue	2,474,561	-	-	2,474,561	2,287,010
Operating Expenses:					
Cost of Providing Services	1,722,721			1,722,721	1,735,918
Administrative and Executive	200,841			200,841	145,124
Depreciation	333,842			333,842	259,493
Total Operating Expenses	2,257,404	-	-	2,257,404	2,140,535
Operating Income	217,157	-	-	217,157	146,475
Non-Operating Revenue/(Expenses):					
Interest Income	2,472			2,472	4,664
Other Non-operating Revenue	31,476			31,476	36,882
Cancellation of Prior Payables				-	969,127
Debt Service	(415,856)			(415,856)	(351,122)
Amortization of Issue Costs/Premiums	1,610			1,610	1,610
Total Non-Operating Revenue/(Expenses)	(380,298)	-	-	(380,298)	661,161
Net Income / (Loss) Before Transfers and Capital Contributions	(163,141)	-	-	(163,141)	807,636
Transfers:					
Other	152,613	(138,007)	(14,606)	-	-
Capital Contributions:					
USDA Grant	171,420			171,420	134,758
ARRA Principal Forgiveness				-	2,521,109
Increase / (Decrease) in Net Assets	160,892	(138,007)	(14,606)	8,279	3,463,503
Net Assets - January 1,	701,098	11,968,576	125,887	12,795,561	9,332,058
Net Assets - December 31,	861,990	11,830,569	111,281	12,803,840	12,795,561

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Cash Receipts, Cash Disbursements and
Changes in Cash and Cash Equivalents -
Unrestricted and Restricted Accounts
Year Ended December 31, 2011

	Operating Account	Series 2007 Revenue	Series 2007 Debt Service	Series 2008 Construction	Series 2008 COI Fund
Cash and Cash Equivalents - January 1, 2011	\$ 670,050	\$ 34,097	\$ 35,569	\$ 29,863	\$ 6,373
Cash Receipts:					
Interest on Investments and Deposits	606	10	10	7	2
Water Rents	2,310,715				
Fire Hydrant Service	178,892				
Sprinklers	26,097				
NJEIT Funds					
USDA Funds	171,420				
Other	30,739		39,915		
Note Proceeds					
Transfers	610,117		107,032		
	<u>3,328,586</u>	<u>10</u>	<u>146,957</u>	<u>7</u>	<u>2</u>
Cash Disbursements:					
Operations	2,116,269				
Construction Expenses					
Debt Service	1,052,020		146,774		
Investment Expenses					
Transfers	357,032			10,117	
	<u>3,525,321</u>	<u>-</u>	<u>146,774</u>	<u>10,117</u>	<u>-</u>
Cash and Cash Equivalents - December 31, 2011	\$ <u>473,315</u>	\$ <u>34,107</u>	\$ <u>35,752</u>	\$ <u>19,753</u>	\$ <u>6,375</u>
ANALYSIS OF BALANCE:					
Unrestricted	\$ 422,136	\$ -	\$ -	\$ -	\$ -
Restricted	51,179	34,107	35,752	19,753	6,375
	<u>\$ 473,315</u>	<u>\$ 34,107</u>	<u>\$ 35,752</u>	<u>\$ 19,753</u>	<u>\$ 6,375</u>
Cash and Cash Equivalents	\$ 473,315	\$ 34,107	\$ 35,752	\$ 19,753	\$ 6,375
Investments	-	-	-	-	-
	<u>\$ 473,315</u>	<u>\$ 34,107</u>	<u>\$ 35,752</u>	<u>\$ 19,753</u>	<u>\$ 6,375</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Cash Receipts, Cash Disbursements and
Changes in Cash and Cash Equivalents -
Unrestricted and Restricted Accounts
Year Ended December 31, 2011

	Money Market	Series 2008 Ref. Account	Water Main Imp. Account	Escrow Account	Total
Cash and Cash Equivalents - January 1, 2011	\$ 1,000,987	\$ 5,576	\$ 100,164	\$ -	1,882,679
Cash Receipts:					
Interest on Investments and Deposits	1,585	1	251		2,472
Water Rents					2,310,715
Fire Hydrant Service					178,892
Sprinklers					26,097
NJEIT Funds			516,273		516,273
USDA Funds					171,420
Other				3,000	73,654
Note Proceeds					-
Transfers					717,149
	<u>1,585</u>	<u>1</u>	<u>516,524</u>	<u>3,000</u>	<u>3,996,672</u>
Cash Disbursements:					
Operations					2,116,269
Construction Expenses			534,739		534,739
Debt Service					1,198,794
Investment Expenses			50		50
Transfers	350,000				717,149
	<u>350,000</u>	<u>-</u>	<u>534,789</u>	<u>-</u>	<u>4,567,001</u>
Cash and Cash Equivalents - December 31, 2011	\$ <u>652,572</u>	\$ <u>5,577</u>	\$ <u>81,899</u>	\$ <u>3,000</u>	<u>1,312,350</u>
ANALYSIS OF BALANCE:					
Unrestricted	-	-	-	3,000	425,136
Restricted	<u>652,572</u>	<u>5,577</u>	<u>81,899</u>	<u>-</u>	<u>887,214</u>
	\$ <u>652,572</u>	\$ <u>5,577</u>	\$ <u>81,899</u>	\$ <u>3,000</u>	\$ <u>1,312,350</u>
Cash and Cash Equivalents	652,572	5,577	81,899	3,000	1,312,350
Investments	-	-	-	-	-
	\$ <u>652,572</u>	\$ <u>5,577</u>	\$ <u>81,899</u>	\$ <u>3,000</u>	\$ <u>1,312,350</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Supplementary Schedule of Operating Revenues and Appropriations -
Budget vs. Actual
Year Ended December 31, 2011
With Comparative Actual Amounts
in December 31, 2010

	2011 <u>Budget</u>	2011 <u>Actual</u>	2010 <u>Actual</u>
Revenues:			
Retained Earnings Appropriated	37,000	37,000	
Service Fees	2,288,000	2,269,572	2,167,404
Fire Hydrant Service	110,000	178,892	93,732
Miscellaneous		57,573	62,756
Interest on Investments and Deposits	31,000	2,472	4,664
Total Operating Revenues	<u>2,466,000</u>	<u>2,545,509</u>	<u>2,328,556</u>
Expenses:			
Administration:			
Salaries and Wages		9,000	7,000
Social Security		689	
Attorney Fees	75,000	106,447	65,241
Engineering Fees	40,000	35,669	31,915
Auditor Fees	40,000	41,860	40,968
Bank Fees	1,600	2,038	
Bookkeeper	10,000	5,138	
Subtotal Administration	<u>166,600</u>	<u>200,841</u>	<u>145,124</u>
Cost of Providing Services:			
Salaries and Wages			298,532
Social Security			23,373
Borough Contract	450,000	396,000	
Office Supplies	2,500	2,987	2,675
Postage	6,000	5,625	6,451
Telephone	14,000	15,865	14,978
Lab Testing	3,000	11,817	
Legal Advertisements	5,000	4,090	6,384
Maintenance to Buildings	1,000	8,653	
Meter Purchases & Replacement	1,000	469	
Passaic Valley Water Commission	950,000	903,569	876,075
Repairs - PVWC	75,000		
Repairs	37,000	108,256	257,091
Utilities	150,000	128,409	129,038
Hydrant Repairs	50,289		
Computer Maintenance/Software	2,000	3,988	
Other Insurance		520	
Road Openings	680	1,100	
Service Contracts	5,000	27,730	
State Taxes and Fees	4,000	15,677	
Subscriptions/Dues		419	
Miscellaneous	65,000	87,547	121,321
Subtotal Cost of Providing Services	<u>1,821,469</u>	<u>1,722,721</u>	<u>1,735,918</u>

THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Supplementary Schedule of Operating Revenues and Appropriations -
 Budget vs. Actual
 Year Ended December 31, 2011
 With Comparative Actual Amounts
 in December 31, 2010

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
Debt Service:			
Bond Principal	160,000	160,000	145,000
USDA Loan #1	67,290	67,088	67,290
USDA Loan #2	79,484	79,401	39,742
Interest on Bonds	93,657	94,000	104,664
Interest on Notes	52,500	52,500	22,547
	<u>452,931</u>	<u>452,989</u>	<u>379,243</u>
Subtotal Debt Service			
Accumulated Deficit	<u>25,000</u>	<u>25,000</u>	
Total Costs Funded by Operating Revenues	<u>2,466,000</u>	<u>2,401,551</u>	<u>2,260,285</u>
Excess/(Deficit) of Total Revenues Over/(Under) Total Expenses	<u>-</u>	<u>143,958</u>	<u>68,271</u>
Reconciliation of Budgetary Basis			
To Change in Net Assets:			
Depreciation		(333,842)	(259,493)
Amortization		1,610	1,610
USDA Loan Principal		37,133	28,121
Cancellation of Prior Years' Payables			969,127
Capital Contributions		171,420	2,655,867
Retained Earnings Apporpriated		(37,000)	
Accumulated Deficit		<u>25,000</u>	
Change in Net Assets		<u>8,279</u>	<u>3,463,503</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

Date	Original Amount	Interest Rate	Maturities		Balance 01/01/11	Issued	Redeemed or Retired	Balance 12/31/11
			Date	Amount				
03/10/10	1,310,000	5.000%	08/01/2012	50,000				
		5.000%	08/01/2013	50,000				
		5.000%	08/01/2014	55,000				
		5.000%	08/01/2015	55,000				
		5.000%	08/01/2016	60,000				
		5.000%	08/01/2017	60,000				
		5.000%	08/01/2018	65,000				
		4.000%	08/01/2019	70,000				
		5.000%	08/01/2020	70,000				
		3.000%	08/01/2021	75,000				
		4.000%	08/01/2022	75,000				
		4.000%	08/01/2023	80,000				
		4.000%	08/01/2024	85,000				
		4.000%	08/01/2025	85,000				
		3.500%	08/01/2026	90,000				
		4.000%	08/01/2027	90,000				
		4.000%	08/01/2028	95,000				
		4.000%	08/01/2029	100,000				
					1,310,000			1,310,000

New Jersey Environmental
Infrastructure Trust - Trust
Loan Series 2010A

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

Original		Interest Rate	Maturities		Balance 01/01/11	Issued	Retired or Refired	Balance 12/31/11
Date	Amount		Date	Amount				
03/10/10	1,260,555	0.000%	02/01/2012	23,343				
		0.000%	08/01/2012	46,687				
		0.000%	02/01/2013	23,343				
		0.000%	08/01/2013	46,687				
		0.000%	02/01/2014	23,343				
		0.000%	08/01/2014	46,687				
		0.000%	02/01/2015	23,344				
		0.000%	08/01/2015	46,687				
		0.000%	02/01/2016	23,344				
		0.000%	08/01/2016	46,687				
		0.000%	02/01/2017	23,344				
		0.000%	08/01/2017	46,687				
		0.000%	02/01/2018	23,344				
		0.000%	08/01/2018	46,687				
		0.000%	02/01/2019	23,344				
		0.000%	08/01/2019	46,687				
		0.000%	02/01/2020	23,344				
		0.000%	08/01/2020	46,687				
		0.000%	02/01/2021	23,344				
		0.000%	08/01/2021	46,687				
		0.000%	02/01/2022	23,344				
		0.000%	08/01/2022	46,687				
		0.000%	02/01/2023	23,344				
		0.000%	08/01/2023	46,687				
		0.000%	02/01/2024	23,344				
		0.000%	08/01/2024	46,687				
		0.000%	02/01/2025	23,344				
		0.000%	08/01/2025	46,687				
		0.000%	02/01/2026	23,344				
		0.000%	08/01/2026	46,687				
		0.000%	02/01/2027	23,344				
		0.000%	08/01/2027	46,687				
		0.000%	02/01/2028	23,344				
		0.000%	08/01/2028	46,687				
		0.000%	02/01/2029	23,344				
		0.000%	08/01/2029	46,687				
					1,260,555			1,260,555

New Jersey Environmental
Infrastructure Trust - Fund
Loan Series 2010

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

	Date	Original		Interest Rate	Date	Maturities		Balance 01/01/11	Issued	Redeemed or Retired	Balance 12/31/11
		Amount	Amount			Amount	Amount				
New Jersey Environmental Infrastructure Trust - Trust Direct Loan	02/19/10	19,938						19,938		19,938	
New Jersey Environmental Infrastructure Trust - Fund Direct Loan	02/19/10	54,773						54,773		54,773	
United States Department of Agriculture Rural Development Loan (LN-01)	05/21/07	1,500,000		3.250%	05/21/2012	10,717					
					11/20/2012	10,891					
					05/21/2013	11,068					
					11/20/2013	11,248					
					05/21/2014	11,431					
					11/20/2014	11,617					
					05/21/2015	11,806					
					11/20/2015	11,997					
					05/21/2016	12,192					
					11/20/2016	12,391					
					05/21/2017	12,592					
					11/20/2017	12,796					
					05/21/2018	13,004					
					11/20/2018	13,216					
					05/21/2019	13,430					
					11/20/2019	13,649					

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haldon)
Schedule of Bonds and Leases Payable
December 31, 2011

Date	Original Amount	Interest Rate	Maturities		Issued	Redeemed or Retired	Balance 12/31/11
			Date	Amount			
05/21/07	1,500,000	3.250%	05/21/2020	13,871			
			11/20/2020	14,096			
			05/21/2021	14,325			
			11/20/2021	14,538			
			05/21/2022	14,794			
			11/20/2022	15,035			
			05/21/2023	15,279			
			11/20/2023	15,527			
			05/21/2024	15,780			
			11/20/2024	16,036			
			05/21/2025	16,297			
			11/20/2025	16,561			
			05/21/2026	16,831			
			11/20/2026	17,104			
			05/21/2027	17,382			
			11/20/2027	17,665			
			05/21/2028	17,952			
			11/20/2028	18,243			
			05/21/2029	18,540			
			11/20/2029	18,841			
			05/21/2030	19,147			
			11/20/2030	19,458			
			05/21/2031	19,775			
			11/20/2031	20,096			
			05/21/2032	20,422			
			11/20/2032	20,754			
			05/21/2033	21,092			
			11/20/2033	21,434			
			05/21/2034	21,783			
			11/20/2034	22,137			
			05/21/2035	22,496			
			11/20/2035	22,862			
			05/21/2036	23,233			
			11/20/2036	23,611			

United States Department
of Agriculture Rural
Development Loan (LN-01)
(Cont'd.)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

Date	Original		Interest Rate	Maturities		Balance 01/01/11	Issued	Redeemed or Retired	Balance 12/31/11
	Date	Amount		Date	Amount				
05/21/07		1,500,000	3.250%	05/21/2037	23,995				
				11/20/2037	24,384				
				05/21/2038	24,781				
				11/20/2038	25,183				
				05/21/2039	25,593				
				11/20/2039	26,009				
				05/21/2040	26,431				
				11/20/2040	26,861				
				05/21/2041	27,297				
				11/20/2041	27,741				
				05/21/2042	28,192				
				11/20/2042	28,650				
				05/21/2043	29,115				
				11/20/2043	29,588				
				05/21/2044	30,069				
				11/20/2044	30,558				
				05/21/2045	31,054				
				11/20/2045	31,559				
				05/21/2046	32,072				
				11/20/2046	32,593				
				05/21/2047	32,150				
						1,431,860		20,923	1,410,937

United States Department
of Agriculture Rural
Development Loan (LN-01)
(Cont'd.)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

Date	Original Amount	Interest Rate	Date	Maturities	Amount	Balance		Redeemed or Retired	Balance 12/31/11
						01/01/11	Issued		
03/29/10	1,550,000	4.125%	03/29/2012		8,356				
			09/29/2012		8,528				
			03/29/2013		8,703				
			09/29/2013		8,882				
			03/29/2014		9,065				
			09/29/2014		9,251				
			03/29/2015		9,442				
			09/29/2015		9,636				
			03/29/2016		9,834				
			09/29/2016		10,036				
			03/29/2017		10,243				
			09/29/2017		10,453				
			03/29/2018		10,668				
			09/29/2018		10,888				
			03/29/2019		11,112				
			09/29/2019		11,340				
			03/29/2020		11,574				
			09/29/2020		11,812				
			03/29/2021		12,055				
			09/29/2021		12,303				
			03/29/2022		12,556				
			09/29/2022		12,814				
			03/29/2023		13,077				
			09/29/2023		13,346				
			03/29/2024		13,621				
			09/29/2024		13,901				
			03/29/2025		14,187				
			09/29/2025		14,479				
			03/29/2026		14,777				
			09/29/2026		15,081				
			03/29/2027		15,391				
			09/29/2027		15,707				
			03/29/2028		16,030				
			09/29/2028		16,360				
			03/29/2029		16,697				
			09/29/2029		17,040				
			03/29/2030		17,391				
			09/29/2030		17,748				

United States Department
of Agriculture Rural
Development Loan (LN-03)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2011

Date	Original Amount	Interest Rate	Date	Maturities Amount	Balance 01/01/11	Issued	Retired or Refired	Balance 12/31/11
03/29/10	1,550,000	4.125%	03/29/2031	18,113				
			09/29/2031	18,486				
			03/29/2032	18,866				
			09/29/2032	19,254				
			03/29/2033	19,650				
			09/29/2033	20,054				
			03/29/2034	20,467				
			09/29/2034	20,888				
			03/29/2035	21,317				
			09/29/2035	21,756				
			03/29/2036	22,203				
			09/29/2036	22,660				
			03/29/2037	23,126				
			09/29/2037	23,602				
			03/29/2038	24,087				
			09/29/2038	24,583				
			03/29/2039	25,088				
			09/29/2039	25,604				
			03/29/2040	26,131				
			09/29/2040	26,669				
			03/29/2041	27,217				
			09/29/2041	27,777				
			03/29/2042	28,348				
			09/29/2042	28,931				
			03/29/2043	29,526				
			09/29/2043	30,134				
			03/29/2044	30,753				
			09/29/2044	31,386				
			03/29/2045	32,032				
			09/29/2045	32,690				
			03/29/2046	33,363				
			09/29/2046	34,049				
			03/29/2047	34,749				
			09/29/2047	35,464				
			03/29/2048	36,193				
			09/29/2048	36,938				
			03/29/2049	37,698				
			09/29/2049	38,473				
			03/29/2050	39,265				
					1,542,139		16,211	1,525,928
					5,619,265		111,845	5,507,420
								158,522
								5,348,898
								5,507,420

Grand Totals

Current Portion
Non-Current Portion

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THE MANCHESTER UTILITIES AUTHORITY

(A Component Unit of the Borough of Haledon)

Roster of Officials

December 31, 2011

Commissioners

Victor D'Ambrosio

Muhammed Malgosh

James Van Sickle

Dewan Chowdhury

Bernard Jones

Phil Zofrea (Alternate)

Authority Consultant

Malcolm Pirnie, Inc.

General Counsel

Fronzuto Law Group

Bond Counsel

John Hudak, Esq.

Authority Auditor

Ferraioli, Wielkotz, Cerullo & Cuva

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Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

We have audited the financial statements of the Manchester Utilities Authority as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 23, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; 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

Management of the Manchester Utilities Authority is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the Manchester Utilities 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, but not for the purpose of expressing an opinion on the effectiveness of the Manchester Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effective of the Manchester Utilities 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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manchester Utilities 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 of governing body, management, the Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

April 23, 2012

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

Compliance

We have audited the compliance of the Manchester Utilities Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Manchester Utilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Manchester Utilities Authority's management. Our responsibility is to express an opinion on the Manchester Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Manchester Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Manchester Utilities Authority's compliance with those requirements.



In our opinion, the Manchester Utilities Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

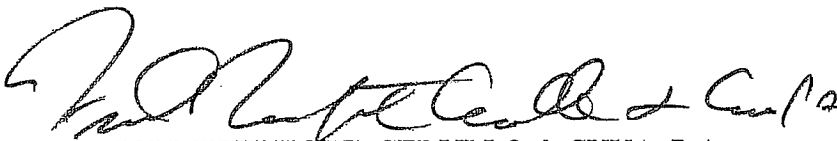
Internal Control Over Compliance

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

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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

April 23, 2012



THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Schedule of Expenditures of Federal Awards
 Fiscal Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
				From	To	Prior Years	Current Year	Prior Years	Current Year	
U.S. Department of Agriculture:										
Rural Development Program:										
Water Project Loan	10.760	LN-03	\$ 1,550,000	n/a	n/a	1,550,000	-	1,550,000	-	1,550,000
Water Project Grant	10.760	GN-04	\$ 450,000	n/a	n/a	134,758	171,420	247,428	68,472	315,900
Subtotal						1,684,758	171,420	1,797,428	68,472	1,865,900
U.S. Department of Environmental Protection:										
Pass Through New Jersey Department of Environmental Protection:										
Capitalization Grants for Drinking Water State Revolving Funds:										
ARRA - NIDEP Loan	66.468	1603001-002	\$ 1,101,165	n/a	n/a	646,429	394,016	646,429	394,016	1,040,445
		1603001-010	\$ 159,389	n/a	n/a	-	24,410	-	24,410	24,410
ARRA - Principal Forgiveness	66.468	1603001-002	\$ 2,202,330	n/a	n/a	2,202,330	-	2,202,330	-	2,202,330
	66.468	1603001-010	\$ 318,779	n/a	n/a	220,932	97,847	220,932	97,847	318,779
Subtotal						3,069,691	516,273	3,069,691	516,273	3,585,964
Total Federal Financial Assistance						4,754,449	687,693	4,867,119	584,745	5,451,864

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THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Schedule of Expenditures of State Financial Assistance
 Fiscal Year Ended December 31, 2011

State Grantor/Pass-Through Grantor/Program	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
			From	To	Prior Years	Current Year	Prior Years	Current Year	
New Jersey Department of Environmental Protection: NJ Environmental Infrastructure Trust Program	163001-002	\$ 1,101,165	n/a	n/a	361,268	-	361,268	-	361,268
	163001-010	\$ 159,390	n/a	n/a	126,970	-	126,970	-	126,970
Total State Financial Assistance					488,238	-	488,238	-	488,238

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MANCHESTER UTILITIES AUTHORITY

NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2011

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Manchester Utilities Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Federal Awards and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. This basis of accounting is described in Note 2(B) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance revenues are reported in the Authority's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Enterprise Fund	<u>\$584,745</u>	<u>\$ -0-</u>	<u>\$584,745</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

**MANCHESTER UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

Section I--Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:		<u>Unqualified</u>
Internal control over financial reporting:		
1) Material weakness(es) identified?	_____ yes	<u> X </u> no
2) Significant deficiency(ies) identified that are not considered to be material weaknesses reported?	_____ yes	<u> X </u> none
Noncompliance material to general-purpose financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Dollar threshold used to distinguish between type A and type B programs:		\$ <u> 300,000 </u>
Auditee qualified as low-risk auditee?	<u> X </u> yes	_____ no
Internal Control over major programs:		
1) Material weakness(es) identified?	_____ yes	<u> X </u> no
2) Reportable condition(s) identified that are not considered to be material weaknesses reported?	_____ yes	<u> X </u> none
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ yes	<u> X </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66.468</u>	<u>Drinking Water State Revolving Funds</u>
_____	_____
_____	_____
_____	_____
_____	_____

MANCHESTER UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011

Section II--Financial Statement Findings

No matters were reported.

Section III--Federal Awards Findings and Questioned Costs

No matters were reported.

MANCHESTER UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011

Status of Prior Year Findings

A review was performed on all prior year's audit findings and corrective action was taken on all items.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

N.J.S.A. 40A:11-4 states "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law."

Effective July 1, 2005 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$21,000.

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations." If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**COMMENTS AND RECOMMENDATIONS
(CONTINUED)**

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

Effective January 1, 2011, P.L., 2009, c.166 eliminated the previous lower non-qualified purchasing agent threshold of \$26,000. Thus a contracting unit without a qualified purchasing agent now has a maximum bid threshold of \$17,500.

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

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

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.

Our examination of expenditures did not reveal any individual payments, contracts or agreements "for the performance of any work or the furnishing or hiring of any materials or supplies" in excess of the statutory thresholds other than those where bids had been previously sought by public advertisement or where a resolution had previously been adopted under the provisions of N.J.S.A. 40A:11-6.

Our review of the Authority's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

GENERAL COMMENTS

None

RECOMMENDATIONS

None

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

STATUS OF PRIOR YEAR AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on prior year recommendations and corrective action was taken on all items.

APPRECIATION

We want to express our appreciation for the assistance and courtesies rendered by Authority Officials during the course of the audit.

