

**CAPE MAY COUNTY
MUNICIPAL UTILITIES AUTHORITY
REPORT ON AUDIT OF
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEARS ENDED DECEMBER 31, 2012 AND 2011**

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
YEARS ENDED DECEMBER 31, 2012 AND 2011
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INTRODUCTORY SECTION



Cape May County Municipal Utilities Authority

Post Office Box 610, Cape May Court House, New Jersey 08210
Telephone: 609-465-9026 • Telefax: 609-465-9025
www.cmcmua.com • email: admin@cmcmua.com

April 29, 2013

Chairman Betts and Authority Board Members:

Presented to you are the audited financial statements for the year ended December 31, 2012. There are separate financial statements for the Wastewater Program and Solid Waste Program, as has been done in prior years. The financial statements are presented separately for each program as supplemental information because the programs are separate and distinct for ratemaking, operating and public financing purposes.

Government Auditing Standards and State law require that the Cape May County Municipal Utilities Authority publish a complete set of financial statements presented in conformance with accounting principles generally accepted in the United States of America ("GAAP") and audited in accordance with auditing standards generally accepted in the United States of America. The financial statements for the year ended December 31, 2012, are presented as required.

In addition, and for the purposes of evaluating budget performance, staff has completed a *Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget*. This is more commonly referred to as the "Budget versus Actual" statements, and has been completed for both the Wastewater Program and Solid Waste Program.

The Management Discussion and Analysis ("MD&A") Report consists of management's representations concerning the finances of the Wastewater Program and Solid Waste Program. Management assumes full responsibility for the completeness and reliability of all the information presented in the MD&A.

Regarding the reliability of the statements presented, a reasonable internal control framework and procedures exist to protect the Cape May County Municipal Utilities Authority's assets from loss, theft or misuse. This internal control framework provides a basis that allows staff to compile sufficient and reliable information for the preparation of the Authority's financial statements in conformity with GAAP and for the audit by the Authority's independent auditor. Because the cost of internal controls should not outweigh their benefits, the internal controls cannot provide absolute assurance, but can provide reasonable assurance as to the credibility and accuracy of the financial statements.

Cape May County Municipal Utilities Authority

The staff of the Authority prepared the basic financial statements and the supplemental financial statements and schedules discussed above. Ford, Scott and Associates, L.L.C., a firm of licensed certified public accountants, has audited and opined on the Authority's financial statements. The goal of an independent audit is to provide reasonable assurance as to the validity of the financial statements. This involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing any estimates and calculations utilized, assessing supplemental information provided or gathered by the auditors, and assessing the overall financial statement presentation. The auditors have opined that the basic financial statements which were prepared in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America present fairly, in all material respects, the financial position of the Cape May County Municipal Utilities Authority at December 31, 2012.

Respectfully,

CAPE MAY COUNTY
MUNICIPAL UTILITIES AUTHORITY



Charles M. Norkis, P.E.
Executive Director

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Authority Members:		
George W. Betts	Chairman	
John J. Pantalone	Vice-Chairman	
William G. Burns, Jr.	Treasurer	\$200,000 (2)
Patricia A. Callinan	Corporate Secretary	
William J. McMahon, Jr.	Member	
Beatrice Payne (Deceased April 17, 2012)	Member	
Thomas M. Phelan, Esq.	Member	
Carol L. Saduk (From October 9, 2012)	Member	
Other Officials:		
Charles M. Norkis, P.E.	Executive Director	
John R. Baron	Solid Waste Program Manager/Deputy Director	
William W. Cathcart, P.E. (To September 30, 2012)	Wastewater Program Manager	
Thomas Lauletta, P.E. (From October 1, 2012)	Wastewater Program Manager	
Robert P. Donato, CPA	Chief Financial Officer	\$200,000 (1)
Thomas J. LaRocco, P.E.	Chief Engineer	

- (1) Bond is with the Western Surety Company.
(2) Bond is with RLI Insurance Company.

All employees are covered by an "Employee Dishonesty Policy" to the limits of \$50,000 for the policy period and an "Excess Policy" for any excess over the \$50,000 with a limit of \$1,000,000. The policy is with New Jersey Utilities Authorities Joint Insurance Fund.

FINANCIAL SECTION



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • PO BOX 538 • OCEAN CITY, NJ • 08226-0538

PHONE 609.399.6333 • FAX 609.399.3710

www.ford-scott.com

The Honorable Chairman and Members
of the Cape May County Municipal
Utilities Authority
Cape May Court House
New Jersey

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cape May County Municipal Utilities Authority (a component unit of the County of Cape May) in the County of Cape May, State of New Jersey, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Cape May County Municipal Utilities Authority (a component unit of the County of Cape May) in the County of Cape May, State of New Jersey, as of December 31, 2012 and 2011, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cape May County Municipal Utility's basic financial statements. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Cape May County Municipal Utilities Authority, State of New Jersey, taken as a whole. The accompanying schedule of expenditures of federal and state financial assistance is presented for the purpose of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal and state financial assistance is presented for the purpose 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 is not a required part of the basic financial statements. The supplemental schedules and the schedule of expenditures of federal and state financial assistance as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Glen J. Ortman

Glen J. Ortman
Certified Public Accountant
Registered Municipal Accountant
No. 427

April 29, 2013

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (“MD&A”) of the Cape May County Municipal Utilities Authority (“Authority” / “CMCMUA”) provides an introduction to the major issues affecting the operations of the Authority’s wastewater management program and solid waste management program. The MD&A also provides an introduction and overview to the financial performance and statements of the Authority for the fiscal years ended December 31, 2012, 2011 and 2010. The information contained in the MD&A should be considered in conjunction with the Authority’s financial statements.

The Authority’s basic financial statements comprise two components: 1) consolidating proprietary fund financial statements, and 2) notes to those financial statements which are essential to a full understanding of the data contained in the financial statements. The supplementary information following the basic financial statements and notes thereto contains detailed and separate information pertaining to the Authority’s wastewater management and solid waste management programs.

Regarding supplementary information, of particular note, the Authority reports a *Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget* for both the Wastewater Program (Schedule 1) and Solid Waste Program (Schedule 3). These schedules compare the “actual” revenue and expenses to “budget” revenue and expenses, including operating revenues and expenses, and non-operating revenues and expenses. Principal and Interest are reported in these schedules as expenses, and depreciation is not reported as an expense. This is a departure from the Authority’s basic financial statements, prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), where only the Interest Expense component of debt service is reported as an expense, and where depreciation is also reported as an expense.

The “Budget versus Actual” statement for each of the Authority’s programs is a very important tool for staff, as it measures the Authority’s actual financial and operational performance, and compares it to the Annual Budget as adopted by the Authority Board and approved by the State of New Jersey, Department of Community Affairs.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the official statements of the Cape May County Municipal Utilities Authority, those prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) applicable to enterprise or proprietary funds of state and local governments. These are the Authority’s basic financial statements discussed above.

Pronouncement

The Authority has adopted GASB No. 1 through 65 and related interpretations issued through December 31, 2012. GASB statement 34 and subsequent Statements and Interpretations require certain terminology, format and content, as well as inclusion of management’s discussion and analysis supplementary information.

The MD&A will provide comparative analyses of key elements of the total enterprise funds.

Wastewater Management Program

The Cape May County Municipal Utilities Authority was created by the Board of Chosen Freeholders of the County of Cape May in August of 1972, pursuant to the Municipal and County Utilities Authority Law (N.J.S.A. 40:14B-1 et seq.) for, among other things, the purpose of providing “...relief of waters in, bordering or entering the district from pollution or threatened pollution, and the consequent improvement of conditions affecting the public health...”. Pursuant to said designation, the CMCMUA has designed and placed into operation a comprehensive water pollution control system (the “System”) which utilizes a multi-regional approach to address wastewater management within the Authority’s jurisdictional area. The Authority established and adopted regional planning areas throughout the County. The regional planning areas delineated by the CMCMUA to receive wastewater treatment services are: the Ocean City Service Region, Cape May Service Region, Seven Mile Beach/Middle Service Region, and Wildwood/Lower Service Region. All major components of the Authority’s four regional service areas were placed into operation between 1982 and 1988. Currently, the CMCMUA provides wastewater conveyance, treatment and disposal services for all or a portion of, 13 of the 16 municipalities within Cape May County (the “Participants”).

Each service region, as constructed by the CMCMUA, provides a regional conveyance system/network into which the local sewage collection systems of the participating municipalities connect. Each CMCMUA regional system, in turn, conveys, treats and disposes of the wastewater generated by the Participants which are located within such service region. Wastewater sludge which is generated by each of the Authority's wastewater treatment facilities is treated at the CMCMUA's centralized sludge composting facility. Following treatment, effluent from the Authority's four regional wastewater treatment facilities, along with wastewater from the Lower Township Municipal Utilities Authority's wastewater treatment facility is discharged into the Atlantic Ocean through three Authority-owned ocean outfalls. Each ocean outfall is approximately one mile in length.

The approximate initial cost of the CMCMUA's Wastewater Management System was \$384,000,000. Federal and State grant participation in the planning, design and construction of the system was \$183,391,738.

The buildings and main infrastructure of the Authority's wastewater treatment and conveyance facilities have been designed to handle, or are capable of being expanded to handle, the peak seasonal flow at full build out within the sewer service area (i.e., summer flow) which was projected to occur in the Year 2020. However, the process equipment and tanks were sized to handle a lower peak seasonal flow. At some point in the future, additional modular tanks and process equipment will be added to the existing facilities if the wastewater flows significantly increase. Based on current wastewater flows received by the System, the CMCMUA does not anticipate the need for any significant capital expenditures to further increase the capacity of the System within the foreseeable future.

As the age of much of the wastewater treatment equipment and facilities now exceed 25 years, a great deal of labor and expenditures are required to replace, renovate, and/or maintain, the equipment necessary to achieve required treatment levels. During 2012, the Authority completed construction on a \$6.6 million project to replace 17,000 lineal feet of 24-inch force main pipe along Avalon Boulevard. Age of the pipe and highly corrosive soils in the causeway area had resulted in a compromised pipe that had experienced corrosion leaks in the past. The pipe was replaced with a PVC pipe which is resistant to corrosion. The Authority also replaced the roofs at the Wildwood/Lower Wastewater Treatment Facility at a cost of \$600,000.

The Authority attempts to use its own skilled labor using mechanical and electrical forces to complete the rebuilding and major renovations of its extensive equipment. For example, in 2012, the Authority forces replaced the standby generator at the Oak Avenue Pumping Station, as well as, large wastewater pumps at the 46th Street and 39th Street Pumping Stations. The staff also completely rebuilt the mechanized extraction system located at the bottom of the composting reactor and replaced gear boxes and motors on the secondary clarifiers at the Wildwood/Lower Wastewater Treatment Facility. The use of in-house skilled labor saves the Authority significant expenses that would be incurred if this work were to be performed by outside contractors.

Escalating fuel, chemical and power costs, the requirement to fund pension contributions at a higher level, and the need to maintain and/or replace aging equipment, will cause the Authority to continue with modest annual increases to its Participants. Based on current projections of revenues and expenses, the CMCMUA foresees increases of approximately 2% per year in the total service charges to be billed to its Participants going forward.

Solid Waste Management Program

The Cape May County Municipal Utilities Authority was designated by the Board of Chosen Freeholders of the County of Cape May as the implementing agency for solid waste management in the County pursuant to the provisions of the New Jersey Solid Waste Management Act (N.J.S.A. 13:1E-1 et. seq.), as amended and supplemented (the "Act").

As an initial step in meeting its responsibilities under the Act, in September 1979, the Authority completed a County Solid Waste Management Plan (the "Plan"). The Plan was subsequently adopted by the Cape May County Board of Chosen Freeholders and on February 5, 1981, the New Jersey Department of Environmental Protection ("NJDEP") issued a "Certificate of Approval for the Cape May County Solid Waste Management Plan". In order to enable the County to meet its long-term solid waste disposal requirements, consistent with the NJDEP certified Plan, the Authority constructed a new sanitary landfill to replace the existing unlined disposal facilities in the County.

The CMCMUA also developed a county-wide source separation and recycling program (the "County Recycling Plan"), which was initially adopted by the County as a component of the Plan on December 8, 1987.

The Cape May County Solid Waste Management Plan has been amended and modified from time-to-time since its adoption, including an Amendment adopted by the County on February 13, 2007 which, among other things, reaffirmed a disposal strategy requiring that all solid waste generated within the County, which is not disposed of at an out-of-State facility, be disposed of at the Authority's Sanitary Landfill. This provision provides greater stability to the County's Solid Waste Management Program. This Plan Amendment was approved by the NJDEP on July 25, 2007 and will remain in effect for a 10-year period.

The CMCMUA currently has disposal contracts with all sixteen municipalities located within Cape May County. These contracts require that all solid waste collected and/or otherwise under the control of each municipality to be delivered to the Authority's Sanitary Landfill for disposal. These interlocal service agreements were renewed in 2011, and will expire on December 31, 2018.

The County Recycling Plan, which has also been amended from time-to-time with the approval of the NJDEP, currently mandates the recycling of more than 40 different materials and recommends the recycling of eight (8) additional materials. A prohibition on the disposal of designated recyclables at the Authority's Sanitary Landfill, as well as an extensive educational program, substantially contributes to the overall recycling success achieved in the County.

Major Components of the CMCMUA Solid Waste System include the following:

1. The Sanitary Landfill which is located on a 457 acre site on the Woodbine Borough – Upper Township border is the only active landfill in Cape May County.
2. A solid waste transfer station, located in Middle Township, provides solid waste haulers and municipalities in the southern portion of the County with an alternative to the delivery of solid waste and source separated recyclables directly to the Authority's Landfill;
3. An Intermediate Processing Facility, located at the Landfill, receives, sorts, processes and markets in excess of 30,000 tons annually of various categories of source separated recyclables that are collected at curbside by the municipalities;
4. A Class "B" Recycling Facility which receives and processes source separated wood pallets, tree stumps and branches into recyclable components to be marketed;
5. A Class "C" Exempt Facility which receives and composts source separated leaves and grass. Following composting, the material is marketed as an organic soil amendment;
6. A Landfill Gas Recovery System, which recovers the gas generated by the decomposition of solid waste in the Authority's Landfill. Initially constructed in 1996 as part of an emission control system, the Authority expanded the system in 1998 to collect and refine the landfill gas into a marketable product which fueled the boilers at the Woodbine Developmental Center ("WDC"), a state-run facility owned by the New Jersey Department of Human Services ("NJHHS") through 2009. After the NJHHS replaced their boilers, the sale of gas to WDC resumed in October 2011; and,
7. The Authority completed the implementation of a project during 2007 that converts the energy from excess landfill gas, not utilized by the Woodbine Developmental Center, into electricity. The entire electrical needs of the Sanitary Landfill Complex are now met with an onsite electrical generating facility which saves approximately \$150,000 per year in electrical costs, with additional revenue of \$31,000 in 2012 resulting from the sale of excess electricity that was generated to Atlantic City Electric. The Authority secured a grant to finance 30% of the capital costs of construction for this project from the New Jersey Board of Public Utilities.

The Authority has been operating the Sanitary Landfill and Transfer Station since 1984. User fees for the disposal of Municipal Solid Waste and Construction and Demolition Waste (combined to constitute approximately ninety-five percent (95%) of the waste received for disposal) for the period 2004 to 2012 are shown below:

User Fee (\$/Ton)

<u>Waste Type</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Municipal Solid Waste	\$64.00	\$61.00	\$60.00	\$59.50	\$60.75	\$63.00	\$64.70	\$65.95	\$65.95
Construction and Demolition	\$59.00	\$61.00	\$64.50	\$67.00	\$68.35	\$69.00	\$70.00	\$70.00	\$71.00

There was no user fee rate increase in 2012 for municipal solid waste and only \$1.00 per ton increase for construction and demolition waste. Cape May County maintained the 4th lowest tipping fee in New Jersey, which was well below average pricing throughout the State.

The Authority received formal approval of all necessary applications for a 74 acre lateral expansion of the landfill over the last couple of years. These approvals for the landfill expansion will ensure that Cape May County residents and businesses have a safe, affordable, local disposal location for their solid waste for the next 90 years.

During 2011 the Authority received approval from the NJDEP (Air Pollution Division) for a permit to install two (2) large 1 megawatt (MW) electrical generators that would be fueled by excess landfill gas. The Authority also signed agreements with PJM, a regional transmission organization (“RTO”) that coordinates the movement of wholesale electricity, and Atlantic City Electric to supply the additional power to be generated (2 MW) directly into the PJM grid. During 2012, the Authority procured three (3) one megawatt (1.0 MW) generators and set them on concrete foundations designed and erected by in-house staff. The building to house the generators was also designed by the Authority's Engineering Staff and constructed by a contractor. Gas scrubbers to remove siloxane prior to firing in the generators were also procured during the past calendar year. The various components to the \$5 million project were designed by the Authority's Engineering Staff and the Authority's staff is serving as the General Contractor for the entire project. The extensive electrical work is being performed by in-house electricians and the piping work is being fabricated and installed by in-house forces.

During 2011, construction was initiated for the new Landfill Cell 2G, which will be needed for acceptance of solid waste by 2016. Authority staff designed and completed the reconfiguration of drainage from a two (2) sedimentation basin system to a one (1) sedimentation system, as the abandoned basin will be utilized as the base for new Cell 2G. The Authority's technical staff designed and initiated construction of the new Cell 2G base. The majority of the project (filling of the sedimentation basin) was advertised for bids and construction began in October 2011. The first phase of construction was completed by the spring of 2012. To facilitate the voluminous number of trucks utilized by the contractor to fill the sedimentation basin, operational staff completed the first phase of constructing a new entrance road into the landfill complex. This construction road will later be modified to serve as the main road to the landfill complex.

The Authority's recycling center, the Intermediate Processing Facility (“IPF”) has historically been operated as a dual stream facility (separate lines for paper and containers). In response to a survey completed by all of the county's municipalities, the Authority made the decision to switch to a single stream recycling process which should increase recycling rates. A contract was executed with the current operator of the facility in 2012 to convert the recycling center to a single stream facility at a project cost of approximately \$4 million. Construction and erection of the new processing equipment was completed in late March 2013.

Financial Highlights

- User charges billed for wastewater treatment provided to the Authority's Participants were \$31,386,440 for 2012, consistent with the *CMCMUA User Charge System Rate Setting Report, 2012*. User charges for 2012 reflected a 1.96% increase over the 2011 adopted rate.
- Income from Solid Waste Tipping Fees was \$11,912,191 for 2012 as compared to \$10,372,710 for 2011. This 15% increase in tipping fee revenue is in large part due to the debris generated by Superstorm Sandy.
- Construction and Demolition Waste received for disposal in 2012 was 76,066 tons, a 51% increase from the 50,212 tons received in 2011. The increase in C&D material received for disposal is also related to Superstorm Sandy, which occurred in late October 2012.
- On May 15, 2003, the Authority issued \$19,610,000 Solid Waste System Revenue Bonds (County Solid Waste Agreement, Refunding Series 2003) (the "2003 Refunding Bonds") pursuant to the Solid Waste Resolution in order to refund and defease all of the Authority's then outstanding \$34,745,000 Solid Waste Refunding Bonds (County Solid Waste Agreement, Refunding Series 1993). The refunding allowed the Authority to benefit from lower interest rates, which for the 2003 Refunding Bonds range from 2.00% to 3.25% over the life of the bonds. These bonds reached final maturity on August 1, 2012.
- On February 25, 2009, the Authority issued \$4,195,000 Solid Waste System Revenue Bonds (County Solid Waste Agreement, Refunding Series 2009) (the "2009 Refunding Bonds") pursuant to the Solid Waste General and Supplemental Bond Resolutions in order to refund and defease all of the Authority's outstanding \$4,475,000 Solid Waste Refunding Bonds (County Solid Waste Agreement, Refunding Series 1997). The refunding allowed the Authority to benefit from lower interest rates, which for the 2009 Refunding Bonds range from 2.25% to 4.00% over the life of the bonds. The refunding resulted in a net present value savings of \$155,786., or 3.48%. These bonds reached final maturity on August 1, 2012.
- Effective with the December 31, 2008, financial statements, the Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. For these other postemployment benefits ("OPEB"), GASB 45 requires measurement, recognition, and financial reporting using an actuarial cost method to determine the annual required contribution of the employer, as well as presentation of funded status and funding progress information. As discussed in note 17 of the notes to the basic financial statements, the Authority offers postemployment healthcare to its qualifying retirees; it is these costs which are the subject of GASB Statement No. 45. As of December 31, 2012, the actuarially-determined annual required contribution was \$2,651,262. The Authority paid \$405,770 in retiree health benefit premiums in 2012; unrealized interest income on unpaid obligations totaled \$337,987; the 2012 adjustment to the annual amortization of the net OPEB obligation totaled \$620,237; therefore the net OPEB annual obligation at December 31, 2012, is \$1,963,242. The net OPEB obligation of \$7,223,140 at December 31, 2011, was not funded during 2012. Therefore, the total net OPEB obligation at December 31, 2012, is \$9,186,382.
- On February 22, 2010, the Authority issued a \$230,280 Sewer Revenue Trust/Fund Loan, Series 2010-A, pursuant to the Authority's Junior Lien Bond Resolution, adopted on July 15, 2009. This 20-year financing, obtained through the 2010 New Jersey Environmental Infrastructure Trust Financing Program, provided funds for rehabilitation of a force main in West Wildwood. Of the total amount of the financing, \$171,000 is at zero percent (0%) interest, requiring repayment of principal only. The remaining \$59,280 financing amount bears annual interest rates of 0.61% to 4.18% over the life of the loan.

- On December 2, 2010, the Authority issued an \$856,000 Sewer Revenue Trust/Fund Loan, Series 2010-B, pursuant to the Authority's Junior Lien Bond Resolution, adopted on July 15, 2009. This 20-year financing, obtained through the 2010 New Jersey Environmental Infrastructure Trust Financing ("NJEIT") Program, provides funds for clarifier rebuilds, variable frequency drives, rotating biological contactor gear boxes, and various roof repairs, throughout and among the Authority's regional wastewater treatment facilities. Of the total amount of the financing, \$218,000 was granted principal forgiveness by the NJEIT, thus requiring no repayment. Another \$218,000 was provided at zero percent (0%) interest. The final \$420,000 financing amount of the trust/fund loan bears annual interest of 5% over the life of the loan.
- On December 2, 2010, the Authority issued an \$8,506,537 Sewer Revenue Trust/Fund Loan, Series 2010-C, pursuant to the Authority's Junior Lien Bond Resolution, adopted on July 15, 2009. This 20-year financing, obtained through the 2010 New Jersey Environmental Infrastructure Trust Financing ("NJEIT") Program, provides funds for sludge trucks and screw assemblies for the Authority's Sludge Composting Facility, and various mechanical drives, variable frequency drives, and bar screens/grinders at various pump stations throughout the wastewater treatment service regions. The financing also provides funds for the repair and replacement of 17,000 feet of existing 24" diameter force mains. Of the total amount of the financing, \$4,236,537 was provided at zero percent (0%) interest. The remaining \$4,270,000 financing amount of the trust/fund loan bears annual interest of 5% over the life of the loan.
- On October 13, 2011, the Authority issued \$13,015,000 Sewer Revenue Refunding Bonds, Series 2011 (the "2011 Refunding Bonds"), pursuant to the Sewer General and Supplemental Bond Resolutions, in order to refund and defease all of the Authority's outstanding \$14,210,000 Sewer Revenue Refunding Bonds, Series 2002-C. The refunding allowed the Authority to benefit from lower interest rates, which for the 2011 Refunding Bonds range from yield rates of 2.08% to 3.08% over the life of the bonds. The refunding resulted in a net present value savings of \$2,032,463., or 14.30%. The 2011 Refunding Bonds will reach final maturity on January 2, 2021, the same date the Series 2002-C bonds would have reach final maturity.
- On May 3, 2012, the Authority issued a \$1,722,516 Sewer Revenue Trust/Fund Loan, Series 2012-A and Series 2012-B, pursuant to the Authority's Junior Lien Bond Resolution, adopted on July 15, 2009. This 20-year financing, obtained through the 2012 New Jersey Environmental Infrastructure Trust Financing ("NJEIT") Program, provides funds for emergency generators, gate valves, submersible pumps, variable frequency drives, asphalt rehabilitation, a forklift and front-end loader, and roof replacements, for and throughout the wastewater treatment service regions. Of the total amount of the financing, \$195,148 is not required to be repaid (principal forgiveness by NJEIT) and \$972,368 was provided at zero percent (0%) interest. The remaining \$555,000 financing amount of the trust/fund loan bears an average annual interest rate of 4.18% over the life of the loan.
- On May 3, 2012, the Authority issued a \$5,206,467 Solid Waste Revenue Trust/Fund Loan, Series 2012-C, pursuant to the Authority's General Bond Resolution, adopted on September 21, 2011. This 20-year financing, obtained through the 2012 New Jersey Environmental Infrastructure Trust Financing ("NJEIT") Program, provides funds for the first phase of a four-phase project for the construction of a double composite lined Landfill Cell 2G, covering approximately 19 acres, with the construction of associated access roads, stormwater drainage and leachate management systems. This first phase includes the reconfiguration of drainage system from a two (2) sedimentation basis system to a one (1) sedimentation system, and the subsequent filling of the abandoned basin as the base for new Cell 2G. Of the total amount of the financing, \$3,966,467 was provided at zero percent (0%) interest. The remaining \$1,240,000 financing amount of the trust/fund loan bears an average annual interest rate of 4.18% over the life of the loan.

Required Financial Statements

The Financial Statements are intended to report information about the Authority using accounting methods similar to those used by private sector companies, consistent with New Jersey statutes. Specifically, the financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by GASB. Accordingly, the Authority recognizes revenues when earned, not received. Expenses are recognized when incurred, not when they are paid.

The *Statement of Net Position*, the first required statement, and the *Statement of Revenues, Expenses and Changes in Fund Net Position*, the second required statement, report information about the Authority's financial condition. The Authority's Net Position, i.e., the difference between assets and liabilities, are a measure of financial health or financial position. Over time, increases or decreases in the Authority's Net Position are one indicator of whether its financial health is improving or deteriorating. Net Position increase both when revenues exceed expenses and when the Authority's assets increase without a corresponding increase to the Authority's liabilities. It is important to point out depreciation is shown as an expense which has a negative impact on Net Position. Depreciation decreases the Authority's Net Position even though it is a non-cash expense.

The third and final required financial statement, the *Statement of Cash Flows*, provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

Financial Analysis

Table 1
Combined Condensed Statement of Net Position
December 31, 2012, 2011 and 2010

	December 31, 2012			As Restated December 31, 2011	As Restated December 31, 2010	
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment			Total
Current Assets	\$ 4,769,347	\$ 8,016,230	\$ -	\$ 12,785,577	\$ 22,574,763	\$ 23,583,429
Restricted Assets	35,806,514	14,519,017		50,325,531	45,526,424	48,987,935
Capital Assets, net	82,720,033	38,120,804		120,840,837	117,779,748	118,949,405
Deferred Outflow of Resources	516,836			516,836	553,406	219,420
Total Assets and Deferred Outflow of Resources	<u>\$ 123,812,730</u>	<u>\$ 60,656,051</u>	<u>\$ -</u>	<u>\$ 184,468,781</u>	<u>\$ 186,434,341</u>	<u>\$ 191,740,189</u>
Current Unrestricted Liabilities	\$ 1,100,234	\$ 2,544,212	\$ -	\$ 3,644,446	\$ 4,539,456	\$ 2,889,105
Current Restricted Liabilities	14,070,897	1,457,481		15,528,378	18,061,010	16,599,272
Long Term Obligations Outstanding	63,981,445	5,268,758	9,186,382	78,436,585	81,992,090	93,132,804
Deferred Inflow of Resources	141,031			141,031	121,256	585,291
Total Liabilities and Deferred Inflow of Resources	<u>79,293,607</u>	<u>9,270,451</u>	<u>9,186,382</u>	<u>97,750,440</u>	<u>104,713,812</u>	<u>113,206,472</u>
Net Position:						
Investment in Capital Assets	9,061,480	32,755,860		41,817,340	39,142,501	28,357,291
Restricted	35,315,215	12,549,100		47,864,315	44,681,295	43,903,117
Unreserved, Board Designated	10,811	3,307,406		3,318,217	3,594,128	6,374,269
Unreserved, Unrestricted	131,617	2,773,234	(9,186,382)	(6,281,531)	(5,697,395)	(100,960)
Total Net Position	<u>44,519,123</u>	<u>51,385,600</u>	<u>(9,186,382)</u>	<u>86,718,341</u>	<u>81,720,529</u>	<u>78,533,717</u>
Total Liabilities, Deferred Inflow of Resources and Net Position	<u>\$ 123,812,730</u>	<u>\$ 60,656,051</u>	<u>\$ -</u>	<u>\$ 184,468,781</u>	<u>\$ 186,434,341</u>	<u>\$ 191,740,189</u>

Analysis of Net Position (Table 1)

The Authority's assets exceeded its liabilities (*Net Position*) at the end of December 31, 2012, by approximately \$86.7 million. There is a deficit in unrestricted Net Position of \$6.3 million which includes \$9.2 million for the net OPEB adjustment. The restricted Net Position amount of \$47.8 million includes approximately \$26.8 million restricted for debt service, \$4.8 million restricted for future landfill closure expenses, \$4.8 million restricted for equipment replacements and other renewal and replacements, \$5.0 million in restricted operations and maintenance reserves, \$4.1 million restricted for capital projects and \$2.3 million restricted for building and sites. The unreserved, board designated Net Position amount of \$3.3 million includes approximately \$2.1 million in rate stabilization and insurance board-designated Net Position and \$1.2 million in board-designated Net Position for future landfill cell construction projects.

Table 2
 Combined Condensed Statement of Revenues, Expenses, and Changes in Net Position
 December 31, 2012, 2011 and 2010

	December 31, 2012			Total	As Restated Note 19	As Restated Note 19
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment		December 31, 2011	December 31, 2010
Operating Revenues:						
User Service Agreements	\$ 31,386,440	\$ 11,912,191	\$ -	\$ 43,298,631	\$ 41,160,023	\$ 40,826,302
Septage/Leachate Disposal	812,934			812,934	852,924	1,136,688
Dry Sludge Processing	218,395			218,395	153,020	173,580
Landfill Cover Fees		22,343		22,343	233,648	96,357
Methane Gas Sales		292,452		292,452	88,065	-
Wood Product Sales		692,190		692,190	866,097	882,321
Sale of Scrap Metal		44,568		44,568	60,767	45,872
Environmental Credits		13,663		13,663	-	21,180
Electricity Generation		78,239		78,239	114,566	108,841
Operating Grants		110,000		110,000	131,444	121,435
Other	295,183	315,525		610,708	774,360	899,682
Total Operating Revenues	32,712,952	13,481,171	-	46,194,123	44,434,914	44,312,258
Operating Expenses:						
Personnel	9,482,218	4,921,580		14,403,798	13,695,157	13,248,999
Other Postemployment Benefits			1,963,242	1,963,242	2,128,817	1,548,075
Administrative	1,301,976	1,450,196		2,752,172	2,634,772	2,512,796
Operations and Maintenance	5,689,967	3,705,532		9,395,499	9,742,475	10,114,888
Enforcement and Compliance		451		451	557	-
Depreciation	4,760,649	2,439,992		7,200,641	8,654,674	10,137,621
Landfill Closure Expenses		9,836		9,836	11,779	11,058
Construction Fund Expenses	1,320,372	995,771		2,316,143	1,822,876	2,040,046
Total Operating Expenses	22,555,182	13,523,358	1,963,242	38,041,782	38,691,107	39,613,483
Operating Income	10,157,770	(42,187)	(1,963,242)	8,152,341	5,743,807	4,698,775
Nonoperating Revenue (Expense):						
Refunding bonds issued				-	14,580,556	
Payment to bond refunding escrow agent				-	(14,583,033)	
Interest Income	152,866	249,838		402,704	545,322	604,251
Interest Expense	(3,768,550)	(78,667)		(3,847,217)	(4,249,818)	(5,035,885)
Grant Revenue	145,951			145,951	892,039	-
Reimbursement of Pump Station Imprv				-	472,037	-
Amortization of Bond Premium	1,506			1,506	61,327	58,837
Deferred Amount on Refunding	(36,570)			(36,570)	(49,425)	(52,173)
Cost of Issuance	(64,088)	(62,622)		(126,710)	(225,330)	(86,716)
Due to IRS - Canceled		306,072		306,072		
Disposal of Fixed Assets	(265)			(265)	(670)	(262,256)
Total Nonoperating Revenue (Expense)	(3,569,150)	414,621	-	(3,154,529)	(2,556,995)	(4,773,942)
Change in Net Position	6,588,620	372,434	(1,963,242)	4,997,812	3,186,812	(75,167)
Net Position - Beginning of Year	37,930,503	51,013,166	(7,223,140)	81,720,529	78,703,940	78,730,672
Restatement					(170,223)	(121,788)
Net Position - Beginning of Year	37,930,503	51,013,166	(7,223,140)	81,720,529	78,533,717	78,608,884
Total Net Position, End of Year	\$ 44,519,123	\$ 51,385,600	\$ (9,186,382)	\$ 86,718,341	\$ 81,720,529	\$ 78,533,717

Analysis of Changes in Net Position (Table 2)

The Authority's financial performance remained strong in 2012, with Net Position of \$86.7 million, increasing from \$81.2 million in 2011. Operating income was \$8.1 million, an increase of \$2.4 million over 2011.

Operating and Nonoperating Revenue

Wastewater Management Program

The Authority's Wastewater Management Program employs a rate-setting plan whereby the sum of all charges to its municipal users are to be sufficient to pay for operational expenses, repair and maintenance costs of the entire system, including extensions and alterations of the system, principal and interest on outstanding debt, and for any deficits created by nonpayment from any user. The Authority considers all these expenses and contingencies when setting an annual rate, while also considering offsetting revenues from interest income, septage disposal fees, compost product sales, as well as Authority contributions from its rate stabilization fund. This annual rate-setting process culminates in a public hearing where the following year's proposed rates are presented and discussed, and comments from the public are heard. Following this public hearing, and after consideration of any comments received, the Authority's governing board adopts the proposed rates for the following year.

Consistent with prior years, the Authority's wastewater management program operated successfully under the rates set in the beginning of 2012.

Operating and Nonoperating Revenue

Solid Waste Management Program

Pursuant to the Cape May County Solid Waste Management Plan, all non-recycled solid waste generated within Cape May County is to be disposed of at the Authority's Sanitary Landfill or transported out-of-state for disposal at a properly permitted solid waste facility. This plan, as approved by the New Jersey Department of Environmental Protection, is consistent with recent Federal and State court decisions.

The Authority strives to maintain a series of tipping fees for various waste classification types consistent with market conditions in and around the southern New Jersey area, and beyond. The Authority's goal is to provide solid waste disposal opportunities to both its constituent municipalities and the private sector at large which are fair and reasonable in cost, yet provide the greatest protection to the environment as possible. Similar to its wastewater management program, the Authority annually develops a series of tipping fees by waste type, being mindful of its annual debt service requirements, as well as its obligations within the framework of its Interlocal Service Agreements with Cape May County municipalities. The Authority holds a public hearing on the proposed tipping fees, after which the Authority Board formally adopts the final tipping fees for the coming year.

For 2012, the Authority's solid waste management program experienced higher than anticipated quantities of solid waste being delivered to the Sanitary Landfill in Woodbine Borough/Upper Township and the transfer station in Middle Township. Of the approximately 22,500 tons received above originally anticipated, approximately 17,400 tons of that excess quantity consisted of Bulky Waste and Construction and Demolition ("C&D") Waste-types. The vast majority of these additional waste-type tons being delivered for disposal was the teardown/demolition material, destroyed personal property and overall storm debris caused by Superstorm Sandy.

Net Position in the solid waste program increased by \$372,434 from 2011, and is reflective in the \$437,000 excess in the Nonoperating revenues and expenditures experienced in 2012.

Authority-Wide Expenses

Operating expenses, exclusive of depreciation expense and the net OPEB adjustment, decreased by approximately \$461,000 over 2011.

- Noteworthy changes from 2012 include: an increase of \$417,000 in employee benefits; a decrease of \$347,000 in operation and maintenance costs; and a \$291,000 increase in salary and wages.

Nonoperating revenues and expenses are highlighted as follows:

- Interest expense was \$3.9 million in 2012, a \$385,000 reduction from 2011. As the outstanding bond issues continue to be paid down, amounts payable as principal will increase as the amounts payable as interest will decrease.
- Interest income was \$403,000 in 2012, a \$143,000 decrease from 2011.

Table 3
Combined Condensed Statement of Cash Flows
December 31, 2012, 2011 and 2010

	December 31, 2012			As Restated Note 19 December 31, 2011	As Restated Note 19 December 31, 2010
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment		
Cash Flows Provided by (Used in):					
Operating Activities	\$ 14,434,075	\$ (704,761)	\$ -	\$ 13,729,314	\$ 19,486,934
Noncapital Financing Activities Capital and Related Financing Activities	(318,134)	313,668		(4,466)	(6,545)
Investing Activities	(12,985,890)	(1,797,593)		(14,783,483)	(22,796,682)
	<u>12,901,548</u>	<u>(427,954)</u>		<u>12,473,594</u>	<u>(12,645,821)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,031,599	(2,616,640)	-	11,414,959	(15,962,114)
Cash and Cash Equivalents, Beginning of Year	<u>20,546,058</u>	<u>16,488,864</u>		<u>37,034,922</u>	<u>52,997,036</u>
Cash and Cash Equivalents, End of Year	<u>\$ 34,577,657</u>	<u>\$ 13,872,224</u>	<u>\$ -</u>	<u>\$ 48,449,881</u>	<u>\$ 52,997,036</u>

Analysis of Cash Flows (Table 3)

The Authority made all of its debt service payments on time and in the required amounts. In both the wastewater management program and solid waste management program, cash used in capital related financing activities exceeded the cash provided by operations because reserve funds were used to pay for certain Authority-wide renewals and replacements.

Of the \$48.4 million in cash and cash equivalents at December 31, 2012, \$9.5 million is available for operations and current obligations, including current debt service obligations. The remaining \$38.9 million has been reserved or restricted for debt service, insurance deductibles, future construction projects, operating and maintenance reserves, and plant and equipment renewals, replacements and improvements.

Contacting the Authority's Financial Management

This financial report is designed to provide the CMCMUA's board members, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact either the Authority's Executive Director or Chief Financial Officer at the Cape May County Municipal Utilities Authority, Post Office Box 610, Cape May Court House, New Jersey 08210, telephone 609/465-9026.

BASIC FINANCIAL STATEMENTS

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011

	As Restated							
	December 31, 2012			December 31, 2011				
	Enterprise Funds		Net	Enterprise Funds		Net		
	Wastewater Treatment Project	Solid Waste Disposal Project	OPEB Adjustment	Total	Wastewater Treatment Project	Solid Waste Disposal Project	OPEB Adjustment	Total
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 4,274,464	\$ 5,226,205	\$ 9,500,669	\$ 9,500,669	\$ 3,126,786	\$ 4,480,095	\$ 7,606,881	\$ 7,606,881
Investments	408,722	587,199	995,921	995,921	13,744,805	484,701	14,229,506	14,229,506
User charges receivable		2,031,374	2,031,374	2,031,374		524,688	524,688	524,688
Septage haulers fees receivable	70,308		70,308	70,308	108,914		108,914	108,914
Accounts receivable - other	31,207	198,501	229,708	229,708	14,188	132,989	147,177	147,177
Allowance for doubtful accounts	(15,354)	(27,049)	(42,403)	(42,403)	(15,354)	(27,049)	(42,403)	(42,403)
TOTAL CURRENT ASSETS	4,769,347	8,016,230	12,785,577	12,785,577	16,979,339	5,595,424	22,574,763	22,574,763
NONCURRENT ASSETS:								
Restricted Assets:								
Cash and cash equivalents	30,303,193	8,646,019	38,949,212	38,949,212	17,419,272	12,008,769	29,428,041	29,428,041
Investments	1,937,696	5,709,770	7,647,466	7,647,466	1,308,117	5,134,476	6,442,593	6,442,593
New Jersey trust loan receivable	1,695,829	163,228	1,859,057	1,859,057	7,898,694	-	7,898,694	7,898,694
Prepaid Debt Service	7,612	-	7,612	7,612	213,046	-	213,046	213,046
Due from Solid Waste Disposal Project	1,862,184	-	1,862,184	1,862,184	1,544,050	-	1,544,050	1,544,050
TOTAL RESTRICTED ASSETS	35,806,514	14,519,017	50,325,531	50,325,531	28,383,179	17,143,245	45,526,424	45,526,424
CAPITAL ASSETS:								
Property, Plant and Equipment	367,096,213	96,369,806	463,466,019	463,466,019	361,239,725	92,522,692	453,762,417	453,762,417
Less accumulated depreciation	284,376,180	58,249,002	342,625,182	342,625,182	279,951,986	56,030,663	335,982,669	335,982,669
NET PROPERTY, PLANT AND EQUIPMENT	82,720,033	38,120,804	120,840,837	120,840,837	81,287,739	36,492,009	117,779,748	117,779,748
TOTAL ASSETS	123,295,894	60,656,051	183,951,945	183,951,945	126,650,257	59,230,678	185,880,935	185,880,935
DEFERRED OUTFLOW OF RESOURCES:								
Deferred Amount on Refunding	516,836		516,836	516,836	553,406		553,406	553,406
TOTAL DEFERRED OUTFLOW OF RESOURCES	516,836	-	516,836	516,836	553,406	-	553,406	553,406
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 123,812,730	\$ 60,656,051	\$ 184,468,781	\$ 184,468,781	\$ 127,203,663	\$ 59,230,678	\$ 186,434,341	\$ 186,434,341

The Accompanying Notes to Financial Statements are an Integral Part of this Statement

**CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011
(CONTINUED)**

	December 31, 2012					As Restated December 31, 2011				
	Enterprise Funds					Enterprise Funds				
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total		Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total	
LIABILITIES										
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS:										
Accounts payable - operations	\$ 1,100,234	\$ 1,110,444	\$	\$ 2,210,678	\$	\$ 1,913,695	\$ 785,753	\$	\$ 2,699,448	
Rebates due to users		590,227		590,227			1,247,691		1,247,691	
Due Wastewater Treatment Project		843,541		843,541			592,317		592,317	
TOTAL CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS	1,100,234	2,544,212	-	3,644,446		1,913,695	2,625,761	-	4,539,456	
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:										
Accounts payable	310,456	157,951		468,407		293,600	1,332,676		1,626,276	
Accrued interest payable	1,808,445	21,374		1,829,819		1,826,482	40,920		1,867,402	
Due Wastewater Treatment Project		1,018,643		1,018,643			951,733		951,733	
Current maturities of long-term debt (Net of Unamortized Bond Premium of \$24,980 in 2012 and 64,643 in 2011, respectively)	11,951,996	259,513		12,211,509		10,852,462	2,763,137		13,615,599	
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	14,070,897	1,457,481	-	15,528,378		12,972,544	5,088,466	-	18,061,010	
LONG TERM OBLIGATIONS:										
Accrued compensated absences	306,252			306,252		306,094			306,094	
Prepaid user fees		163,326		163,326			167,791		167,791	
Due to IRS - arbitrage rebate	272,807			272,807		230,630	306,072		536,702	
Net OPEB Obligations								9,186,382	7,223,140	
Long term portion of bonds payable (Net of Unamortized Bond Premium of \$2,285,358 in 2012 and \$2,081,703 in 2011, respectively)	63,402,386	5,105,432		68,507,818		73,758,363			73,758,363	
TOTAL LIABILITIES	79,152,576	9,270,451		97,609,409		89,181,326	8,188,090	7,223,140	104,592,556	
DEFERRED INFLOW OF RESOURCES:										
Deferred Amount on Refunding	141,031			141,031		91,834			29,422	
Unearned revenue - grants	141,031			141,031		91,834			91,834	
TOTAL DEFERRED INFLOW OF RESOURCES	282,062			282,062		183,668			121,256	
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	79,293,607	9,270,451		97,750,440		89,273,160	8,217,512	7,223,140	104,713,812	

The Accompanying Notes to Financial Statements are an Integral Part of this Statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

	As Restated					
	December 31, 2012			December 31, 2011		
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment
NET POSITION:						
Investment in Capital Assets	\$ 9,061,480	\$ 32,755,860	\$ 41,817,340	\$ 5,401,972	\$ 33,740,529	\$ 39,142,501
Restricted For:						
Bond service	11,584,803		11,584,803	10,809,027		10,809,027
Bond reserve	15,193,826		15,193,826	15,193,826	2,761,744	17,955,570
Renewal and replacement	1,585,945		1,585,945	1,708,915		1,708,915
Capital projects	4,115,686		4,115,686			-
Landfill closure #1		4,820,951	4,820,951		4,692,980	4,692,980
Equipment reserve		3,207,912	3,207,912		2,595,370	2,595,370
Building and site		316,827	316,827		316,827	316,827
IPF building and site		2,008,383	2,008,383		1,572,624	1,572,624
Operating and maintenance reserve	2,834,955	2,195,027	5,029,982	2,834,955	2,195,027	5,029,982
Unreserved:						
Board Designated:						
Rate stabilization	10,811	818,340	829,151	10,811	817,691	828,502
IPF rate stabilization		625,064	625,064		624,586	624,586
Insurance		616,430	616,430		611,763	611,763
Future construction		1,247,572	1,247,572		1,529,277	1,529,277
Unrestricted	131,617	2,773,234	(6,281,531)	1,970,997	(445,252)	(7,223,140)
TOTAL NET POSITION	44,519,123	51,385,600	86,718,341	37,930,503	51,013,166	81,720,529
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	\$ 123,812,730	\$ 60,656,051	\$ 184,468,781	\$ 127,203,663	\$ 59,230,678	\$ 186,434,341

The Accompanying Notes to Financial Statements are an Integral Part of this Statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	As Restated					
	December 31, 2012			December 31, 2011		
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment
Operating revenues:						
User service agreements	\$ 31,386,440	\$ 11,912,191	\$ 43,298,631	\$ 30,787,313	\$ 10,372,710	\$ 41,160,023
Septage haulers fees	426,214		426,214	447,628		447,628
Leachate disposal	386,720		386,720	405,296		405,296
Lower Township MUA debt service	50,000		50,000	50,000		50,000
Processing dry sludge	218,395		218,395	153,020		153,020
Compost sales	40,187		40,187	46,295		46,295
Tower rental	121,103		121,103	117,517		117,517
Operating grants		110,000	110,000		131,444	131,444
SLF cover fees		22,343	22,343		233,648	233,648
Methane gas sales		292,452	292,452		88,065	88,065
Wood product sales		692,190	692,190		866,097	866,097
Wood product delivery charge		17,813	17,813		-	-
Sale of asbestos bags		9,309	9,309		11,334	11,334
Sale of scrap metal		44,568	44,568		60,767	60,767
Sludge hauling income		18,206	18,206		10,137	10,137
Sale of used equipment		14,883	14,883		9,500	9,500
Electric generation income		31,845	31,845		60,034	60,034
Sale of renewable energy certificates		13,663	13,663		-	-
IPF tipping fee					96,449	96,449
Hazardous Waste		4,161	4,161		-	-
Miscellaneous	83,893	1,152	85,045	17,851	23,772	41,623
IPF electric reimbursement		46,394	46,394		54,532	54,532
IPF out of county revenue					261,219	261,219
IPF merchant ton revenue					17,956	17,956
IPF residue income		84,464	84,464			
IPF commercial ton revenue		18,945	18,945			
IPF administrative support reimbursement		50,130	50,130		38,398	38,398
Recyclables Hauling		34,350	34,350		34,275	34,275
Recycling income		62,112	62,112		39,657	39,657
TOTAL OPERATING REVENUES	32,712,952	13,481,171	46,194,123	32,024,920	12,409,994	44,434,914

The Accompanying Notes to Financial Statements are an Integral Part of this Statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)

	December 31, 2012					December 31, 2011				
	Enterprise Funds					Enterprise Funds				
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total		Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total	
Operating expenses:										
Salary and wages	6,175,204	3,168,775	\$	9,343,979	\$	5,934,191	3,118,429	\$	9,052,620	
Employee benefits	3,307,014	1,752,805		5,059,819		3,011,304	1,631,233		4,642,537	
Other post-employment benefits (Note 16)	-	-	1,963,242	1,963,242	-	-	-	2,128,817	2,128,817	
Administrative expenses	1,301,976	1,450,196		2,752,172		1,249,659	1,385,113		2,634,772	
Operations and maintenance	5,689,967	3,705,532		9,395,499		6,288,696	3,453,779		9,742,475	
Enforcement and compliance	-	451		451		-	557		557	
Depreciation	4,760,649	2,439,992		7,200,641		6,103,259	2,551,415		8,654,674	
Landfill closure expenses	-	9,836		9,836		-	11,779		11,779	
Construction fund expenses	1,320,372	1,018,642		2,339,014		875,493	947,383		1,822,876	
TOTAL OPERATING EXPENSES	22,555,182	13,546,229	1,963,242	38,064,653	23,462,602	13,099,688	2,128,817	2,128,817	38,691,107	
Operating income	10,157,770	(65,058)	(1,963,242)	8,129,470	8,562,318	(689,694)	(2,128,817)	(2,128,817)	5,743,807	
Nonoperating revenues (expenses):										
Proceeds of bond sale	-	-		-		14,580,556	-		14,580,556	
Payment to bond refunding escrow agent	-	-		-		(14,583,033)	-		(14,583,033)	
Interest income	152,866	249,838		402,704		181,647	363,675		545,322	
Interest expense	(3,768,550)	(95,468)		(3,864,018)		(4,105,261)	(144,557)		(4,249,818)	
Due to IRS - canceled	-	306,072		306,072		-	-		-	
Grant revenue	145,951	-		145,951		892,039	-		892,039	
Reimbursement for pumping station upgrades	-	-		-		472,037	-		472,037	
Amortization of bond premium	1,506	63,137		64,643		-	61,327		61,327	
Deferred amount on refunding amortized	(36,570)	29,422		(7,148)		(36,570)	(12,855)		(49,425)	
Cost of issuance Expense	(64,088)	(115,509)		(179,597)		(217,743)	-		(217,743)	
Disposal of fixed assets	(265)	-		(265)		(670)	-		(670)	
TOTAL NONOPERATING REVENUES (EXPENSES)	(3,569,150)	437,492	-	(3,131,658)	(2,816,998)	267,590	-	-	(2,549,408)	
Change in Net Position	6,588,620	372,434	(1,963,242)	4,997,812	5,745,320	(422,104)	(2,128,817)	(2,128,817)	3,194,399	
Net Position - beginning	37,930,503	51,013,166	(7,223,140)	81,720,529	32,282,012	51,516,251	(5,094,323)	(5,094,323)	78,703,940	
Restatement	-	-		-	(96,829)	(80,981)	-	-	(177,810)	
Net Position - beginning	37,930,503	51,013,166	(7,223,140)	81,720,529	32,185,183	51,435,270	(5,094,323)	(5,094,323)	78,526,130	
Net Position - ending	44,519,123	51,385,600	(9,186,382)	86,718,341	37,930,503	51,013,166	(7,223,140)	(7,223,140)	81,720,529	

The Accompanying Notes to Financial Statements
are an Integral Part of this Statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	December 31, 2012					December 31, 2011				
	Enterprise Funds					Enterprise Funds				
	Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total		Wastewater Treatment Project	Solid Waste Disposal Project	Net OPEB Adjustment	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:										
Receipts from customers and users	\$ 32,479,543	\$ 10,454,538	\$ -	\$ 42,934,081	\$ -	\$ 31,806,271	\$ 10,575,163	\$ -	\$ 42,381,434	
Other operating cash receipts	254,996	1,454,435	-	1,709,431	-	185,368	1,754,859	-	1,940,227	
Payments to employees	(9,482,218)	(4,921,580)	-	(14,403,798)	(4,466)	(8,945,495)	(4,749,662)	-	(13,695,157)	
Payments to suppliers and vendors	(8,818,246)	(7,692,154)	-	(16,510,400)	-	(7,225,815)	(3,913,755)	-	(11,139,570)	
Net cash provided by operating activities	14,434,075	(704,761)	-	13,729,314	(4,466)	15,820,329	3,666,605	-	19,486,934	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Prepayments received (returned)	-	(4,466)	-	(4,466)	-	-	(6,545)	-	(6,545)	
Net transfers from (to) other funds	(318,134)	318,134	-	-	-	56,859	(56,859)	-	-	
Net cash used by noncapital financing activities	(318,134)	313,668	-	(4,466)	-	56,859	(63,404)	-	(6,545)	
CASH ACTIVITIES FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Bond sale proceeds	-	-	-	-	-	14,403,283	-	-	14,403,283	
Disbursed to escrow fund to refund bonds	-	-	-	-	-	(14,583,033)	-	-	(14,583,033)	
Purchase of capital assets	(6,483,725)	(4,068,787)	-	(10,552,512)	(10,552,512)	(3,702,469)	(3,852,442)	-	(7,554,911)	
Reimbursement for pumping station upgrades	-	-	-	-	-	472,037	-	-	472,037	
N.J. trust and fund loan	7,957,223	5,125,395	-	13,082,618	13,082,618	1,991,289	-	-	1,991,289	
Cost of issuance of Debt	(40,873)	(55,988)	-	(96,861)	(96,861)	-	-	-	-	
Principal paid on capital debt	(10,852,462)	(2,700,000)	-	(13,552,462)	(13,552,462)	(10,220,479)	(2,625,000)	-	(12,845,479)	
Interest paid on capital debt	(3,586,053)	(98,213)	-	(3,684,266)	(3,684,266)	(4,502,205)	(177,663)	-	(4,679,868)	
Net cash used by capital and related financing activities	(12,985,890)	(1,797,593)	-	(14,783,483)	(14,783,483)	(16,141,577)	(6,655,105)	-	(22,796,682)	
CASH FLOWS FROM INVESTING ACTIVITIES:										
Investments matured (purchased)	12,706,504	(677,792)	-	12,028,712	12,028,712	(14,259,756)	1,068,613	-	(13,191,143)	
Interest income	195,044	249,838	-	444,882	444,882	181,647	363,675	-	545,322	
Net cash provided by investing activities	12,901,548	(427,954)	-	12,473,594	12,473,594	(14,078,109)	1,432,288	-	(12,645,821)	
Net increase (decrease) in cash and cash equivalents	14,031,599	(2,616,640)	-	11,414,959	11,414,959	(14,342,498)	(1,619,616)	-	(15,962,114)	
CASH AND CASH EQUIVALENTS, JANUARY 1	20,546,058	16,488,864	-	37,034,922	37,034,922	34,888,556	18,108,480	-	52,997,036	
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 34,577,657	\$ 13,872,224	\$ -	\$ 48,449,881	\$ 48,449,881	\$ 20,546,058	\$ 16,488,864	\$ -	\$ 37,034,922	

The Accompanying Notes to Financial Statements are an Integral Part of this Statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)

	December 31, 2012				December 31, 2011				
	Wastewater Treatment Project	Solid Waste Disposal Project	Enterprise Funds	Net OPEB Adjustment	Wastewater Treatment Project	Solid Waste Disposal Project	Enterprise Funds	Net OPEB Adjustment	Total
\$	10,157,770	\$ (65,058)	\$ (1,963,242)	\$ 8,129,470	\$ 8,562,318	\$ (689,694)	\$ (2,128,817)	\$ 5,743,807	
	4,760,649	2,439,992	-	7,200,641	6,103,259	2,551,415	-	8,654,674	
	14,918,419	2,374,934	(1,963,242)	15,330,111	14,665,577	1,861,721	(2,128,817)	14,398,481	
	21,587	(1,572,198)		(1,550,611)	(33,281)	51,471		18,190	
	(505,931)	(1,507,497)	1,963,242	(50,186)	1,188,033	1,753,413	2,128,817	5,070,263	
\$	14,434,075	(704,761)	-	13,729,314	15,820,329	3,666,605	-	19,486,934	

Reconciliation of operating income to net cash provided by operating activities:
 Operating income
 Adjustments to reconcile operating income to net cash provided by operating activities:
 Depreciation

 Changes in assets and liabilities:
 Receivables, net
 Accounts and other payables

NOTES TO FINANCIAL STATEMENTS

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. GENERAL

The Cape May County Municipal Utilities Authority, hereafter referred to as the "Authority," is a public body politic and corporate, constituting a political subdivision of the State of New Jersey organized and existing under the provisions of Municipal Utilities Authority Law, (New Jersey Revised Statutes 40:14B-1 et seq.), constituting Chapter 183 of the Pamphlet Laws of 1957, and was created by virtue of a resolution of the Board of Chosen Freeholders of the County of Cape May, hereafter referred to as the "County," adopted August 8, 1972. The Authority is a component unit of the County of Cape May, New Jersey, and was created to construct and operate a countywide wastewater treatment system in Cape May County. In December 1980, the County Freeholders designated the Authority as the agency to implement the County's Solid Waste Management Plan, which involved constructing a secure sanitary landfill and transfer station. As a public body, under existing statute, the Authority is exempt from both federal and state income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies:

A. Basis of Financial Statements

The financial statements of the Authority have been prepared on a full accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The Authority's financial statements include the accounts of all operations of the Authority. The Authority, as a component unit of the County of Cape May, State of New Jersey, is financially accountable to the County. As set forth in Government Accounting Standards Board (GASB) 14, as amended by GASB 61, financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The Authority, as a component unit, issues separate financial statements from the County of Cape May. However, if the County presented its financial statements in accordance with accounting principles generally accepted in the United States of America, these financial statements would be includable with the County's on a blended basis.

The Authority has adopted GASB No. 1 through 65 and related interpretations issued through December 31, 2012. GASB statement 34 and subsequent Statements and Interpretations require certain terminology, format and content, as well as inclusion of management's discussion and analysis supplementary information.

C. Grants

Grants received from various sources are recorded when the grant is approved. Grants not externally restricted and utilized to finance operations are identified as operating revenues. Grants externally restricted for non-operating purposes are recorded as contributed capital and are increases to the Unrestricted Net Position.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Wastewater Treatment Project:				
Capital assets, not being depreciated:				
Land	\$ 5,677,701	\$	\$	\$ 5,677,701
Construction in Progress	5,290,099	39,150	5,290,099	39,150
Total capital assets not being depreciated	<u>10,967,800</u>	<u>39,150</u>	<u>5,290,099</u>	<u>5,716,851</u>
Capital assets being depreciated:				
Land Improvements	7,101,504			7,101,504
Buildings and building improvements	132,419,537	3,090,841		135,510,378
Machinery and Equipment	81,963,515	8,353,316	336,720	89,980,111
Other capitalized costs	128,787,369			128,787,369
Total capital assets being depreciated at historical cost	<u>350,271,925</u>	<u>11,444,157</u>	<u>336,720</u>	<u>361,379,362</u>
Less:				
Accumulated depreciation	279,951,986	4,760,649	336,455	284,376,180
Total capital assets being depreciated, net of accumulated depreciation	<u>70,319,939</u>	<u>6,683,508</u>	<u>265</u>	<u>77,003,182</u>
Capital Assets, net	<u>\$ 81,287,739</u>	<u>\$ 6,722,658</u>	<u>\$ 5,290,364</u>	<u>\$ 82,720,033</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Solid Waste Disposal Project:				
Capital assets, not being depreciated:				
Land	\$ 1,856,900	\$	\$	\$ 1,856,900
Construction in Progress	10,137,933	3,923,398		14,061,331
Total capital assets not being depreciated	<u>11,994,833</u>	<u>3,923,398</u>	<u>-</u>	<u>15,918,231</u>
Capital assets being depreciated:				
Land Improvements	33,255,835			33,255,835
Buildings and building improvements	9,741,802			9,741,802
Machinery and Equipment	15,474,505	145,389	221,673	15,398,221
Other capitalized costs	22,055,717			22,055,717
Total capital assets being depreciated at historical cost	<u>80,527,859</u>	<u>145,389</u>	<u>221,673</u>	<u>80,451,575</u>
Less:				
Accumulated depreciation	56,030,683	2,439,992	221,673	58,249,002
Total capital assets being depreciated, net of accumulated depreciation	<u>24,497,176</u>	<u>(2,294,603)</u>	<u>-</u>	<u>22,202,573</u>
Capital Assets, net	<u>\$ 36,492,009</u>	<u>\$ 1,628,795</u>	<u>\$ -</u>	<u>\$ 38,120,804</u>

All costs incurred by the Authority prior to any of the four regional sewer systems being placed in operation are capitalized and not considered as operating expenses.

Depreciation of the physical plant and equipment in operation is recorded on a straight-line basis. Depreciation on contributed capital has been recorded as a reduction of contributed capital. Depreciation is computed using estimated lives of between 6 and 45 years.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Accounts

1. Regional Wastewater Treatment Project

In accordance with the 1979 Sewer General Bond Resolution, as amended and supplemented, the Authority has established the following cash and investment accounts for the deposit of all revenue received by the Authority for the Regional Wastewater Treatment Project:

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Construction	Proceeds of debt issued and Construction grants-in-aid	Expenses legally chargeable to bond proceeds.
Revenue	All revenues received for the Wastewater Treatment Project.	Operating expenses and transfers to the various Accounts described below.
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest due on or before the following January 1st.	Principal and interest on bonds.
Sinking Fund	Amount needed to pay sinking fund installments due on or before the established due dates for installments.	Purchase or redemption of Bonds. Installments commence January 1, 1992.
Bond Reserve (Future Debt Service)	Amount needed to increase the balance to equal the greatest amount of debt service due in any year.	To make up any deficiency in the Bond Service Account, if any.
Renewal and Replacement	Amount needed to increase the balance to equal the "System Reserve Requirement" as defined by the Bond Resolution.	Transfers to meet minimum levels required in the Bond Service, Sinking or Bond Reserve accounts or major repairs, renewals and extensions of the system.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Accounts (Continued)

1. Regional Wastewater Treatment Project (Continued)

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
General Account	Deposits will be made as funds are available after all other requirements are met.	Any lawful purpose of the Authority.

Pursuant to the provisions of the 1984 Supplemental Resolution and the 1985 Supplemental Resolution, the Authority was required to maintain a special sub-account in the General Account, designated the "Rate Stabilization Account." Those provisions are no longer in effect. The funds now on deposit in the Rate Stabilization Account are free of any restrictions and may be used for any lawful purpose of the Authority.

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Escrow Accounts	Refunding bond proceeds and interest earned on investments.	Payment of bonds when due for which refunding bonds were issued and interest on refunding bonds until crossover dates.
Cost of Issuance Accounts	Refunding bond proceeds and interest earned on investments.	Costs and expenses incurred in connection with issuance and delivery and portion of bond insurance and such other fees with respect to refunding bonds issued prior to crossover date.

The Authority has also established the following unreserved accounts designated by the Board for the Wastewater Treatment Project:

- Rate Stabilization Fund - The fund was established by the Authority to offset fluctuations in rates from users.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Accounts (Continued)

2. Solid Waste Project

The 1986 Solid Waste Bond Resolution, with all associated Supplemental bond Resolutions, expired with the final related debt service payments made in 2012. The Authority adopted a new General Bond Resolution on September 21, 2011, but no bonds have been issued under this new resolution. The Authority is maintaining certain accounts, although not required due to the absence of outstanding bonds, in order to maintain a clear segregation of funds for current operations and capital projects:

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Construction	Any moneys received, from any source, for the payment of construction costs or cost of the project.	Expenses legally chargeable to bond proceeds, if any.
Revenue	All revenues received for the Solid Waste Project.	Operating expenses and transfers to the various accounts described below.
Renewal and Replacement	Annual operating budget appropriation for the renewal And or replacement.	Transfers to meet appropriate for major repairs, renewals and replacements of the project.
Landfill Closure	Amount needed to increase balance to equal the "Landfill Closure Requirement" and any additional amount deemed necessary by the Authority.	Reasonable and necessary expenses with respect to the proper closure of the Authority's secure landfill.
General	Deposits will be made as funds are available after all other reserves are met.	Any lawful purpose of the Authority.

In addition to the above, the Authority has also established the following restricted accounts for the Solid Waste Project:

- Building and Site Maintenance Reserve - Funds reserved from operating revenues to be used for the purchase or acquisition of various Capital items and/or improvements.
- IPF Building and Site Maintenance Reserve – The fund was established by the Authority as required by the IPF contract with FCR Camden Inc. in order that funds will be available to perform all needed repairs and improvements to the Intermediate Processing Facility when required without burdening the solid waste operating budget.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Restricted Accounts (Continued)

2. Solid Waste Project (Continued)

The Authority has also established the following unreserved accounts designated by the Board for the Solid Waste Project:

- Rate Stabilization Fund - The fund was established by the Authority to pay the Pinelands Commission the amount of \$2.04 per ton until the amount of \$2,250,000 had been paid to the Commission. This payment is per the prior agreement with the Pinelands Commission to allow the Cape May County Municipal Utilities Authority's Secure Sanitary Landfill to remain open. The remaining balance in the fund may be used for operating and other expenses.
- IPF Rate Stabilization Fund - The fund was established by the Authority with recycling income derived from Out-of-County recyclables. This fund is to be used as necessary to mitigate any loss by the Authority for the recycling of material at the Intermediate Processing Facility (IPF).
- Insurance and Liability Reserve - The Authority has set up this account as a self insurance reserve to pay any possible claims not covered by current insurance policies.
- Future Construction - The Authority has set up this account as a reserve for future capital projects.

F. Annual Budget

The Authority submits an annual budget to the State of New Jersey for the wastewater operations and for the solid waste operations. Once adopted, the Authority may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budgets are prepared on the accrual basis. Unaccrued appropriations for annually budgeted funds lapse at year-end.

G. Leave Policies

Employees are encouraged to use vacation leave during the year in which it is earned. However, employees may defer up to one (1) year's accrual of vacation leave into the succeeding year. Upon termination of employment for any reason, employees will be paid for any accrued, unused vacation leave.

Unused sick leave for union employees may accumulate from year to year to a maximum of two hundred sixty (260) days total. However, unused sick leave will not be paid to those employees terminating their employment with the Authority except for those employees retiring from the Authority who have a minimum of fifteen (15) years of continuous service, and that upon such retirement are eligible under the New Jersey Public Employees' Retirement System, based on years of service and/or age to immediately receive monthly retirement benefits, will be paid 50% of their unused sick leave, at the employee's annual salary rate at the time of his/her retirement not to exceed \$15,000.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
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(CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Leave Policies (Continued)

Unused sick leave for non-bargaining unit employees may accumulate for an indefinite period. However, unused sick leave will not be paid to those employees terminating their employment with the Authority except for those employees retiring from the Authority who have a minimum of fifteen (15) years of continuous service, and that upon such retirement are eligible under the New Jersey Public Employees' Retirement System, based on years of service and/or age to immediately receive monthly retirement benefits, will be paid 50% of their unused sick leave, at the employee's annual salary rate at the time of his/her retirement not to exceed \$15,000.

A portion of the monetary value of unused sick leave and vacation has been accrued by charges to operations. This liability may be affected by conditions which could preclude an employee from receiving full payment of the accrual. The accrual at December 31, 2012 is \$306,252 and the unrecorded balance of accrued sick leave and vacation at December 31, 2012 is \$1,408,226, assuming all employees are eligible at termination.

H. Post-Employment Health Benefits

Upon retirement from the Cape May County Municipal Utilities Authority, all eligible employees will be provided Authority-paid health benefits in accordance with the criteria for eligibility and the requirements as set forth below and with the provisions of the health benefit plan or plans as provided to eligible Authority employees pursuant to the Authority policy.

Eligibility Criteria:

1. Employees who are fifty-five (55) years of age, or older, and retire from a New Jersey or locally administered retirement system with twenty-five (25) or more years of service credit and with twenty-five (25) or more years of service with the Authority, shall be eligible to receive Authority-paid health insurance benefits upon retirement from the Cape May County Municipal Utilities Authority; or
2. Employees who attain the age of sixty-five (65) years of age, or older, and retire from a New Jersey State or locally administered retirement system with twenty-five (25) or more years of service credit and with twenty (20) or more years of service with the Authority, shall be eligible to receive Authority-paid health insurance benefits upon retirement from the Cape May County Municipal Utilities Authority.

I. Cash, Cash Equivalents and Investments

The Authority's investments practices are governed by New Jersey State Statute 40A:5-15. Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Recent Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The purpose of the statement is to amend the criteria for reporting and including component units with the primary government. This statement, which is effective for fiscal periods beginning after June 15, 2012, is not anticipated to have any effect on the Authority's financial reporting.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The statement, which is effective for periods beginning after December 15, 2011, amends and supersedes several previously issued GASB statements to incorporate guidance that had been included in AICPA and FASB guidance. This statement has been implemented by the Authority.

3. GENERAL BOND RESOLUTIONS

A. Regional Wastewater Collection and Treatment System

On April 4, 1979, the Authority authorized the issuance of revenue bonds (the "Sewer System Revenue Bonds") for the acquisition and construction of a wastewater collection and treatment system (the "Sewer System") pursuant to a resolution entitled "Resolution Authorizing the Issuance of Revenue Bonds of the Cape May County Municipal Utilities Authority," which resolution has been amended and/or supplemented from time to time (as amended and/or supplemented, the "Sewer Resolution").

All of the Sewer System Revenue Bonds described below are direct and general obligations of the Authority payable from the revenues derived from the operation of the sewer system and are further secured by substantially similar agreements with certain municipalities located within Cape May County (the "County"), as well as the Township of Lower Municipal Utilities Authority and New Jersey – American Water Company. The Sewer System Revenue Bonds are also secured by an agreement dated as of October 16, 1974, as amended and supplemented, by and between the County and the Authority pursuant to which the County is obligated to make up any deficiencies in the sewer system revenues.

B. Regional Solid Waste System

On June 18, 1986, the Authority authorized the issuance of revenue bonds (the "Solid Waste System Revenue Bonds") for the acquisition and construction of a certain solid waste facilities (the "Solid Waste System") pursuant to resolution entitled "Resolution Authorizing the Issuance of Solid Waste Revenue Bonds (Landfill Project) of the Cape May County Municipal Utilities Authority," which resolution has been amended and/or supplemented from time to time (as amended and/or supplemented, the "Solid Waste Resolution").

All of the Solid Waste System Bonds described below are direct and general obligations of the Authority payable from the revenues derived from the operation of the Solid Waste System and are further secured by an agreement dated as of July 8, 1990, as amended, by and between the County and the Authority pursuant to which the County is obligated to make up any deficiencies in the Solid Waste System revenues.

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4. SEWER SYSTEM REVENUE BONDS/LOANS

A. Sewer Revenue Refunding Bonds, Series 2002-A

On November 15, 2002, the Authority issued \$85,195,000 Sewer Revenue Refunding Bonds, Series 2002-A (the "2002-A Refunding Bonds") pursuant to the Sewer resolution in order to refund and defease certain of the Authority's \$88,075,000 Sewer Revenue Refunding Bonds, Series 1992-A.

The 2002-A Refunding Bonds mature on the dates and in the principal amounts and bear interest, which is payable on the first days of January and July, at the interest rates per annum which are set forth below.

<u>Year</u> <u>January 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>January 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>
2013	\$ 11,290,000	5.75%	2016	13,345,000	5.75%
2014	11,930,000	5.75%			
2015	12,620,000	5.75%			
			Total	<u>\$ 49,185,000</u>	

The 2002-A Refunding Bonds are not subject to redemption prior to maturity.

B. Wastewater Treatment Trust Fund

1. Sewer Revenue Bonds, Series 1993-C

On June 23, 1993, the Authority issued \$1,255,000 Sewer Revenue Bonds, Series 1993-C (the "1993 C Bonds") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System. The 1993-C Bonds were issued to and registered in the name of the New Jersey Wastewater Treatment Trust (the "Trust").

The 1993-C Bonds mature, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days February and August, at the interest rates per annum which are set forth below.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ <u>95,000</u>	4.80%
	<u>\$ 95,000</u>	

2. Sewer Revenue Bonds, Series 1993-D

On November 10, 1993, the Authority issued \$1,190,668 Sewer Revenue Bonds, Series 1993-D (the "1993-D Bonds") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System. The 1993-D Bonds were issued to and registered in the name of the NJDEP.

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

2. Sewer Revenue Bonds, Series 1993-D (Continued)

The 1993-D Bonds mature, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 1993-D Bonds bear interest at the rate of zero percent (0%) per annum.

Year		Amount
<u>February 1</u>		<u>Amount</u>
2013	\$	<u>60,086</u>
	\$	<u><u>60,086</u></u>

C. New Jersey Environmental Infrastructure Financing Program

1. NJ Environmental Infrastructure Trust – Trust Loan, Series 2010-A

On February 22, 2010, the Authority issued \$59,280 Sewer Revenue Trust Loan, Series 2010-A (the "2010 A Trust Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-A Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days February and August, at the interest rates per annum which are set forth below.

<u>Year</u>		<u>Amount</u>	<u>Rate</u>	<u>Year</u>		<u>Amount</u>	<u>Rate</u>
<u>August 1</u>				<u>August 1</u>			
2013	\$	2,574	1.14%	2022	\$	3,190	3.48%
2014		2,604	1.55%	2023		3,301	3.62%
2015		2,644	1.95%	2024		3,421	3.72%
2016		2,696	2.30%	2025		3,548	3.82%
2017		2,758	2.59%	2026		3,683	3.92%
2018		2,829	2.77%	2027		3,828	4.01%
2019		2,907	2.97%	2028		3,981	4.10%
2020		2,994	3.16%	2029		4,144	4.18%
2021		3,088	3.29%				
					\$	<u><u>54,190</u></u>	

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
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NOTES TO BASIC FINANCIAL STATEMENTS
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(CONTINUED)

4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

2. NJ Environmental Infrastructure Trust – Fund Loan, Series 2010-A

On February 22, 2010, the Authority issued \$171,000 Sewer Revenue Fund Loan, Series 2010-A (the "2010-A Fund Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-A Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2010-A Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ 2,898	2013	\$ 5,797
2014	2,898	2014	5,797
2015	2,898	2015	5,797
2016	2,898	2016	5,797
2017	2,898	2017	5,797
2018	2,898	2018	5,797
2019	2,898	2019	5,797
2020	2,898	2020	5,797
2021	2,898	2021	5,797
2022	2,898	2022	5,797
2023	2,898	2023	5,797
2024	2,898	2024	5,797
2025	2,898	2025	5,797
2026	2,898	2026	5,797
2027	2,898	2027	5,797
2028	2,898	2028	5,797
2029	2,897	2029	5,796
			<u>\$ 147,813</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

3. NJ Environmental Infrastructure Trust – Trust Loan, Series 2010-B

On December 2, 2010, the Authority issued \$420,000 Sewer Revenue Trust Loan, Series 2010-B (the "2010-B Trust Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-B Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days February and August, at the interest rates per annum which are set forth below.

<u>Year</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 15,000	5.00%	2022	\$ 20,000	5.00%
2014	15,000	5.00%	2023	25,000	5.00%
2015	15,000	5.00%	2024	25,000	5.00%
2016	15,000	5.00%	2025	25,000	5.00%
2017	20,000	5.00%	2026	25,000	5.00%
2018	20,000	5.00%	2027	30,000	5.00%
2019	20,000	5.00%	2028	30,000	5.00%
2020	20,000	5.00%	2029	30,000	5.00%
2021	20,000	5.00%	2030	<u>35,000</u>	5.00%
				<u>\$ 405,000</u>	

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

4. NJ Environmental Infrastructure Trust – Fund Loan, Series 2010-B

On December 2, 2010, the Authority issued \$218,000 Sewer Revenue Fund Loan, Series 2010-B (the "2010-B Fund Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-B Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2010-B Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ 3,825	2013	\$ 7,649
2014	3,825	2014	7,649
2015	3,825	2015	7,649
2016	3,825	2016	7,649
2017	3,825	2017	7,649
2018	3,825	2018	7,649
2019	3,825	2019	7,649
2020	3,825	2020	7,649
2021	3,825	2021	7,649
2022	3,825	2022	7,649
2023	3,825	2023	7,649
2024	3,825	2024	7,649
2025	3,825	2025	7,648
2026	3,825	2026	7,648
2027	3,825	2027	7,648
2028	3,825	2028	7,648
2029	3,825	2029	7,648
2030	3,825	2030	7,648
			\$ 206,526

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

5. NJ Environmental Infrastructure Trust – Trust Loan, Series 2010-C

On December 2, 2010, the Authority issued \$4,270,000 Sewer Revenue Trust Loan, Series 2010-C (the "2010-C Trust Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-C Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days February and August, at the interest rates per annum which are set forth below.

<u>Year</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 150,000	5.00%	2022	\$ 235,000	5.00%
2014	160,000	5.00%	2023	245,000	5.00%
2015	165,000	5.00%	2024	260,000	5.00%
2016	175,000	5.00%	2025	275,000	5.00%
2017	185,000	5.00%	2026	285,000	5.00%
2018	195,000	5.00%	2027	300,000	5.00%
2019	205,000	5.00%	2028	315,000	5.00%
2020	215,000	5.00%	2029	330,000	5.00%
2021	225,000	5.00%	2030	<u>350,000</u>	5.00%
				<u>\$ 4,270,000</u>	

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

6. NJ Environmental Infrastructure Trust – Fund Loan, Series 2010-C

On December 2, 2010, the Authority issued \$4,236,537 Sewer Revenue Fund Loan, Series 2010-C (the "2010-C Fund Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2010-C Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2010-C Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ 78,454	2013	\$ 156,909
2014	78,454	2014	156,909
2015	78,454	2015	156,909
2016	78,454	2016	156,909
2017	78,454	2017	156,909
2018	78,454	2018	156,909
2019	78,454	2019	156,909
2020	78,454	2020	156,909
2021	78,454	2021	156,909
2022	78,454	2022	156,909
2023	78,454	2023	156,909
2024	78,454	2024	156,909
2025	78,454	2025	156,909
2026	78,454	2026	156,909
2027	78,454	2027	156,909
2028	78,454	2028	156,909
2029	78,454	2029	156,910
2030	78,455	2030	<u>156,910</u>
			<u>\$ 4,236,537</u>

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

7. NJ Environmental Infrastructure Trust – Trust Loan, Series 2012-A

On May 3, 2012, the Authority issued \$370,000 Sewer Revenue Trust Loan, Series 2012-A (the "2012 A Trust Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2012-A Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days March and September, at the interest rates per annum which are set forth below.

<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 15,000	2.00%	2022	\$ 20,000	5.00%
2014	15,000	3.00%	2023	20,000	5.00%
2015	15,000	4.00%	2024	20,000	5.00%
2016	15,000	5.00%	2025	20,000	5.00%
2017	15,000	5.00%	2026	25,000	5.00%
2018	15,000	5.00%	2027	25,000	3.00%
2019	15,000	5.00%	2028	25,000	3.00%
2020	15,000	5.00%	2029	25,000	3.13%
2021	20,000	5.00%	2030	25,000	3.20%
			2031	25,000	3.25%
				<u>\$ 370,000</u>	

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

8. NJ Environmental Infrastructure Trust – Fund Loan, Series 2012-A

On May 3, 2012, the Authority issued \$390,293 Sewer Revenue Fund Loan, Series 2012-A (the "2012-A Fund Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2012-A Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2012-A Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ -	2013	\$ 13,939
2014	6,970	2014	13,939
2015	6,969	2015	13,939
2016	6,970	2016	13,939
2017	6,969	2017	13,939
2018	6,970	2018	13,939
2019	6,969	2019	13,939
2020	6,970	2020	13,939
2021	6,969	2021	13,939
2022	6,970	2022	13,939
2023	6,969	2023	13,939
2024	6,970	2024	13,939
2025	6,969	2025	13,939
2026	6,970	2026	13,939
2027	6,969	2027	13,939
2028	6,970	2028	13,939
2029	6,969	2029	13,939
2030	6,970	2030	13,939
2031	6,970	2031	13,939
			<u>\$ 390,293</u>

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

9. NJ Environmental Infrastructure Trust – Trust Loan, Series 2012-B

On May 3, 2012, the Authority issued \$185,000 Sewer Revenue Trust Loan, Series 2012-B (the "2012-B Trust Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2012-B Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days March and September, at the interest rates per annum which are set forth below.

<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 5,000	2.00%	2022	\$ 10,000	5.00%
2014	5,000	3.00%	2023	10,000	5.00%
2015	5,000	4.00%	2024	10,000	5.00%
2016	5,000	5.00%	2025	10,000	5.00%
2017	5,000	5.00%	2026	10,000	5.00%
2018	10,000	5.00%	2027	10,000	3.00%
2019	10,000	5.00%	2028	15,000	3.00%
2020	10,000	5.00%	2029	15,000	3.13%
2021	10,000	5.00%	2030	15,000	3.20%
			2031	<u>15,000</u>	3.25%
				<u>\$ 185,000</u>	

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

C. New Jersey Environmental Infrastructure Financing Program (Continued)

10. NJ Environmental Infrastructure Trust – Fund Loan, Series 2012-B

On May 3, 2012, the Authority issued \$582,075 Sewer Revenue Fund Loan, Series 2012-B (the "2012-B Fund Loan") pursuant to the Sewer Resolution in order to fund various improvements to the Sewer System.

The 2012-B Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2012-B Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ 10,212	2013	\$ 20,424
2014	10,211	2014	20,424
2015	10,212	2015	20,424
2016	10,211	2016	20,424
2017	10,212	2017	20,424
2018	10,211	2018	20,424
2019	10,212	2019	20,424
2020	10,211	2020	20,424
2021	10,212	2021	20,424
2022	10,211	2022	20,424
2023	10,212	2023	20,424
2024	10,211	2024	20,424
2025	10,212	2025	20,424
2026	10,211	2026	20,424
2027	10,212	2027	20,424
2028	10,211	2028	20,424
2029	10,212	2029	20,424
2030	10,211	2030	20,424
2031	10,212	2031	<u>20,424</u>
			<u>\$ 582,075</u>

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

D. Sewer Revenue Refunding Bonds, Series 2011

On October 13, 2011, the Authority issued \$13,015,000 Sewer Revenue Refunding Bonds, Series 2011 (the "2011 Refunding Bonds") pursuant to the Sewer Resolution with a net interest cost of 2.978220% to advance refund \$14,210,000 of outstanding Sewer Revenue Refunding Bonds, Series 2002-C with an average interest rate of 5.25%. The net proceeds of \$14,623,555 include a premium on the bonds of \$1,608,555 and net of payments of \$52,847 in underwriting fees and \$130,850 of issuance costs were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. The refunded bonds are non-callable and will mature starting in 2017 until final maturity in 2021.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$370,557. The difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2021 using the Bonds Outstanding Method. The Authority completed the advance refunding to reduce its total debt service payments over the next 10 years by \$2,499,223 and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,032,463.

The 2011 Refunding Bonds mature on the dates and in the principal amounts and bear interest, which is payable on the first days of January and July, at the interest rates per annum which are set forth below.

<u>Year</u> <u>January 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>January 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>
2017	\$ 2,100,000	4.00%	2020	\$ 950,000	4.00%
2017	275,000	5.00%	2020	1,775,000	5.00%
2018	150,000	3.00%	2021	200,000	3.00%
2018	200,000	4.00%	2021	575,000	4.00%
2018	2,120,000	5.00%	2021	1,025,000	4.50%
2019	2,595,000	5.00%	2021	<u>1,050,000</u>	5.00%
			Total	<u>\$ 13,015,000</u>	

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4. SEWER SYSTEM REVENUE BONDS/LOANS (CONTINUED)

Summary of Sewer System Revenue Bonds/Loans (as of December 31, 2012, The current principal, and long term principal, interest and total debt service, excluding those Sewer System Revenue Bonds that have been paid or defeased), is as follows:

<u>Issue</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Interest</u>	<u>Total</u>
2002-A Refunding Bonds	\$ 11,290,000	\$ 37,895,000	\$ 5,853,356	\$ 55,038,356
2011 Refunding Bonds		13,015,000	3,970,437	16,985,437
Wastewater Treatment Trust:				
1993 Series C	95,000	-	2,280	97,280
1993 Series D	60,086	-	-	60,086
NJ Environmental Infrastructure Financing Program:				
2010 Series A - Trust Loan	2,574	51,616	19,210	73,400
2010 Series A - Fund Loan	8,695	139,119	-	147,814
2010 Series B - Trust Loan	15,000	390,000	218,500	623,500
2010 Series B - Fund Loan	11,474	195,052	-	206,526
2010 Series C - Trust Loan	150,000	4,120,000	2,306,000	6,576,000
2010 Series C - Fund Loan	235,363	4,001,174	-	4,236,537
2012 Series A - Trust Loan	15,000	355,000	164,369	534,369
2012 Series A - Fund Loan	13,939	376,354	-	390,293
2012 Series B - Trust Loan	5,000	180,000	85,821	270,821
2012 Series B - Fund Loan	30,636	551,439	-	582,075
Unamortized Costs:				
Bond Premiums	19,229	2,132,632		2,151,861
	<u>\$ 11,951,996</u>	<u>\$ 63,402,386</u>	<u>\$ 12,619,973</u>	<u>\$ 87,974,355</u>

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5. SOLID WASTE REVENUE BONDS/LOANS

A. New Jersey Environmental Infrastructure Financing Program

1. NJ Environmental Infrastructure Trust – Trust Loan, Series 2012-C

On May 3, 2012, the Authority issued \$1,240,000 Solid Waste Revenue Trust Loan, Series 2012-C (the "2012-C Trust Loan") pursuant to the Solid Waste Resolution in order to fund various improvements to the Solid Waste System.

The 2012-C Trust Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts and bear interest, which is payable on the first days March and September, at the interest rates per annum which are set forth below.

<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u> <u>September 1</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 45,000	2.00%	2022	\$ 65,000	5.00%
2014	45,000	3.00%	2023	65,000	5.00%
2015	45,000	4.00%	2024	70,000	5.00%
2016	50,000	5.00%	2025	75,000	5.00%
2017	50,000	5.00%	2026	80,000	5.00%
2018	50,000	5.00%	2027	80,000	3.00%
2019	55,000	5.00%	2028	85,000	3.00%
2020	60,000	5.00%	2029	85,000	3.13%
2021	60,000	5.00%	2030	90,000	3.20%
			2031	85,000	3.25%
				<u>\$ 1,240,000</u>	

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5. SOLID WASTE REVENUE BONDS/LOANS (CONTINUED)

A. New Jersey Environmental Infrastructure Financing Program (Continued)

2. NJ Environmental Infrastructure Trust – Fund Loan, Series 2012-C

On May 3, 2012, the Authority issued \$3,966,467 Solid Waste Revenue Fund Loan, Series 2012-B (the "2012-C Fund Loan") pursuant to the Solid Waste Resolution in order to fund various improvements to the Solid Waste System.

The 2012-C Fund Loan matures, subject to prepayment by the Authority, on the dates and in the principal amounts which are set forth below. The 2012-C Fund Loan bears interest at the rate of zero percent (0%) per annum.

<u>Year</u> <u>February 1</u>	<u>Amount</u>	<u>Year</u> <u>August 1</u>	<u>Amount</u>
2013	\$ 69,587	2013	\$ 139,174
2014	69,587	2014	139,175
2015	69,587	2015	139,174
2016	69,587	2016	139,175
2017	69,587	2017	139,174
2018	69,587	2018	139,175
2019	69,587	2019	139,174
2020	69,587	2020	139,175
2021	69,587	2021	139,174
2022	69,587	2022	139,175
2023	69,587	2023	139,174
2024	69,587	2024	139,175
2025	69,587	2025	139,174
2026	69,587	2026	139,175
2027	69,587	2027	139,174
2028	69,587	2028	139,175
2029	69,587	2029	139,174
2030	69,587	2030	139,174
2031	69,587	2031	139,174
			<u>\$ 3,966,467</u>

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5. SOLID WASTE REVENUE BONDS/LOANS (CONTINUED)

Summary of Solid Waste Revenue Bonds/Loans (as of December 31, 2012, the current principal and long term principal, interest and total debt service, excluding those Solid Waste System Revenue Bonds that have been paid or defeased, is as follows):

<u>Issue</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>	<u>Interest</u>	<u>Total</u>
NJ Environmental Infrastructure Financing Program:				
2012 Series C - Trust Loan	\$ 45,000	\$ 1,195,000	\$ 558,034	\$ 1,798,034
2012 Series C - Fund Loan	208,761	3,757,706	-	3,966,467
Unamortized Costs:				
Bond Premium	5,751	152,726		158,477
	<u>\$ 259,512</u>	<u>\$ 5,105,432</u>	<u>\$ 558,034</u>	<u>\$ 5,922,978</u>

6. PENSION AND RETIREMENT PLANS

Substantially all of the Authority's employees participate in the Public Employees' Retirement System, which is administered by the New Jersey Division of Pensions and Benefits. The plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

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

Plan Descriptions - The Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan which was established on January 1, 1955. The PERS provides retirement, death, and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 92, P.L. 2007, plan members enrolled in the PERS are required to contribute 6.5% of their annual covered salary. The State Treasurer has the right under current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, statute also requires the return to normal rate when such surplus assets not longer exist.

The Authority is billed annually for its normal contribution plus any accrued liability.

The Authority's contributions, equal to the required contribution for each fiscal year, were as follows:

<u>Fiscal Year</u>	<u>Normal Contribution</u>	<u>Life Insurance</u>	<u>Accrued Liability</u>	<u>Total Liability</u>	<u>Paid by Authority</u>
2012	\$ 341,944	\$ 65,358	\$ 683,888	\$ 1,091,190	\$ 1,091,190
2011	385,685	75,968	614,563	1,076,216	1,076,216
2010	329,704	104,470	423,631	857,805	857,805

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7. DEFINED CONTRIBUTION RETIREMENT PROGRAM

Plan Description

The Defined Contribution Retirement Program (DCRP) was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and expanded under the provisions of Chapter 89, P.L. 2008. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage.

Vesting and Benefits Provisions

Newly elected or appointed officials that have an existing DCRP account, or are a member of another State-administered retirement system are immediately invested in the DCRP. For newly elected or appointed officials that do not qualify for immediate vesting in the DCRP, employee and employer contributions are held during the initial year of membership. Upon commencing the second year of DCRP membership, the member is fully invested. However, if a member is not eligible to continue in the DCRP for a second year of membership, the member may apply for a refund of the employee contributions from the DCRP, while the employer contributions will revert back to the employer.

Retirement benefits for members are determined according to the applicable Tier level:

Tier 1 Membership: The retirement age is 60 for a Service or Deferred Retirement. For an Early Retirement, a member must have at least 25 years of service credit; however, if a member is under the age of 55 at the time of retirement, the retirement allowance is reduced 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.

Tier 2 Membership: The retirement age is 60 for a Service or Deferred Retirement. For an Early Retirement a member must have at least 25 years of service credit; however, if a member is under the age of 60 at the time of retirement, the retirement allowance is reduced 1 percent per year (1/12 of 1 percent per month) for each year the member is under age 60 but over age 55, and 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.

Tier 3 Membership: The retirement age is 62 for a Service or Deferred Retirement. For an Early Retirement a member must have at least 25 years of service credit; however, if a member is under the age of 62 at the time of retirement, the retirement allowance is reduced 1 percent per year (1/12 of 1 percent per month) for each year the member is under age 62 but over age 55, and 3 percent per year (1/4 of 1 percent per month) for each year the member is under age 55.

Funding Policy

Members contribute at a uniform rate of 5.5% of their base salary. Employers are required to contribute at a set rate of 3.0% of base salary. The Authority has 1 Board Member enrolled in the DCRP during the year ended December 31, 2012.

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8. REGIONAL WASTEWATER TREATMENT FACILITIES

The plan for the County creates four regions:

<u>Region</u>	<u>Date Commenced Operations</u>
Ocean City Region	February 1982
Cape May Region	February 1984
Seven Mile Beach/Middle Region	August 1987
Wildwood/Lower Region	May 1988

The Authority, in computing its annual charges, computes the amount which at all times will be sufficient to pay or provide for the expenses of the operation, repair and maintenance of the system, including insurance, renewals and replacements, the cost of extending the system not otherwise provided for, and principal of and interest on any and all bonds or other obligations of the Authority as the same become due, to provide for any deficits of the Authority resulting from failure to receive sums payable to the Authority from any other participant in the system, and to provide such revenues and maintain such reserves or sinking funds as may be required by the terms of any contract or other obligations of the Authority. The Service Contract may not be terminated as long as any bonds issued to finance the system have not been paid in full.

The balance of revenues is to be received from compost sales, septage and leachate disposal charges and interest received on investments.

9. DEFERRED COMPENSATION

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Authority established the Deferred Compensation Program through the U.S. Conference of Mayors (USCOM) on March 20, 1985. The USCOM has amended its Deferred Compensation Plan Document to incorporate the requirements of the Small Business Job Protection Act of 1996, and said amended Plan Document has been approved by and filed with the State of New Jersey Department of Community Affairs. By adopting the USCOM program, all regulatory, operational, administrative and fiduciary responsibilities were assumed by the Plan Administrator on behalf of the Authority. The USCOM partnered with what eventually became Nationwide Retirement Solutions ("Nationwide") to act as Administrator of the Program.

Effective January 1, 2013, USCOM is no longer partnering with Nationwide Retirement Solutions as the Program Administrator; instead, USCOM will be partnering with Great-West Retirement Services. The Authority will no longer be utilizing the 1985-adopted USCOM master prototype deferred compensation program. The Authority has opted to continue its long-standing relationship with Nationwide Retirement Solutions and has adopted the Nationwide Retirement Solutions Deferred Compensation Program

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights have been removed from the books and accounts of the Authority as they are no longer the property or rights of the Authority.

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10. LITIGATION AND CONTINGENCIES

From time to time, the CMCMUA is a defendant or co-defendant in various lawsuits arising out of normal operations and construction activities of the CMCMUA. It is the opinion of management and the General Counsel to the CMCMUA that the resolution of these other pending lawsuits will not have a material adverse effect on the Authority's assets, liabilities or results of operations.

11. INTERMEDIATE PROCESSING FACILITY (I.P.F.)

The Cape May County Municipal Utilities Authority constructed the Cape May County Intermediate Processing Facility (IPF or Facility), which commenced operations in April 1990, for the purpose of processing and marketing recyclable materials. Hudson Baylor Cape May, L.L.C. is responsible for improvement, maintenance and operation of the IPF under a contract which terminates on December 31, 2021. The Authority pays monthly service fee payments and revenue sharing to Hudson Baylor Corporation as compensation for its expenses to operate and maintain the IPF.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance amounts in Solid Waste Operating (\$27,049) and Wastewater Operating (\$15,354) are contra asset amounts presented as reductions to User Charges Receivable, Composting Fees Receivable and Septage Haulers Fees Receivable, respectively.

13. CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the Authority to place a final and impermeable cover on its sanitary landfill site once it stops accepting waste for disposal and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To cover closure and post-closure care cost requirements that will be paid near or after the date that the landfill stops accepting waste, the Authority collects a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$4.82 million reported as restricted net position/landfill closure account #1 at December 31, 2012, is in excess of the amount required to date based on the assumption that the landfill would permanently close in the year 2095. Based upon volume projections available in the landfill made by the Authority's Consulting Engineer, only 19.71% of the total landfill capacity has been utilized. These cumulative amounts are based on what it would cost to perform all closure and post-closure care in 2010. Actual closure and post-closure costs may be higher due to inflation, changes in technology, or changes in regulations. The above percentage of total landfill capacity utilized has changed substantially from 2008 due to a 74 acre vertical expansion of the sanitary landfill which has received all regulatory approvals.

The Authority is required by state and federal regulations to make annual contributions to a closure fund to finance closure and post-closure care. The Authority expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these additional costs may need to be covered by charges to future landfill users.

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14. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority has a formal policy regarding custodial credit risk, and N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. Of the Authority's bank balance of \$49,176,049 as of December 31, 2012, \$27,066 was uninsured and uncollateralized.

Investments

At December 31, 2012, the Authority had the following investments:

Investment Type	Average Credit/ Quality Ratings (1)	Face Amount	Carrying Amount	Investment Maturities (in Years)		
				Less Than 1	1-5	6-10
NJ Cash Management	Not Rated	\$ 3,822,435	\$ 3,822,435	\$ 3,822,435	\$	
FHLMC MTN	AAA	653,000	653,397		426,136	227,261
FNMA MTN	AAA	573,000	582,499		485,616	96,883
Federal Farm Credit Bank	AAA	275,000	274,409		274,409	
Federal Home Loan Banks	AAA	255,000	255,661		149,701	105,960
US Treasury Bonds	AAA	340,000	481,918		224,324	257,594
Private Export Funding	AA+	84,000	86,578		67,616	18,962
NCUA Guaranteed Notes	AA+	20,000	19,972		19,972	
First American Govt. Obligation Fund CI Z	AAAm	106,633	106,633	106,633		
US Treasury Notes	AAA	<u>2,276,000</u>	<u>2,359,885</u>		<u>1,358,124</u>	<u>1,001,761</u>
		<u>\$ 8,405,068</u>	<u>\$ 8,643,387</u>	<u>\$ 3,929,068</u>	<u>\$ 3,005,898</u>	<u>\$ 1,708,421</u>

(1) Ratings are provided where applicable to indicate associated credit risk.

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15. DUE TO IRS – ARBITRAGE REBATE

The amount stated on the balance sheet of the Regional Wastewater Treatment Project (\$272,807) has been established from earnings on bond proceeds, as reserves for the possible payment of arbitrage earnings to the Internal Revenue Service. Periodic arbitrage calculations have been made for the various bond issues and the Authority has concluded that the amounts established as reserves are sufficient at December 31, 2012. The reserves will be revised if future calculations warrant a revision.

16. RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

Receivables and payables at December 31, 2012 are as follows:

<u>Amount</u>	<u>Due to Fund</u>	<u>Due from Fund</u>
\$ 843,541	Wastewater Construction	Solid Waste Operating
1,018,643	Wastewater Construction	Solid Waste Project
\$ 1,862,184		

17. POST EMPLOYMENT HEALTHCARE PLAN

Plan Description

The Authority administers a single employer, defined benefit OPEB (Other Postemployment Benefits) plan which provides for health, prescription drug, vision, dental and life insurance coverage.

Eligibility

Bargaining and non-bargaining employees who have worked for Cape May County Municipal Utilities Authority, who have earned at least 25 years of service credit and have retired from a New Jersey State or locally administered Retirement System are eligible for postemployment OPEB benefits at or after age 55. The employee must retire from active service to receive the postemployment benefits and must also have worked at least 25 years for the Authority. The 25 years with the Authority requirement is reduced to 20 years for retirement on or after age 65. The benefits are the same as those provided to active employees. Service credits are measured as years of service credited to the Public Employees Retirement System. Membership of the plan consisted of the following at December 31, 2012:

Retirees and beneficiaries receiving benefits	26
Active Plan Members	159
Total	185

Funding Policy

As of January 1, 2012, the employer has no segregated assets. It is the intention of the Authority to pay the cost of the benefits as they come due each year (pay-as-you-go policy). Any contribution shortfall will create a net OPEB obligation. For the year ended December 31, 2012 the Authority contributed \$405,770 to the plan.

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17. POST EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

	December 31, 2012
Annual required contribution	\$ 2,651,262
Interest on net OPEB obligation	337,987
Adjustment to annual required contribution	<u>(620,237)</u>
Annual OPEB cost (expense)	2,369,012
Contributions made	<u>(405,770)</u>
Increase in net OPEB obligations	1,963,242
Net OPEB obligation - beginning of year	<u>7,223,140</u>
Net OPEB obligation - end of year	<u><u>\$ 9,186,382</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2010	\$ 1,775,042	12.78%	\$ 1,548,075
12/31/2011	\$ 2,448,580	13.06%	\$ 2,128,817
12/31/2012	\$ 2,369,012	17.13%	\$ 1,963,242

Funding Status and Progress

As of January 1, 2010, the most recent valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$32.2 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$32.2 million and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 0%. The covered payroll (annual payroll of active employees covered by the plan) was \$10.5 million, and the ratio of the UAAL to the covered payroll was 306.0 percent.

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17. POST EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

The State of New Jersey has not provided statutory authority that would allow the OPEB costs to be funded at this time.

Actuarial Methods and Assumptions

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

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal with a level dollar allocation method. The actuarial assumptions included a 5.0 percent investment rate of return, compounded annually, net of investment expenses. All postemployment medical rates are assumed to increase 12% in the first year, 11 % in the second year, 10% in the third year, and continuing a 1% decline in each subsequent year to an ultimate rate of 5% in the eighth year. All postemployment prescription drug trend rates are assumed to increase 14% in the first year, 13% in the second, 12% in the third year and continue a 1% decline in each subsequent year to an ultimate rate of 5% in the tenth year. Dental and vision care costs are assumed to increase 5% per year. Retirement copayments, if any, are assumed to increase at the medical trend rate. The amortization period is 30 years for the initial unfunded actuarial accrued liability. Because there is only one amortization base, the equivalent single amortization period is also 30 years.

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18. LONG TERM OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2012 are as follows:

	<u>Balance</u> <u>12/31/2011</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>12/31/2012</u>	<u>Amounts Due</u> <u>Within</u> <u>One Year</u>
Compensated					
Absences	\$ 306,094	\$ 158	\$	\$ 306,252	\$ -
Unearned Revenue - Grants	91,834	195,148	145,951	141,031	-
Deferred Revenue -					-
Prepaid User Fees	167,791	80	4,545	163,326	
Due to IRS - Arbitrage					
Rebate	536,702	42,177	306,072	272,807	-
Net OPEB Obligation					
Payable	7,223,140	2,369,012	405,770	9,186,382	-
Bonds Payable:					
Wastewater Project	82,527,615	1,527,368	10,852,462	73,202,521	11,932,767
Solid Waste Project	2,700,000	5,206,467	2,700,000	5,206,467	253,761
Unamortized Costs:					
Bond Premium	2,146,346	228,634	64,642	2,310,338	24,980
Deferred Inflow of					
Resources	29,422		29,422	-	-
Deferred Outflow of					
Resources	(553,406)		(36,570)	(516,836)	(36,570)
	<u>\$ 95,175,538</u>	<u>\$ 9,569,044</u>	<u>\$ 14,472,294</u>	<u>\$ 90,272,288</u>	<u>\$ 12,174,938</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(CONTINUED)

19. RESTATEMENT OF PRIOR YEAR BALANCES

Certain amounts in the beginning net position have been restated as of December 31, 2011 due to compliance with various Governmental Accounting Standards Board (GASB) pronouncements. Also, certain balances have been reclassified to conform with GASB pronouncements. Balances at December 31, 2011 have been restated as follows:

	Amount as Originally Reported December 31, 2011	Required Adjustment	Amount as Restated December 31, 2011
Wastewater Treatment Project:			
Noncurrent Assets:			
New Jersey trust loan receivable	\$ 7,903,751	\$ (5,057)	\$ 7,898,694
Deferred Outflow of Resources:			
Unamortized bond issue costs	267,901	(267,901)	-
Deferred amount on refunding	-	553,406	553,406
Current Liabilities Payable from Restricted Assets:			
Current maturities of long term debt	10,817,398	35,064	10,852,462
Long Term Obligations:			
Long term portion of bonds payable	73,240,021	518,342	73,758,363
Net Position:			
Unrestricted Net Position	2,243,955	(272,958)	1,970,997
Solid Waste Disposal Project:			
Deferred Outflow of Resources:			
Unamortized bond issue costs	41,079	(41,079)	-
Current Liabilities Payable from Restricted Assets:			
Current maturities of long term debt	2,792,559	(29,422)	2,763,137
Deferred Inflow of Resources:			
Deferred amount on refunding	-	29,422	29,422
Net Position:			
Unrestricted Net Position	(404,173)	(41,079)	(445,252)

20. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events for potential recognition and/or disclosure through April 29, 2013, the date the financial statements were available to be issued. In 2013, the Authority has joined the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
OPEB SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b-a]/c)</u>
1/1/2006	N/A	N/A	N/A	N/A	N/A	N/A
1/1/2007	\$ -	\$ 21,679,555	\$ 21,679,555	0.0%	\$ 8,213,984	263.9%
1/1/2010	\$ -	\$ 32,193,780	\$ 32,193,780	0.0%	\$ 10,519,191	306.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Annual OPEB Cost</u>	<u>Contributions From Employer</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,775,042	\$ 226,967	12.78%	\$ 1,548,075
2011	2,448,580	319,763	13.06%	2,128,817
2012	2,369,012	405,770	17.13%	1,963,242

OTHER SUPPLEMENTARY INFORMATION

REGIONAL WASTEWATER TREATMENT PROJECT

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
REGIONAL WASTEWATER TREATMENT PROJECT
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012

	2012 Budget (as revised)	2012 Actual
REVENUES:		
User service agreements:	\$ 31,386,440	\$ 31,386,440
Interest on investments and deposits	163,975	152,866
Septage/Leachate disposal fees	775,000	812,934
Processing Dry Sludge	175,000	218,395
Lower Township MUA Settlement	50,000	50,000
Compost sales	30,000	40,187
Tower Rental	120,000	121,103
Miscellaneous	20,000	70,107
	\$ 32,720,415	\$ 32,852,032
EXPENSES:		
Personnel services:		
Salaries and wages:		
Ocean City region	\$ 906,132	\$ 869,039
Cape May region	628,520	673,699
Seven Mile/Middle region	2,184,955	2,237,991
Wildwood/Lower region	1,040,883	999,315
Composting facility	873,763	867,734
Administration	440,133	527,426
Employee benefits:		
Social Security tax	464,491	464,928
Workers' compensation insurance	266,403	190,151
Other employee benefits	2,868,188	2,651,935
Administrative expenses:		
Operating portion of administrative overhead costs	925,000	1,048,062
Professional fees	34,500	20,314
Financial management	44,000	45,468
Permits and fees	189,000	188,132

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
REGIONAL WASTEWATER TREATMENT PROJECT
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

	2012 Budget (as revised)	2012 Actual
EXPENSES (CONTINUED):		
Operations and maintenance:		
Utilities	\$ 2,360,300	\$ 2,077,535
Chemicals	911,600	924,327
Miscellaneous	24,925	30,934
Supplies and postage	141,875	146,518
Repair and replacement parts	537,850	528,345
Materials	103,000	105,246
Rent/Lease	13,600	2,072
Other insurance	323,241	231,396
Tower Shared Services	37,000	39,389
Outside service	419,177	435,647
Miscellaneous equipment	333,350	785,217
Lubrications/Fuels	422,300	383,341
	<u>16,494,186</u>	<u>16,474,161</u>
Interest expense	<u>3,544,834</u>	<u>3,548,016</u>
Other costs funded by operating revenues:		
Bond principal	11,611,395	11,628,238
Renewal and replacement reserve	<u>1,070,000</u>	<u>1,070,000</u>
	<u>12,681,395</u>	<u>12,698,238</u>
Total costs funded by operating revenues	32,720,415	32,720,415
Add: Excess (Deficit)	<u>-</u>	<u>131,617</u>
	<u>\$ 32,720,415</u>	<u>\$ 32,852,032</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
REGIONAL WASTEWATER TREATMENT PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
<u>Unrestricted Accounts</u>				
Revenue and Operating Accounts:				
TD Bank - Daily Deposit Acct.	\$ 39,976	0.200	N/A	\$ 39,976
TD Bank - Checking Acct	37,235	0.200	N/A	37,235
TD Bank - Money Market	49,766	0.200	N/A	49,766
Sturdy Savings Bank - Money Market	54,388	0.040	N/A	54,388
NJ Cash Management Fund	308,722	0.080	N/A	308,722
Parke Bank - Liquid Investment Acct.	4,192,074	0.700	N/A	4,192,074
Petty Cash	1,725			1,025
				<u>4,683,186</u>
Total Unrestricted Accounts				<u><u>4,683,186</u></u>
<u>Restricted Accounts</u>				
Construction Accounts:				
Sturdy Savings - Payroll Acct.	3,658	0.000	N/A	3,658
TD Bank - Checking Acct.	720,985	0.200	N/A	720,985
TD Bank - Health Savings Account	15,852	0.200	N/A	15,852
NJ Cash Management Fund	250,632	0.080	N/A	250,632
Petty Cash				700
				<u>991,827</u>
Bond Reserve Fund:				
Parke Bank - Liquid Investment Acct.	14,361,888	0.700	N/A	14,361,888
Sturdy Savings Bank - Money Market	417,679	0.040	N/A	417,679
NJ Cash Management Fund	100,000	0.080	N/A	100,000
				<u>14,879,567</u>
Renewal and Replacement Accounts:				
Sturdy Savings Bank - Money Market	1,608,915	0.040	N/A	1,608,915
NJ Cash Management Fund	1,170,000	0.080	N/A	1,170,000
				<u>2,778,915</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
REGIONAL WASTEWATER TREATMENT PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012
(CONTINUED)

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
<u>Restricted Accounts (Continued)</u>				
Rate Stabilization Account:				
Rate Stabilization Fund	10,811	0.080	N/A	<u>10,811</u>
Sick and Vacation Pay Reserve Fund:				
NJ Cash Management Fund	306,252	0.080	N/A	<u>306,252</u>
2002 Forward Financing Fund:				
NJ Cash Management Fund	100,000	0.080	N/A	100,000
Sturdy Savings Bank - Money Market	169,259	0.700	N/A	<u>169,259</u>
				<u>269,259</u>
Bond Service Fund:				
TD Bank - Money Market	13,004,256	0.200	N/A	<u>13,004,256.25</u>
Total Restricted Accounts				<u><u>32,240,889</u></u>
Total - Wastewater Treatment Project				\$ <u><u>36,924,075</u></u>

SOLID WASTE DISPOSAL PROJECT

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012

	2012 Budget (as revised)	2012 Actual
REVENUES:		
User charges and fees	\$ 10,805,472	\$ 11,912,191
Interest on investments and deposits	60,751	60,245
Closure fund I	51,313	51,313
Bond Reserve Fund	2,761,744	2,761,980
Operating Grants	110,000	110,000
IPF Electric reimbursement	49,068	46,394
Atlantic City Electric Rebates	54,591	31,845
Wood Product Sales	689,996	692,190
Wood Product Delivery charge	18,793	17,813
Sale of scrap metal	52,680	44,568
Renewable Energy Credits	13,000	13,663
Recycling Income	40,303	62,112
Recyclables Hauling	28,080	34,350
Sale of Asbestos Bags	10,000	9,309
Hazardous Waste	3,291	4,161
IPF Out of County Revenue	16,000	-
IPF Residue Income	85,000	84,464
IPF Commercial Tons Revenue	-	18,945
IPF Administrative Support Reimbursement	38,000	50,130
SLF Cover	7,299	22,343
Sludge Hauling Income	10,801	18,206
Gas Methane Revenue	257,208	292,452
Sale of Used Equipment	-	14,883
Miscellaneous	5,113	1,152
	<u>\$ 15,168,503</u>	<u>\$ 16,354,709</u>
EXPENSES:		
Personnel services:		
Salaries and wages:		
Sanitary landfill	\$ 1,549,344	\$ 1,653,226
Transfer station	618,796	648,375
Maintenance and repair	382,756	396,378
Recycling	59,751	60,725
Management and administration	314,973	331,596
Enforcement and Compliance	78,334	78,475
Employee benefits:		
Social Security tax	230,800	238,516
Workers' compensation insurance	170,188	136,685
Other employee benefits	1,483,373	1,377,604
Administrative expenses:		
Other expenses	316,678	275,420
Operating Portion of Administrative Overhead costs	1,090,800	1,174,776
Enforcement and compliance:		
Other expenses	951	451

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

	<u>2012 Budget (as revised)</u>	<u>2012 Actual</u>
EXPENSES (CONTINUED):		
Operations and maintenance:		
Sanitary landfill:		
Support services	\$ 793,670	\$ 648,357
Other expenses	542,578	523,917
Transfer station:		
Support services	68,224	42,766
Other expenses	24,807	16,776
Maintenance and repair and equipment	1,192,081	1,184,184
Recycling	102,055	90,322
Taxes and other charges:		
Landfill contingency tax	96,893	86,685
Recycling Tax	523,476	517,020
Host community benefits	1,131,076	1,079,561
	<u>10,771,604</u>	<u>10,561,815</u>
Interest expense	<u>78,665</u>	<u>78,667</u>
Other costs funded by operating revenues:		
Bond principal	2,700,000	2,700,000
Renewal and Replacement Fund	757,931	757,931
Reserve for Future Construction	683,556	425,095
Closure and postclosure care	176,747	171,330
	<u>4,318,234</u>	<u>4,054,356</u>
Total costs funded by operating revenues	15,168,503	14,694,838
Add: Excess (Deficit)	<u>-</u>	<u>1,659,871</u>
	<u>\$ 15,168,503</u>	<u>\$ 16,354,709</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
<u>Unrestricted Accounts</u>				
Revenue and Operating Accounts:				
TD Bank - Daily Deposit Account	\$ 105,450	0.200	N/A	\$ 105,450
TD Bank - Checking Account	171,383	0.200	N/A	171,383
Bank of America - Prepayment Escrow	163,326		N/A	163,326
TD Bank - Money Market	2,408,911	0.200	N/A	2,408,911
Sturdy Savings Bank - Money Market	16,423	0.040	N/A	16,423
Parke Bank - Liquid Investment Acct.	2,355,912	0.700	N/A	2,355,912
NJ Cash Management Fund	85,166	0.080	N/A	85,166
Petty Cash	4,800			4,800
				<u>5,311,371</u>
Host Community Benefit Reserve Fund				
NJ Cash Management Fund	502,033	0.080	N/A	502,033
				<u>502,033</u>
Total Unrestricted Accounts				<u>5,813,404</u>
<u>Restricted Accounts</u>				
Construction Accounts:				
TD Bank - Checking Account	21,737	0.200	N/A	21,737
TD Bank - Money Market	524,195	0.200	N/A	524,195
Parke Bank - Liquid Investment Acct.	300,000	0.700	N/A	300,000
NJ Cash Management Fund	23,702	0.080	N/A	23,702
Sturdy Savings Bank - Money Market	609,091	0.040	N/A	609,091
				<u>1,478,725</u>
Debt Service Accounts:				
Parke Bank - Liquid Investment Acct	1	0.700	N/A	1
				<u>1</u>
Equipment Reserve Accounts:				
Sturdy Savings Bank - Money Market	3,089,744	0.040	N/A	3,089,744
NJ Cash Management Fund	199,544	0.080	N/A	199,544
				<u>3,289,288</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012
(CONTINUED)

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
Restricted Accounts (Continued)				
Landfill Closure Account:				
First Amer Govt Oblig Fund CI Z	\$ 106,633.00		N/A	\$ 106,633
Federal Home Lending	55,000.00		2/21/2014	55,000
Federal Home Lending	60,000.00		1/12/2018	59,657
Federal Home Lending	100,000.00		10/5/2016	100,044
Federal Home Lending	50,000.00		2/24/2016	50,000
Federal Home Lending	75,000.00		1/23/2015	75,293
Federal Home Lending	35,000.00		10/2/2019	34,928
Federal Home Lending	48,000.00		6/1/2017	48,235
Federal Home Lending	97,000.00		4/11/2017	97,565
Federal Home Lending	23,000.00		5/30/2019	22,996
Federal Home Lending	50,000.00		1/13/2022	49,937
Federal Home Lending	60,000.00		8/1/2019	59,744
Fannie Mae	100,000.00		2/22/2016	100,095
Fannie Mae	60,000.00		10/15/2015	60,210
Fannie Mae	50,000.00		5/22/2015	50,092
Fannie Mae	48,000.00		6/21/2016	47,995
Fannie Mae	50,000.00		1/18/2016	50,019
Fannie Mae	50,000.00		4/4/2016	50,147
Fannie Mae	50,000.00		8/28/2017	50,125
Fannie Mae	75,000.00		9/27/2018	75,000
Fannie Mae	35,000.00		3/10/2016	44,731
Fannie Mae	25,000.00		10/9/2019	21,882
Fannie Mae	30,000.00		5/1/2013	32,201
Federal Farm Credit Bks	30,000.00		5/2/2017	30,000
Federal Farm Credit Bks	55,000.00		6/25/2013	54,828
Federal Farm Credit Bks	30,000.00		11/16/2015	29,947
Federal Farm Credit Bks	110,000.00		2/21/2013	109,711
Federal Farm Credit Bks	50,000.00		9/22/2014	49,923
Federal Home Loan Bks	50,000.00		1/16/2015	49,940
Federal Home Loan Bks	60,000.00		12/27/2013	59,892
Federal Home Loan Bks	40,000.00		6/21/2017	39,869
Federal Home Loan Bks	50,000.00		12/9/2022	49,138
Federal Home Loan Bks	55,000.00		3/13/2020	56,822
United States Treas Bond	90,000.00		8/15/2017	123,265
United States Treas Bond	70,000.00		2/15/2016	101,058
United States Treas Bond	75,000.00		11/15/2018	111,905
United States Treas Bond	55,000.00		2/15/2020	76,375
United States Treas Bond	50,000.00		11/15/2015	69,314
United States Treas Note	30,000.00		9/30/2017	29,752
United States Treas Note	215,000.00		1/31/2017	215,674
United States Treas Note	41,000.00		10/31/2016	41,119
United States Treas Note	110,000.00		10/31/2015	106,751
United States Treas Note	15,000.00		11/30/2015	14,477
United States Treas Note	58,000.00		11/15/2022	57,779
United States Treas Note	27,000.00		5/15/2022	27,265
United States Treas Note	40,000.00		10/31/2017	39,959

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012
(CONTINUED)

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
Restricted Accounts (Continued)				
Landfill Closure Account (Continued):				
United States Treas Note	20,000.00		2/15/2022	20,663
United States Treas Note	85,000.00		2/29/2016	84,884
United States Treas Note	135,000.00		8/31/2014	136,628
United States Treas Note	5,000.00		11/15/2020	4,659
United States Treas Note	271,000.00		5/15/2019	283,491
United States Treas Note	210,000.00		5/15/2021	219,571
United States Treas Note	15,000.00		6/30/2016	15,286
United States Treas Note	140,000.00		7/31/2016	151,150
United States Treas Note	120,000.00		2/15/2018	134,099
United States Treas Note	145,000.00		5/15/2020	156,242
United States Treas Note	61,000.00		8/15/2019	61,817
United States Treas Note	70,000.00		2/15/2014	69,774
United States Treas Note	55,000.00		2/15/2015	59,241
United States Treas Note	170,000.00		8/15/2015	172,740
United States Treas Note	90,000.00		11/15/2014	99,460
United States Treas Note	84,000.00		11/15/2015	80,893
United States Treas Note	15,000.00		8/15/2016	15,676
United States Treas Note	24,000.00		5/15/2016	24,660
United States Treas Note	25,000.00		5/15/2020	36,176
NCUA Guarenteed Notes	20,000.00		6/12/2015	19,972
Private Export Funding	20,000.00		2/15/2017	19,991
Private Export Funding	19,000.00		8/15/2019	18,962
Private Export Funding	25,000.00		7/15/2016	24,969
Private Export Funding	20,000.00		5/15/2015	22,655
	<u>4,582,633</u>			<u>4,820,951</u>
Insurance Accounts:				
Parke Bank - Liquid Investment Acct.	\$ 597,405	0.700	N/A	\$ 597,405
NJ Cash Management Fund	19,025	0.080	N/A	<u>19,025</u>
				<u>616,430</u>
Building and Site Improvement Account:				
Parke Bank - Liquid Investment Acct.	316,827	0.700	N/A	<u>316,827</u>
				<u>316,827</u>
Rate Stabilization Accounts:				
Sturdy Savings Bank - Money Market	792,210	0.040	N/A	792,210
NJ Cash Management Fund	26,130	0.080	N/A	<u>26,130</u>
				<u>818,340</u>
IPF Rate Stabilization Accounts:				
Sturdy Savings Bank - Money Market	543,243	0.040	N/A	543,243
NJ Cash Management Fund	81,821	0.080	N/A	<u>81,821</u>
				<u>625,064</u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
DECEMBER 31, 2012
(CONTINUED)

Description	Face Amount	Interest Rate %	Due Date	Cost December 31, 2012
Restricted Accounts (Continued)				
IPF Capital Reserve Accounts:				
Sturdy Savings Bank - Money Market	1,469,786	0.040	N/A	1,469,786
NJ Cash Management Fund	538,597	0.080	N/A	538,597
				<u>2,008,383</u>
Reserve for Future Construction:				
Parke Bank - Liquid Investment Acct.	380,359	0.700	N/A	380,359
Sturdy Savings Bank - Money Market	1,421	0.040	N/A	1,421
				<u>381,780</u>
Total Restricted Accounts				<u>14,355,789</u>
Total - Solid Waste Disposal Project				\$ <u><u>20,169,193</u></u>

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF CAPE MAY, NEW JERSEY
SOLID WASTE DISPOSAL PROJECT
SCHEDULE OF OPERATIONS
INTERMEDIATE PROCESSING FACILITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Total</u>	<u>Supplemental Authority IPF Expenses</u>	<u>Contracted Operator</u>
REVENUES:			
Operating Revenues:			
Net sales - Cape May County	\$ 2,688,961	\$	\$ 2,688,961
Net Sales - Commercial/Merchants	18,945		18,945
Total Operating Revenues	<u>2,707,906</u>	<u>-</u>	<u>2,707,906</u>
Total Revenues	<u>2,707,906</u>	<u>-</u>	<u>2,707,906</u>
EXPENSES:			
Operating Expenses:			
Base operating fee (payable by CMCMUA)	87,415		87,415
Equipment and Repairs	15,944		15,944
CMCMUA administrative support	50,130	50,130	
IPF Residue Disposal Expense	84,464	84,464	
In-County & Out-Of-County Operator Revenue Share (payable by MUA)	1,638,573		1,638,573
Total operating expenses	<u>1,876,526</u>	<u>134,594</u>	<u>1,741,932</u>
Transfer to IPF Equipment Reserve	484,056	484,056	
Rate Stabilization Funds to Remain in Solid Waste Operations	18,945	18,945	
Rebates to Municipalities	328,379	328,379	
Total Expenses	<u>2,707,906</u>	<u>965,974</u>	<u>1,741,932</u>
Authority's (Cost) of Operating the Intermediate Processing Facility	\$ <u>-</u>	\$ <u>(965,974)</u>	\$ <u>965,974</u>
ANALYSIS OF BALANCE DUE (TO) FROM OPERATORS AT DECEMBER 31, 2012			
Balance due from operator, December 31, 2011	\$ 94,613	\$ -	\$ 94,613
Increased by:			
IPF electric reimbursement Owed to MUA	46,394		46,394
IPF glass Hauling Reimbursement Owed to MUA	34,350		34,350
Net Operator Revenue Share	965,974		965,974
	<u>1,046,718</u>	<u>-</u>	<u>1,046,718</u>
Decreased by:			
Payments Received from Operator	1,010,981		1,010,981
	<u>1,010,981</u>	<u>-</u>	<u>1,010,981</u>
Balance due From operator - December 31, 2012	<u>\$ 130,350</u>	<u>\$ -</u>	<u>\$ 130,350</u>

GENERAL COMMENTS AND RECOMMENDATIONS



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • PO BOX 538 • OCEAN CITY, NJ • 08226-0538

PHONE 609.399.6333 • FAX 609.399.3710

www.ford-scott.com

The Honorable Chairman and Members
of the Cape May County Municipal
Utilities Authority
Cape May Court House, New Jersey

INDEPENDENT AUDITOR'S REPORT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Cape May County Municipal Utilities Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 29, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Glen J. Ortman

Glen J. Ortman
Certified Public Accountant
Registered Municipal Accountant
No. 427

April 29, 2013

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
GENERAL COMMENTS AND RECOMMENDATIONS

Findings and Recommendations

None

Status of Prior Year's Audit Recommendations

There were no prior year recommendations.

Any problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Ford, Scott, & Associates, L.L.C.
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SINGLE AUDIT SECTION



FORD - SCOTT

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

Independent Auditor's Report

The Honorable Chairman and Members
of the Cape May County Municipal
Utilities Authority
Cape May Court House
New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited the compliance of the Cape May County Municipal Utilities Authority ("Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Grant Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012. The Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, 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 or state program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each major Federal and State Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or state program to determine our auditing procedures that are appropriate in the Circumstances for the purpose of expressing our opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB 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*, 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 Cape May County Municipal Utilities Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB 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*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133 and New Jersey OMB's Circular 04-04

We have audited the financial statements of the Cape May County Municipal Utilities Authority as of and for the year ended December 31, 2012, and have issued our report thereon dated April 29, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ford, Scott, & Associates, L.L.C.
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No. 427

April 29, 2013

**CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal or State Grantor/ Pass-Through Grantor/ Program or Clusster Title	Program	Federal-CFDA Federal-CFDA Number/ State Appropriation Number	Pass Through Grantor's Number	Grant Period		Program Receipts	Program Expenditures
				From	To		
Federal Awards							
<u>US Environmental Protection Agency-Clean</u>							
ARRA - Clean Water State Revolving Fund: Pass-Through Programs from: New Jersey Department of Environmental Protection:	ARRA-2012A NJEIT Fund Loan WW	66.458	S340661-15,16,17,18,19, & 20	1/1/2012		\$ 405,404	\$ 405,404
	ARRA-2012C NJEIT Fund Loan SW	66.458	S342017-03	1/1/2012		3,844,046	3,844,046
Total US Environmental Protection Agency						<u>4,249,450</u>	<u>4,249,450</u>
State Awards							
<u>New Jersey Department of Environmental Protection:</u>							
	Solid and Hazardous Waste Management Program - Recycling Enhancement Act Grant	752-042-4900-008		1/1/2011	6/30/2012	110,000	21,592
	2010B NJEIT Trust Loan	S340661-10 & 14		1/1/2010		21,632	21,632
	2010B NJEIT Fund Loan	S340661-10 & 14		1/1/2010		21,632	21,632
	2010C NJEIT Trust Loan	S340661-11,12,13		1/1/2010		3,229,829	1,909,063
	2010C NJEIT Fund Loan	S340661-11,12,13		1/1/2010		3,229,829	1,909,063
	2012A NJEIT Trust Loan WW	S340661-15,16,17,18,19, & 20		1/1/2012		270,269	270,269
	2012B NJEIT Trust Loan WW	S340661-21		1/1/2012		194,025	194,025
	2012B NJEIT Fund Loan WW	S340661-21		1/1/2012		582,075	582,075
	2012C NJEIT Trust Loan SW	S342017-03		1/1/2012		1,281,349	1,281,349
Total New Jersey Department of Environmental Protection						<u>8,940,640</u>	<u>6,210,700</u>
Total Federal and State Expenditures						<u>13,190,090</u>	<u>10,460,150</u>

The accompanying Notes to the Schedule of Federal and State Assistance are an integral part of this statement

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2012

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal and state awards presents the activity of all state financial assistance programs of the Cape May County Municipal Utilities Authority, the ("Authority"). The Authority is defined in Note 1 to the Authority's basic financial statements. All assistance received directly from state agencies, as well as state financial assistance passed through other government agencies is included on the schedule of federal and state awards.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of awards is presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the Authority on a GAAP basis. The schedule of federal and state assistance is in agreement with the basic financial statements.

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedule agrees with the amounts reported in the related state financial reports.

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING DECEMBER 31, 2012

I. SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified Opinion
Internal control over financial reporting:	
1) Material weakness identified?	No
2) Significant Deficiencies identified?	No
Noncompliance material to the basic financial Statements noted?	No

Federal Awards

Internal control over major programs:	
Material Weakness identified?	No
Significant Deficiencies identified That are not considered to be a Material Weakness.	No
Type of auditor's report issued on compliance for major programs?	Unqualified Opinion
Any findings disclosed that are required to be reported in Accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
66.458	ARRA - Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low risk?	No

CAPE MAY COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDING DECEMBER 31, 2012
(CONTINUED)

I. SUMMARY OF AUDITORS RESULTS (Continued)

State Awards

Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified Opinion
Internal Control over major programs:	
1) Material weakness identified?	No
2) Significant Deficiencies identified?	No
Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circular Letter 04-04?	No

Identification of major programs:

<u>State Grant Number</u>	<u>Name of State Program</u>
S340661/S342017	New Jersey Department of Environmental Protection – New Jersey Environmental Infrastructure Trust

II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

In accordance with Government Auditing Standards, our audit disclosed no findings relating to the basic financial statements that are required to be reported under this section.

III. FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

Federal:
 Our audit disclosed no Findings or Questioned Costs.

State:
 Our audit disclosed no Findings or Questioned Costs.

MANAGEMENT RESPONSES

Management is required to respond to findings and recommendations in the audit report. A corrective action plan is required to be filed with the Division of Local Government Services, Department of Community Affairs, State of New Jersey within 45 days of the filing of this report, if any findings and recommendations are noted in the audit report.

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.