

**DUNELLEN PARKING AUTHORITY
BOROUGH OF DUNELLEN
MIDDLESEX COUNTY, NEW JERSEY**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012**

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

**DUNELLEN PARKING AUTHORITY
BOROUGH OF DUNELLEN
MIDDLESEX COUNTY, NEW JERSEY**

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Dunellen Parking Authority
Dunellen, New Jersey

Report on Financial Statements

We have audited the accompanying financial statements of the Dunellen Parking Authority, Dunellen, New Jersey (the "Authority") as of December 31, 2012 and 2011, and 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 risk 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 statement.

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

Other Reporting Required by Government Auditing Standards

In Accordance with Government Auditing Standards, we have also issued our report dated June 28, 2013, on our consideration of the Dunellen Parking Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance Government Auditing Standards in considering the Dunellen Parking Authority's internal control over financial reporting and compliance.

Hodulik & Morrison, P.A.

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

Andrew G. Hodulik
Registered Municipal Account
No. 406

Highland Park, New Jersey
June 28, 2013

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

Honorable Chairman and Members of the
Dunellen Parking Authority
Dunellen, New Jersey

We have audited, 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 and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey the financial statements of the Dunellen Parking Authority, County of Middlesex, New Jersey, (the "Authority") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Dunellen Parking Authority's basic financial statements, and have issued our report thereon dated June 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Authority's internal control over financial 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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.

REQUIRED SUPPLEMENTARY INFORMATION

**DUNELLEN PARKING AUTHORITY
BOROUGH OF DUNELLEN
COUNTY OF MIDDLESEX, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Year Ended December 31, 2012
(Unaudited)**

This section of The Dunellen Parking Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

Cash, cash equivalents, and investments decreased by \$65,706 (31.01%) to \$146,159 in 2012 from \$211,865 in 2011 and total assets decreased by \$86,207 (17.80%) to \$397,990 in 2012 from \$484,197 in 2011.

Net Capital Assets decreased by \$20,501 (7.52%) to \$251,831 in 2012 from \$272,332 in 2011.

Investments decreased by \$99,969 as compared to 2011 as reflective of redemptions.

Changes in net position increased by \$14,059 (13.47%) to (\$90,279) in 2012 from (\$104,338) in 2011. This is attributed to a decrease in both Operating and Non-Operating Revenues as well as an increase in Operating Expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a corporate and politic body organized under the laws of the State of New Jersey. The Comprehensive Annual Financial Report is presented in two sections: Financial Statements and Notes, Supplemental Schedules and comments. The Financial section includes Management's Discussion and Analysis and Financial Statements with notes. The Supplemental Schedules include detailed financial information along with general comments and recommendations from the Independent Auditor's Reports. The Authority adopted the Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal period ended December 31, 2004.

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them. The Authority's net position – the difference between assets and liabilities – are a measurement of the financial health or financial position.

Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, customer growth and legislative mandates also need to be considered.

The Authority's total net position decreased from last year by \$90,279 (19.85%). Tables 1 and 2, which follow focus on the Authority's net position and changes in net position during the year.

NET POSITION

The Authority's total net position decreased from last year by 18.66%. The analysis, which follows focuses on the Authority's net position (Table A-1) and changes in in net position (Table A-2) during the year.

**Table A-1
Net Position**

	DEC 31,		2012-2011		2011-2010		
	2012	2011	2010	INCREASE(DECREASE) \$	%	INCREASE(DECREASE) \$	%
Current and Other Assets	\$ 146,159.00	\$ 211,865.00	\$ 286,712.00	\$ (65,706.00)	-31.01%	\$ (74,847.00)	-26.11%
Capital Assets	251,831.00	272,332.00	292,833.00	(20,501.00)	-7.53%	(20,501.00)	-7.00%
	397,990.00	484,197.00	579,545.00	(86,207.00)	-17.80%	(95,348.00)	-16.45%
Long Term Liabilities	0.00	0.00	0.00	0.00	0.00%	0.00	0.00%
Other Liabilities	33,521.00	29,449.00	20,460.00	4,072.00	13.83%	8,989.00	43.93%
Total Liabilities	33,521.00	29,449.00	20,460.00	4,072.00	13.83%	8,989.00	43.93%
Net Assets							
Invested in Capital Assets, Net of Debt	251,831.00	272,332.00	292,833.00	(20,501.00)	-7.53%	(20,501.00)	-7.00%
Restricted	0.00	0.00	0.00	0.00	0.00%	0.00	0.00%
Unrestricted	112,638.00	182,416.00	266,252.00	(69,778.00)	-38.25%	(83,836.00)	-31.49%
Total Net Assets	\$ 364,469.00	\$ 454,748.00	\$ 559,085.00	\$ (90,279.00)	-19.85%	\$ (104,337.00)	-18.66%

CHANGES IN NET POSITION

Changes in the Authority's net position can be determined by reviewing the following condensed statement of revenues, expenses, and changes in net position for the year.

**Table A-2
Statement of Revenues, Expenses, and Changes in Net Position**

	DECEMBER 31,			2012-2011		2011-2010	
	2012	2011	2010	INCREASE(DECREASE) \$	%	INCREASE(DECREASE) \$	%
REVENUES							
Operating Revenues:							
Service Charges	\$ 230,555.00	\$ 181,263.00	\$ 223,051.00	\$ 49,292.00	27.19%	\$ (41,788.00)	-18.73%
Other							
General Revenues:							
Rental Income	27,300.00	40,190.00	23,650.00	(12,890.00)	-32.07%	16,540.00	69.94%
Miscellaneous	45.00	0.00	2,138.00				
Interest Income	194.00	866.00	2,046.00	(672.00)	-77.60%	(1,180.00)	-57.67%
Total Revenues	258,094.00	222,319.00	250,885.00	35,730.00	16.07%	(26,428.00)	-10.53%
EXPENSES							
Program Expenses:							
Operating Costs	227,872.00	206,156.00	193,254.00	21,716.00	10.53%	12,902.00	6.68%
Depreciation	20,501.00	20,501.00	20,501.00	0.00	0.00%	0.00	0.00%
Interlocal Services Boro of Dunellen	100,000.00	100,000.00	100,000.00	0.00	100.00%	0.00	0.00%
Total Expenses	348,373.00	326,657.00	313,755.00	21,716.00	6.65%	12,902.00	4.11%
Increase(Decrease) in Net Position	\$ (90,279.00)	\$ (104,338.00)	\$ (62,870.00)	\$ 14,059.00	-13.47%	\$ (39,330.00)	62.56%

While the balance sheets show change in financial position of net position, the Statements of Revenues, Expenses, and Changes in Net Position, provide answers as to the nature and source of these changes. As can be seen in Table A-2 above, the change in net position - Increase of \$14,059 was reported for fiscal year ended December 31, 2012.

REVENUES:

Table A-2 shows "Total Revenues" increased by \$35,730 or 10.53% to \$258,094 for fiscal year ended December 31, 2012 up from \$222,319 for fiscal year ended December 31, 2011.

EXPENSES:

A further review of Table A-2 reveals that "Total Expenses" increased by \$21,716 or 10.53% for the fiscal year ended December 31, 2012.

BUDGETARY HIGHLIGHTS

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

The Supplementary Schedule 1 shows that, on a budgetary basis, the Authority realized a favorable variance of \$29,722 on budgeted expenses of \$321,000 for the period ended December 31, 2012. The Authority realized a unfavorable variance on the revenue side by \$36,594, resulting in a budgetary basis net gain of \$29,722. As shown by the reconciliation of the budgetary basis to GAAP, adjustments to the budgetary basis are required to:

- Eliminate Appropriated Retained Earnings from Revenues
- Eliminate Fixed Capital Acquired through Budgeted Capital Outlay from Expenses.
- Add Unrecorded Depreciation and Amortization Expenses.

In the event that current projected revenues lag behind budget amounts, adjustments to discretionary spending and/or rate impact analyses need to be performed. However, in order to present a true budgetary comparison, the statutory budget is amended only in instances wherein planned spending will exceed legal appropriation amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012 and 2011, the Authority had \$596,394 invested in a broad range of capital assets, including Parking Lots, Parking Lot Improvements, Land and Buildings, and Equipment. This amount represents no change (net of increases and decreases) over December 31, 2011. There were no additions during the year ended December 31, 2012. Capital Fixed Assets are as follows:

Parking Lots	\$ 116,880
Parking Lot Improvements	147,541
Land and buildings	160,173
Equipment	<u>171,800</u>
Total	596,394
Less: Accumulated Depreciation	<u>(344,563)</u>
Total Capital Assets (Net)	<u>\$251,831</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority has adopted an operating budget for calendar year 2013.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Authority's ratepayers, creditors and bond holders with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Authority's Secretary/Treasurer at the Dunellen Parking Authority, 345 Front Street, Dunellen, NJ 08812.

FINANCIAL STATEMENTS

**DUNELLEN PARKING AUTHORITY
COUNTY OF MIDDLESEX, NEW JERSEY**

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 96,128	\$ 61,865
Investments	<u>50,031</u>	<u>150,000</u>
Total Current Assets	<u>146,159</u>	<u>211,865</u>
Noncurrent Assets:		
Capital Assets:		
Parking Lots	116,880	116,880
Parking Lot Improvements	147,541	147,541
Land and Buildings	160,173	160,173
Equipment	171,800	171,800
Less: Accumulated Depreciation	<u>(344,563)</u>	<u>(324,062)</u>
Total Noncurrent Assets	<u>251,831</u>	<u>272,332</u>
Total Assets	\$ <u>397,990</u>	\$ <u>484,197</u>
 LIABILITIES		
Accrued Expenses	\$ 2,093	\$ 2,449
Accounts Payable	19,168	12,500
Deferred Revenue	9,550	10,290
Security Deposits	<u>2,710</u>	<u>4,210</u>
	<u>33,521</u>	<u>29,449</u>
 NET POSITION		
Invested in Capital Assets, Net of Related Debt	251,831	272,332
Unrestricted	<u>112,638</u>	<u>182,416</u>
Total Net Position	<u>364,469</u>	<u>454,748</u>
Total Liabilities and Net Position	\$ <u>397,990</u>	\$ <u>484,197</u>

See Accompanying Notes to Financial Statements.

DUNELLEN PARKING AUTHORITY

EXHIBIT - B

COUNTY OF MIDDLESEX, NEW JERSEY

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>Operating Revenues</u>		
Charges for Services	\$ <u>230,555</u>	\$ <u>181,263</u>
Total Operating Revenues	<u>230,555</u>	<u>181,263</u>
<u>Operating Expenses</u>		
Personal Services	106,571	100,249
Employee Benefits/Taxes	34,741	36,926
Professional Services	16,146	9,265
Utilities & Telephone	14,029	11,359
Supplies and Materials	10,741	6,401
Repairs and Maintenance	16,914	23,116
Insurance	11,749	11,635
Land Rental	600	600
Interlocal Services Agreement:		
Borough of Dunellen	100,000	100,000
Donations & Community Support	3,500	4,000
Other	2,336	2,605
Capital Outlay	10,546	-
Depreciation	<u>20,501</u>	<u>20,501</u>
Total Operating Expenses	<u>348,373</u>	<u>326,658</u>
Operating Income	<u>(117,818)</u>	<u>(145,394)</u>
<u>Non-Operating Revenues (Expenses)</u>		
Interest and Dividend Income	194	866
Rental Income	27,300	40,190
Miscellaneous	<u>45</u>	<u></u>
Net Non-Operating Revenues (Expenses)	<u>27,539</u>	<u>41,056</u>
Income (Loss) Before Contributions and Transfers	<u>(90,279)</u>	<u>(104,338)</u>
Changes in Net Asssets	<u>(90,279)</u>	<u>(104,338)</u>
Total Net Position - Beginning	<u>454,748</u>	<u>559,085</u>
Total Net Position - Ending	\$ <u><u>364,469</u></u>	\$ <u><u>454,748</u></u>

See Accompanying Notes to Financial Statements.

**DUNELLEN PARKING AUTHORITY
COUNTY OF MIDDLESEX, NEW JERSEY**

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE CALENDAR YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 229,815	\$ 181,883
Cash Payments to Suppliers for Goods and Serv.	(114,633)	(93,407)
Cash Paid Interlocal Services Agreement	(100,000)	(100,000)
Cash Payments to Employees for Services	<u>(106,927)</u>	<u>(104,349)</u>
Net Cash Provided (Used) by Operating Activities	<u>(91,745)</u>	<u>(115,873)</u>
Cash Flows from Non-Capital Financing Activities:		
Security Deposits (Net)	(1,500)	(30)
Other Non-Operating Income	<u>27,345</u>	<u>40,190</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>25,845</u>	<u>40,160</u>
Cash Flows from Investing Activities:		
Purchase/Redemption of Investments (Net)	99,969	25,000
Interest on Investments and Deposits	<u>194</u>	<u>866</u>
Net Cash Provided (Used) by Investing Activities	<u>100,163</u>	<u>25,866</u>
Net Increase (Decrease) in Cash and Cash Equiv.	34,263	(49,847)
Balances - Beginning of the Year	<u>61,865</u>	<u>111,712</u>
Balances - End of the Year	<u>\$ 96,128</u>	<u>\$ 61,865</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ (117,818)	\$ (145,394)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Income:		
Depreciation	20,501	20,501
Change in Assets and Liabilities:		
Deferred Revenue	(740)	620
Accounts Payable	6,668	12,500
Accrued Expenses	<u>(356)</u>	<u>(4,100)</u>
Total Adjustments	<u>26,073</u>	<u>29,521</u>
Net Cash Provided by Operating Activities	<u>\$ (91,745)</u>	<u>\$ (115,873)</u>

See Accompanying Notes to Financial Statements.

**DUNELLEN PARKING AUTHORITY
MIDDLESEX COUNTY, NEW JERSEY**

**NOTES TO FINANCIAL STATEMENTS
CALENDAR YEAR ENDED DECEMBER 31, 2012**

Note 1: REPORTING ENTITY AND AUTHORIZING LEGISLATION

A. General Statement

Authorizing Legislation - The Dunellen Parking Authority (the Authority, DPA) is a public body corporate and politic body organized under the laws of the State of New Jersey and was created by ordinances adopted by the governing body, effective in October 3, 1955, the Borough of Dunellen ("the creating municipality"), a municipal corporation of the State of New Jersey located in the County of Middlesex.

The Authority was created for to provide adequate and orderly parking on behalf of the Borough.

The ordinance creating the Authority provides that the Authority shall consist of five members, each of whom shall be appointed by Mayor and governing body of the creating municipality.

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

The Authority has no stockholders or equity holders.

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

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB pronouncements constitute GAAP for governmental units.

B. Financial Reporting Entity

The Authority's financial statements include the accounts of all Authority operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The Authority is able to impose its will on the organization

NOTES TO FINANCIAL STATEMENTS

Note 1: REPORTING ENTITY AND AUTHORIZING LEGISLATION (CONT'D.)

B. Financial Reporting Entity (Cont'd)

- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority

The Authority is considered to be a "Component Unit" of the Borough of Dunellen under GAAP. This determination is based on the oversight responsibility of the Borough, which manifests itself primarily in the selection of Commissioners of the Authority, and on a financial benefit/burden relationship that exists between the Authority and the Borough.

The Borough of Dunellen does not follow GAAP for accounting and financial reporting purposes. Rather, it follows a regulatory basis, utilizing accounting principles, which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Borough's financial statements of potential component units, based on separate legal status of these units. Accordingly, the financial statements of the Borough do not include the Authority as a component unit.

Based on the aforementioned criteria, the DPA has no component units.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Presentation

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

The DCA has recognized the statements and interpretations of the Governmental Accounting Standards Board (GASB) as authoritative on application of accounting principles generally accepted in the United States of America (GAAP) for local authorities.

B. GASB Statement No. 34

The Authority adopted the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments during the fiscal year ended December 31, 2004. Statement 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a Management's Discussion and Analysis section, a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position and a Statement of Cash Flows. It requires the classification of Net Position into three components – Invested in Capital Assets, net of related debt; Restricted for Debt Service; and Unrestricted.

NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

B. GASB Statement No. 34 (Cont'd)

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

C. Basis of Accounting

The DPA utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Description of the Funds

The Authority maintains unrestricted and restricted funds to account for its assets, liabilities, revenues, expenses and net assets.

E. Cash and Cash Equivalents

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

F. Investments

Investments consist of certificates of deposit and direct obligations of the U.S. Government, U.S. Government Agencies, repurchase agreements, and investments in money market funds and are valued at cost or amortized cost, which approximates market (See Note 3).

G. Capital Assets

The Parking Facilities and Equipment are stated at historical cost. Depreciation is determined using the straight-line basis, over the estimated useful lives, when placed in service.

H. Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term investments: The fair values of long-term investments are estimated based on quoted market prices for those or similar investments. Additional information pertinent to the value of these investments is provided in Note 3.

Long-term debt: The Authority's long-term debt is stated at face value, net of unamortized discounts and premiums. The debt is not traded and it is not practicable to determine its fair value without incurring excessive cost.

NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

I. Comparative Data

Comparative amounts for the prior year have been presented in order to provide an understanding of changes on the Authority's financial position and operations.

J. Use of Estimates

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

K. Recent Accounting Standards

GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" in June 2011. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53" in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of swap counterparty or swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities" in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012.

GASB issued Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62" in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Statement No. 66 is effective for financial statements for periods beginning after December 15, 2012.

GASB issued Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25" in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The Authority prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The Authority is required to adopt these new standards in connection with the organization's financial statements.

Note 3: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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

The market value of the collateral must equal 5 percent of the average daily balance of public funds; or

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Cash and Cash Equivalents

The carrying amount of the Authority's cash and cash equivalents at year-end was \$96,128 and \$61,865, respectively. A summary of the cash and cash equivalents at December 31, 2012 and 2011 are as follows:

<u>Type</u>	<u>2012</u>	<u>2011</u>
Savings/Demand	<u>\$96,128</u>	<u>\$61,865</u>
Total	<u>\$96,128</u>	<u>\$61,865</u>

NOTES TO FINANCIAL STATEMENTS

Note 3: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONT'D)

Credit Risk - Cash and Cash Equivalents, Investments

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The government does not have a specific deposit policy for custodial risk other than those policies that adhere to the requirements of statute. The amounts for Cash on Deposit and Investments (Certificates of Deposit) at December 31, 2012 and 2011 are not in excess of FDIC insurance coverage.

Investments

The Authority held investments at December 31, 2012 and 2011, \$50,031 and \$150,000, respectively, and investment activity related to purchase and redemption during the calendar years 2012 and 2011 is reported in the Statement of Cash Flows.

Credit Risk - Investments

Custodial Credit Risk – Investments - Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The amount for

Investments (Certificates of Deposit) at December 31, 2012 and 2011 are not in excess of FDIC insurance coverage.

Note 4: PROPERTY, PLANT AND EQUIPMENT (CAPITAL ASSETS)

Property, plant and equipment is stated at cost which includes the cost of construction and acquisition of such projects, engineering, administrative and financial expenses, interest on bonds and notes during construction, and organization expenses, less income earned on unexpended construction funds. No interest was capitalized in 2012 and 2011.

Property, plant and equipment includes:

<u>Categories</u>	<u>2012</u>	<u>2011</u>
Parking Lots	\$116,880	\$116,880
Parking Lot Improvements	147,541	147,541
Land & Buildings	160,173	160,173
Equipment	<u>171,800</u>	<u>171,800</u>
Total	596,394	596,394
Less: Accumulated Depreciation & Amortization	<u>344,563</u>	<u>324,062</u>
Net Total	<u>\$251,831</u>	<u>\$272,332</u>

Depreciation and amortization is calculated on a straight-line basis for each of the fixed assets categories.

NOTES TO FINANCIAL STATEMENTS

Note 4: PROPERTY, PLANT AND EQUIPMENT (CAPITAL ASSETS) (Cont'd)

Buildings and Improvements	10 to 400 years
Meters	20 years
Parking Lot Improvements – Paving	10 - 15 years
Equipment	5 to 10 years

Note 5: INTERLOCAL SERVICES AGREEMENT – BOROUGH OF DUNELLEN

During 2012 and 2011, the Authority authorized Interlocal Service Agreements with the Borough of Dunellen, County of Middlesex in the total amount of \$100,000, respectively.

Note 6: PENSION PLAN

Employees of the Dunellen Parking Authority are enrolled in the Public Employees Retirement System (PERS). The Division of Pensions in the Department of the Treasury, State of New Jersey, administers the PERS plan. The plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The plan, which covers public employees throughout the State, does not maintain separate records for each reporting unit and, accordingly, the actuarial data for the employees of the Authority who are members of the plan is not available.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues publicly available financial reports that include the financial statements and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Note 7: RISK MANAGEMENT

New Jersey Unemployment Compensation Insurance – The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

Note 8: FUND BALANCE APPROPRIATED

Of the total net position of \$364,469, the amount of \$251,831 is reported as invested in capital assets, net of related debt, and of the remaining unrestricted amount of \$112,638, \$81,850 has been appropriated in the CY 2013 adopted budget.

Note 9: COMMITMENTS AND CONTINGENCIES

Pending Litigation

As at December 31, 2012 and the date of this report, there was no litigation pending which, in the event of an adverse or unfavorable outcome, would materially impair the financial position of the Dunellen Parking Authority.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**DUNELLEN PARKING AUTHORITY
BOROUGH OF DUNELLEN
COUNTY OF MIDDLESEX, NEW JERSEY**

**SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
AND ACTUAL REVENUES FOR THE PRIOR YEAR
(BUDGETARY BASIS)
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2012**

	2012 BUDGET	2012 ACTUAL	2011 ACTUAL
Revenues:			
Unreserved Retained Earnings	\$ 99,500	\$ 99,500	\$ 63,650
Service Charges	221,000	230,555	181,263
Other Miscellaneous Revenues		27,345	40,190
Interest Income	<u>500</u>	<u>194</u>	<u>866</u>
TOTAL REVENUES - BUDGETARY	\$ <u>321,000</u>	\$ <u>357,594</u>	\$ <u>285,969</u>
Expenses:			
Operating:			
Salaries and Wages	\$ 108,350	\$ 106,571	\$ 100,249
Fringe Benefits	37,900	34,741	36,926
Other Expenses	74,750	76,014	68,981
Interlocal Services Boro of Dunellen	100,000	100,000	100,000
Capital:			
Capital Outlay		<u>10,546</u>	
TOTAL EXPENSES - BUDGETARY	\$ <u>321,000</u>	\$ <u>327,872</u>	\$ <u>306,156</u>
Budgetary Revenues over Expenses	\$ <u>0</u>	\$ <u>29,722</u>	\$ <u>(20,187)</u>
Reconciliation of Budgetary Basis to Net Income:			
Budgetary Revenues over Expenses Brought Forward		\$ 29,722	\$ (20,187)
Adjustments to Budgetary Basis:			
Less: Unbudgeted Depreciation Expense		(20,501)	(20,501)
Less: Appropriations of Retained Earnings		<u>(99,500)</u>	<u>(63,650)</u>
Total Adjustments - Net		<u>(120,001)</u>	<u>(84,151)</u>
Net Income (Loss)		\$ <u>(90,279)</u>	\$ <u>(104,338)</u>

SUPPLEMENTARY SCHEDULES AND DATA

**DUNELLEN PARKING AUTHORITY
BOROUGH OF DUNELLEN
COUNTY OF MIDDLESEX, NEW JERSEY**

**GENERAL COMMENTS AND RECOMMENDATIONS
CALENDAR YEAR ENDED DECEMBER 31, 2012**

GENERAL COMMENTS

An audit of the financial accounts and transactions of the Dunellen Parking Authority, County of Middlesex, New Jersey, for the initial period ended December 31, 2012, has been completed. The General Comments are herewith set forth:

Scope of Audit

The audit covered the financial transactions of the Finance Department of the Dunellen Parking Authority, County of Middlesex, and New Jersey.

The audit did not and could not determine the character of services rendered for which payment had been made or for which reserves had been set up, nor could it determine the character, proper price or quantity of materials supplied for which claims had been passed. These details were necessarily covered by the internal review and control before approval of such claims by the Governing Body. Cash on hand was counted and cash and investment balances were reconciled with independent certifications obtained directly from the depositories. Revenues and receipts were established and verified as to source and amount insofar as the records permitted.

INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of Dunellen Parking Authority, County of Middlesex, New Jersey as of and for the fiscal year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

GENERAL COMMENTS

INTERNAL CONTROL MATTERS (Cont'd)

With respect to the reporting of internal control matters, Statement on Auditing Standards No. 115 requires that only significant deficiencies and material weaknesses need be reported in writing to management and those charged with governance.

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

Internal Control Over Financial Reporting

Deficiency in Internal Control – Segregation of Duties

Conditions exist whereby the same person may maintain the bookkeeping (receipts & disbursements) and cash management functions of the Authority.

This condition is the result of multiple tasks performed by the same individual engaged by the Agency.

Auditee Response: Procedures Implemented

Deposit reports prepared by the Supervisor are reviewed and proved by the Treasurer. Bill lists prepared by the Treasurer are approved at each authority Meeting, and Management reports of Receipts and Disbursements proving to reported monthly and year to date totals are presented to the Board of Commissioners at each meeting. Bank reconciliations are prepared by the Authority Treasurer and checks written for over \$500 require two signatures.

Documentation of Components of Internal Control

As required by Statement on Auditing Standards No. 112, entities subject to audit are required to provide documentation of the various components of its internal controls.

The Authority should continue to document the various components of its internal controls.

Auditee Response: Procedures Implemented

By virtue of these and other documents prepared by Authority personnel, documentation of standard procedures as well as the various components of internal controls has begun.

OTHER MATTERS

Financial Accounting and Reporting System

Local Finance Board requires the maintenance of an accounting system that shall include a double entry accounting for all transactions resulting in a general ledger. Also, interim and year-end financial reports comprised of statements that reflect financial position at the end of a specified accounting period and comparison of actual financial results with budgetary estimates and limitations are mandated by Local Authority regulation.

GENERAL COMMENTS

OTHER MATTERS

Financial Accounting and Reporting System (Cont'd)

The Authority has developed and implemented a worksheet format General Ledger Accounting and Reporting System for compliance with regulations applicable to Authorities issued by the Local Finance Board, Department of Community Affairs, State of New Jersey.

Internal Control Documentation

The Authority should continue the process of documenting its internal controls. This course of action will serve the purpose of meeting certain requirements as set forth by the Statement on Auditing Standards 112. We suggest the Authority continue this process and also consider utilizing the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for its documentation, which includes the five components of internal controls, as follows: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring. In addition, we suggest the documentation should also include the internal controls that exist over grant compliance.

RECOMMENDATION(S)

None.

ACKNOWLEDGMENT

During the course of our engagement we received the complete cooperation of the various officials and employees of the Authority, and the courtesies extended to us were greatly appreciated.

Very truly yours,

HODULIK & MORRISON, P.A.

Andrew G. Hodulik, CPA, RMA
No. 406