

THE HARDYSTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2012 AND 2011

THE HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

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Introductory Section

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

ROSTER OF OFFICIALS

AUGUST 31, 2012

The following officials were in office on August 31, 2012:

Board Commissioners

Positions

Frank Cicerale

Chairman

Santo Verrilli

Vice Chairman

Stanley Kula

Secretary

Ellis Marples

Treasurer

Vacant

First Alternate

Vacant

Second Alternate

Authority Professionals

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

Auditors

Hollander, Hontz, Hinkes & Pasculli, L.L.C.

Attorney

Guerin & Vreeland Engineering Inc.

Engineer

Financial Section

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

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

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
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100B Main Street
Newton, N.J. 07860
973-579-3212
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INDEPENDENT AUDITOR'S REPORT

The Chairman and Commissioners of the
Hardyston Township Municipal Utilities Authority
149 Wheatsworth Road, Suite A
Hardyston, New Jersey 07419

We have audited the accompanying basic financial statements of the Hardyston Township Municipal Utilities Authority, as of and for the fiscal years ended August 31, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hardyston Township Municipal Utilities Authority's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in accordance with audit requirements 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hardyston Township Municipal Utilities Authority, as of August 31, 2012 and 2011, and the respective changes in net assets and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012 on our consideration of the Hardyston Township Municipal Utilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hardyston Township Municipal Utilities Authority's financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information 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 supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Ferraioli, Wielkotz, Cerullo & Cuva P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

November 14, 2012



Required Supplementary Information

Management Discussion and Analysis

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2012**

As management of the Hardyston Township Municipal Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended August 31, 2012 and 2011. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$5,720,748 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$5,783,229.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,672,251 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Unrestricted net assets of \$3,048,497 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$190,782 to \$628,473 during the fiscal year.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

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

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Overview of the Financial Statements (Continued)

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

Net Assets

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

The Authority's net assets at fiscal year-end are \$5,720,748. This is a \$62,481 decrease over last year's net assets of \$5,783,229.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Net Assets (Continued)

A summary of the Authority's current year statement of net assets is presented with comparative prior year balances in the following table:

**Condensed Statement of Net Assets at August 31, 2012
With Comparative Prior Year Balances**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	3,915,130	3,659,564	255,566	6.98%
Capital Assets	<u>2,434,091</u>	<u>2,561,356</u>	<u>(127,265)</u>	(4.97)%
Total Assets	<u>6,349,221</u>	<u>6,220,920</u>	<u>128,301</u>	2.06%
Other Liabilities	<u>628,473</u>	<u>437,691</u>	<u>190,782</u>	43.59%
Total Liabilities	<u>628,473</u>	<u>437,691</u>	<u>190,782</u>	43.59%
Capital Assets, Net of Related Debt	2,672,251	2,813,525	(141,274)	(5.02)%
Unrestricted	<u>3,048,497</u>	<u>2,969,704</u>	<u>78,793</u>	2.65%
Total Net Assets	<u>5,720,748</u>	<u>5,783,229</u>	<u>(62,481)</u>	(1.08)%

A summary of the Authority's prior year statement of net assets is presented with comparative FY 2010 year balances in the following table:

**Condensed Statement of Net Assets at August 31, 2011
With Comparative Prior Year Balances**

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	3,659,564	3,453,937	205,627	5.95%
Capital Assets	<u>2,561,356</u>	<u>2,688,622</u>	<u>(127,266)</u>	(4.73)%
Total Assets	<u>6,220,920</u>	<u>6,142,559</u>	<u>78,361</u>	1.28%
Other Liabilities	<u>437,691</u>	<u>292,480</u>	<u>145,211</u>	49.65%
Total Liabilities	<u>437,691</u>	<u>292,480</u>	<u>145,211</u>	49.65%
Capital Assets, Net of Related Debt	2,813,525	2,954,801	(141,276)	(4.78)%
Unrestricted	<u>2,969,704</u>	<u>2,895,278</u>	<u>74,426</u>	2.57%
Total Net Assets	<u>5,783,229</u>	<u>5,850,079</u>	<u>(66,850)</u>	(1.14)%

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Net Assets (Continued)

While the *Statement of Net Assets* shows the change in financial position of net assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets decreased by \$62,481 in FY 2012 and by \$66,850 in FY 2011.

**Condensed Statement of Revenues, Expenses and Changes
in Net Assets for the Year Ending August 31, 2012
With Comparative Prior Year Balances**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,402,816	1,331,983	70,833	5.32%
Non-Operating Revenues	<u>6,758</u>	<u>11,619</u>	<u>(4,861)</u>	(41.84)%
Total Revenues	<u>1,409,574</u>	<u>1,343,602</u>	<u>65,972</u>	4.91%
Depreciation	127,265	127,266	(1)	0.00%
Other Operating Expenses	1,277,008	1,235,555	41,453	3.36%
Other Non-Operating Expense	<u>67,782</u>	<u>47,631</u>	<u>20,151</u>	42.31%
Total Expenses	<u>1,472,055</u>	<u>1,410,452</u>	<u>61,603</u>	4.37%
Change in Net Assets	(62,481)	(66,850)	4,369	(6.54)%
Beginning Net Assets	<u>5,783,229</u>	<u>5,850,079</u>	<u>(66,850)</u>	(1.14)%
Ending Net Assets	<u>5,720,748</u>	<u>5,783,229</u>	<u>(62,481)</u>	(1.08)%

The Authority's Operating Revenues increased by \$70,833 to \$1,402,816 in 2012 from \$1,331,983 in 2011 due to an increase in developer fees. The Authority's non-operating revenues decreased by \$4,861 to \$6,758 in 2012 from \$11,619 reported in 2011 due to a decrease in interest on investments.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Net Assets (Continued)

A summary of the Authority's prior year statement of revenues, expenses and changes in net assets is presented with comparative FY year figures in the following table:

**Condensed Statement of Revenues, Expenses and Changes
in Net Assets for the Year Ending August 31, 2011
With Comparative Prior Year Balances**

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,331,983	1,402,241	(70,258)	(5.01)%
Non-Operating Revenues	<u>11,619</u>	<u>238,266</u>	<u>(226,647)</u>	(95.12)%
Total Revenues	<u>1,343,602</u>	<u>1,640,507</u>	<u>(296,905)</u>	(18.10)%
Depreciation	127,266	127,266	0	0.00%
Other Operating Expenses	1,235,555	1,256,487	(20,932)	(1.67)%
Other Non-Operating Expense	<u>47,631</u>	<u>22,324</u>	<u>25,307</u>	113.36%
Total Expenses	<u>1,410,452</u>	<u>1,406,077</u>	<u>4,375</u>	0.31%
Change in Net Assets	(66,850)	234,430	(301,280)	(128.52)%
Beginning Net Assets	<u>5,850,079</u>	<u>5,615,649</u>	<u>234,430</u>	4.17%
Ending Net Assets	<u>5,783,229</u>	<u>5,850,079</u>	<u>(66,850)</u>	(1.14)%

The Authority's Operating Revenues decreased by \$70,258 to \$1,331,983 in 2011 from \$1,402,241 in 2010 due to a reduction of developer fees. The Authority's non-operating revenues decreased by \$226,647 to \$11,619 in 2011 from \$238,266 reported in 2010 due to a one-time sale of sewer allocation.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Budgetary Highlights

The Authority prepares and submits an annual budget to the State of New Jersey, which approves the budget for adoption by the Authority prior to the beginning of the fiscal year.

The following table provides a 2012 and 2011 budget comparison:

Budget vs. Actual FY 2012			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,481,869	1,619,447	137,578
Non-Operating	<u>12,000</u>	<u>6,758</u>	<u>(5,242)</u>
Total Revenues	<u>1,493,869</u>	<u>1,626,205</u>	<u>132,336</u>
Expenses:			
Operating	1,254,900	1,262,999	8,099
Non-Operating Reserves	<u>238,969</u>	<u>238,969</u>	<u>0</u>
Total Expenses	<u>1,493,869</u>	<u>1,501,968</u>	<u>8,099</u>
Income Before Depreciation and Amortization	<u>0</u>	<u>124,237</u>	<u>124,237</u>

Budget vs. Actual FY 2011			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,425,362	1,492,144	66,782
Non-Operating	<u>29,000</u>	<u>11,619</u>	<u>(17,381)</u>
Total Revenues	<u>1,454,362</u>	<u>1,503,763</u>	<u>49,401</u>
Expenses:			
Operating	1,216,910	1,221,545	(4,635)
Non-Operating Reserves	<u>237,452</u>	<u>237,452</u>	<u>0</u>
Total Expenses	<u>1,454,362</u>	<u>1,458,997</u>	<u>(4,635)</u>
Income Before Depreciation and Amortization	<u>0</u>	<u>44,766</u>	<u>44,766</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Budgetary Highlights (Continued)

The HTMUA determines sewer and water charges based primarily on three separate cost elements. These cost elements include an annual operating charge imposed by the Sussex County Municipal Utilities Authority (SCMUA), an annual debt service charge imposed by the SCMUA, and an annual operating, maintenance and administration charge imposed by the Hardyston Township Municipal Utilities Authority. A public hearing is conducted annually in accordance with NJSA 40:14B.

Capital Assets

During 2012, the Authority's net property, plant and equipment at fiscal year-end was \$2,434,091. This is an \$127,265 decrease over last year's net property, plant and equipment of \$2,561,356.

A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS			
(000's)			
	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Forest Hill Village	1,723,276	1,723,276	1,723,276
Crystal Springs	2,183,365	2,183,365	2,183,365
Briar Crest	368,935	368,935	368,935
HTMUA	<u>57,362</u>	<u>57,362</u>	<u>57,362</u>
Total Property, Plant and Equipment	4,332,938	4,332,938	4,332,938
Less: Accumulated Depreciation	<u>(1,898,847)</u>	<u>(1,771,582)</u>	<u>(1,644,316)</u>
Net Property, Plant and Equipment	<u>2,434,091</u>	<u>2,561,356</u>	<u>2,688,622</u>

The Authority had no significant capital projects or improvements pending at year end.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2012**

Economic Factors, Future Years Budgets and Rates

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

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Hardyston Township Municipal Utilities Authority, 149 Wheatsworth Road, Suite A, Hardyston, New Jersey 07419.

Basic Financial Statements

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET ASSETS
AUGUST 31, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current Assets		
Unrestricted Assets		
Cash and Cash Equivalents	2,811,876	2,721,465
Petty Cash	50	50
Developer Fees Receivable	422,583	297,535
Prepaid Expenses	7,796	7,520
Water and Sewer Rents Receivable	386,992	335,032
Total Unrestricted Assets	<u>3,629,297</u>	<u>3,361,602</u>
Non-Current Assets		
Restricted Assets		
Cash and Cash Equivalents	47,673	45,793
Total Restricted Assets	<u>47,673</u>	<u>45,793</u>
Capital Assets		
Water and Sewer System	4,332,938	4,332,938
Less: Accumulated Depreciation	<u>(1,898,847)</u>	<u>(1,771,582)</u>
Total Capital Assets	<u>2,434,091</u>	<u>2,561,356</u>
Other Assets		
Organizational Costs (Net of Amortization)	<u>238,160</u>	<u>252,169</u>
TOTAL ASSETS	<u><u>6,349,221</u></u>	<u><u>6,220,920</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET ASSETS
AUGUST 31, 2012 AND 2011

<u>LIABILITIES</u>	<u>2012</u>	<u>2011</u>
Current Liabilities		
Payable from Unrestricted Liabilities		
Accounts Payable and Accrued Liabilities	563,993	380,914
Deferred Revenue	9,407	3,584
Due to Swedeland Development Group, Inc.	7,400	7,400
Total Payable from Unrestricted Liabilities	<u>580,800</u>	<u>391,898</u>
Payable from Restricted Liabilities		
Escrow Deposits Payable	47,673	45,793
Total Payable from Restricted Liabilities	<u>47,673</u>	<u>45,793</u>
TOTAL LIABILITIES	<u><u>628,473</u></u>	<u><u>437,691</u></u>

<u>NET ASSETS</u>		
Capital Assets Net of Related Debt	2,672,251	2,813,525
Unrestricted		
Designated	2,081,203	1,910,017
Undesignated	967,294	1,059,687
TOTAL NET ASSETS	<u><u>5,720,748</u></u>	<u><u>5,783,229</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water and Sewer Rents	1,123,941	1,092,360
Developer Fees	201,468	194,804
Miscellaneous	77,407	44,819
	<u>1,402,816</u>	<u>1,331,983</u>
Operating Expenses:		
Cost of Providing Services	1,082,441	1,030,402
Administrative and General	180,558	191,143
Depreciation	127,265	127,266
Amortization	14,009	14,010
	<u>1,404,273</u>	<u>1,362,821</u>
Operating Income	<u>(1,457)</u>	<u>(30,838)</u>
Nonoperating Revenue (Expenses):		
Interest on Investments	6,758	11,619
Renewal and Replacement	(67,782)	(47,631)
	<u>(61,024)</u>	<u>(36,012)</u>
Change in Net Assets	(62,481)	(66,850)
Net Assets, September 1	<u>5,783,229</u>	<u>5,850,079</u>
Net Assets, August 31	<u><u>5,720,748</u></u>	<u><u>5,783,229</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash Received From:		
Water and Sewer Rents	1,071,981	1,083,724
Developers Fees	76,420	82,997
Miscellaneous	83,229	44,990
Cash Paid to Vendors and Employees		
Cost of Providing Services	(899,362)	(866,865)
Administrative and General	(180,833)	(191,157)
Renewal and Replacement	(67,782)	(47,631)
Miscellaneous	1,880	(18,497)
Net Cash Provided (Used) by Operating Activities:	<u>85,533</u>	<u>87,561</u>
Cash Flows From Investing Activities:		
Interest Received	<u>6,758</u>	<u>11,619</u>
Net Cash Provided (Used) by Investing Activities:	<u>6,758</u>	<u>11,619</u>
Net Increase (Decrease) in Cash	92,291	99,180
Cash and Cash Equivalents, Beginning of Year	<u>2,767,258</u>	<u>2,668,078</u>
Cash and Cash Equivalents, End of Year	<u><u>2,859,549</u></u>	<u><u>2,767,258</u></u>
Cash and Cash Equivalents:		
Unrestricted	2,811,876	2,721,465
Restricted	<u>47,673</u>	<u>45,793</u>
	<u><u>2,859,549</u></u>	<u><u>2,767,258</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	(1,457)	(30,838)
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:		
Depreciation	127,265	127,266
Amortization	14,009	14,010
Renewal and Replacement	(67,782)	(47,631)
(Increase)/Decrease in Due from Developers	(125,048)	(111,807)
(Increase)/Decrease in Accounts Receivable	(51,960)	(8,636)
(Increase)/Decrease in Prepaid Expenses	(276)	(14)
Increase/(Decrease) in Deferred Revenue	5,823	171
Increase/(Decrease) in Accounts Payable	183,079	163,537
Increase/(Decrease) in Escrow Deposits Payable	1,880	(18,497)
Total Adjustments	<u>86,990</u>	<u>118,399</u>
Net Cash Used by Operating Activities	<u><u>85,533</u></u>	<u><u>87,561</u></u>

See accompanying notes to the financial statements.

Notes to Financial Statements

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting:

The financial statements of the Hardyston Township Municipal Utilities Authority (Authority) have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided that they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

On September 1, 2002, the Authority adopted the provision of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments" Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt: restricted: and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets components as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. Basis of Accounting: (continued)

On September 1, 2002, the Authority also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that capital contributions to the Authority be presented as a change in net assets.

The Authority's basic financial statements consist of government-wide statements, including a statement of net assets, and changes in net assets, which provide a more detailed level of information.

Government-wide Financial Statements

The government-wide statements (statement of net assets) are prepared using the economic resources measurements focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the Authority are included on the statement of net assets.

Fund Financial Statements

Like the government-wide financial statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its proprietary activities.

B. Organization:

The Hardyston Township Municipal Utilities Authority was created pursuant to the Municipal Utilities Law, N.J.S.A. 40:14B-1 et seq. on September 17, 1985. The Authority shall have and exercise all of the powers and perform all of the duties provided for by the Municipal Utilities Authority Law within the territorial boundaries of the Township of Hardyston in the County of Sussex, New Jersey.

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

The ordinance creating the Authority provides that the Authority's governing body shall consist of five members each appointed by the Township Committee for a term of 5 years and who serve until a successor is appointed.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C. Inventories of Materials and Supplies:

Since the cost of inventories of materials and supplies is not material to the financial statements, it is recorded as an expenditure at the time the individual item is purchased. The cost of inventories of materials and supplies is not included on the balance sheet.

D. Organization Costs:

All costs incurred prior to the Authority beginning operations were capitalized. These costs are being amortized over a period of 40 years using the straight-line method.

E. Operations:

Prior to August 31, 1990 revenues and expenses related to all the developers were capitalized to contributed capital and organization costs respectively. Subsequent to August 31, 1990 all revenues and expenses are shown as operating.

F. Property and Depreciation

Property received as a contribution is stated at cost on the date received.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Sewer Lines	75 Years
Sewer Pump Station	40 Years
Water System	75 Years
Water Mains	75 Years
Wells	75 Years
Water Tanks	75 Years
Water Treatment Building	75 Years
Well Pump House	75 Years
Equipment	5 Years

Depreciation on assets acquired with contributed capital is recorded as a reduction of contributed capital.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

G. Allowance for Doubtful Accounts:

The Authority does not provide for an allowance for doubtful accounts. The Authority believes that all accounts will eventually be collected either through the lien or foreclosure process. The Authority also has a water shut off procedure in place to compel collections.

H. Cash Equivalents:

The Authority classifies investments with original maturities of three months or less to be cash equivalents.

I. Use of Estimates:

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

J. Budgetary Procedures:

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Three certified copies are submitted to the director of the Division of Local

Government Services at least 60 days prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No Authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comment on the proposed budget.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

J. Budgetary Procedures: (continued)

The level at which expenses cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date (N.J.S.A. 5:31-2.8).

K. Cash, Cash Equivalents and Investments:

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

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

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

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

L. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies certain items currently being reported as assets and liabilities as outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The Authority has determined that Statement No. 65 is not applicable for the reporting period ending August 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement also amends Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The Authority has determined that Statement No. 66 is not applicable for the reporting period ending August 31, 2012.

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents includes change funds, petty cash, amounts in deposits, and short term investments with original maturities of three months or less.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, (continued)

As of August 31, 2012, cash and cash equivalents of the Hardyston Township Municipal Utilities Authority consisted of the following:

	<u>Cash and Cash Equivalents</u>	<u>Total</u>
Checking Accounts	<u>\$2,859,549</u>	<u>\$2,859,549</u>
		<u>Analysis</u>
Unrestricted Accounts		\$2,811,876
Restricted Accounts		<u>47,673</u>
		<u>\$2,859,549</u>

Deposits

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

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis. As of August 31, 2012, the Authority had \$-0- on deposit with the New Jersey Cash Management Fund.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Authority's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of August 31, 2012, \$-0- of the Authority's bank balance of \$2,841,124 was exposed to custodial risk. As of August 31, 2012, the Authority did not hold any investments.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS, (continued)

Interest Rate Risk

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

Credit Risk

New Jersey Statutes 40A:5-15.1(a) limits municipal investment maturities to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America or the local unit or school districts of which the local unit is part of; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

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

NOTE 3. ESCROW FUNDS

These funds are restricted to the expenditures related to a specified developer and can be used for no other purpose.

NOTE 4. DEVELOPERS' FEES

Developers' fees receivable at August 31, 2012 are as follows:

Crystal Springs	\$7
High Ridge Properties ("HRP")	422,590
Anton Pitz	<u>(14)</u>
	<u>\$422,583</u>

Of this \$422,583 Developers' fees receivable balance, \$422,590 has been outstanding for a period greater than 120 days. On June 25, 2012, the Authority was granted the ability to put a lien on this balance. They are also currently working with the Hardyston Township tax collector and current lienholder of the HRP taxes for collection. The Authority has not provided for an allowance for doubtful accounts in the event that this account will not be collected through settlement or through the Developer Agreement Provisions providing for revocation of sewer allocations.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Reference is made to Note 1 for information related to property. Property, plant and equipment as of August 31, 2012 and 2011, respectively, is as follows:

Forest Hill Village

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Sewer Lines	320,918			320,918
Sewer Pump Station	122,154			122,154
Water System	234,862			234,862
Water Mains	317,149			317,149
Wells	67,373			67,373
Water Tank	414,586			414,586
Water Treatment Building	61,365			61,365
Water Tank Improvement	180,200			180,200
Well Pump House	4,669			4,669
Total Forest Hill Village	<u>1,723,276</u>			<u>1,723,276</u>

Crystal Springs

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Water Lines	214,722			214,722
Water Tank	901,261			901,261
Transfer Lines	100,101			100,101
Wells	158,070			158,070
Well House/Pump	174,473			174,473
Sewer Lines	463,056			463,056
Equipment	17,212			17,212
Sewer Pump Station	154,470			154,470
Total Crystal Springs	<u>2,183,365</u>			<u>2,183,365</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 5. PROPERTY, PLANT AND EQUIPMENT, (CONTINUED)

Briar Crest

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Water Pipes	56,250			56,250
Water Valves / Valve Boxes	4,200			4,200
Water Hydrants	8,800			8,800
Water Service Connection	37,800			37,800
Sewer Pipe	91,525			91,525
Sewer Equipment	4,000			4,000
Manhole	21,000			21,000
Emergency Generator	15,000			15,000
Sewer Pumps	10,000			10,000
Lift Stations	75,000			75,000
Sewer Service Connection	45,360			45,360
	<u>368,935</u>			<u>368,935</u>

HTMUA

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>2012</u>
Equipment	<u>57,362</u>			<u>57,362</u>
Total Property, Plant and Equipment	4,332,938			4,332,938
Accumulated Depreciation	<u>(1,771,582)</u>	<u>(127,265)</u>		<u>(1,898,847)</u>
Net Property, Plant and Equipment	<u>2,561,356</u>	<u>(127,265)</u>		<u>2,434,091</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 6. ORGANIZATION COSTS

Net organization costs which are listed below totaled \$238,160 and \$252,169 as of August 31, 2012 and 2011, respectively. See Note 1 regarding the amortization of organization costs.

<u>Organization Costs</u>	<u>2012</u>	<u>2011</u>
Secretary	\$8,584	\$8,584
Postage	65	65
Accounting	30,258	30,258
Legal	44,886	44,886
Engineering	34,668	34,668
Service Contract – SCMUA	319,926	319,926
Reimbursement Franklin & Hamburg	84,271	84,271
Office Supplies	1,365	1,365
Legal Advertising	360	360
Bank Charges	87	87
Insurance	5,785	5,785
Fees and Permits	121	121
Equipment Reserves	<u>30,000</u>	<u>30,000</u>
	560,376	560,376
Amortization of Organization Costs	<u>322,216</u>	<u>308,207</u>
Net Organization Costs	<u>\$238,160</u>	<u>\$252,169</u>

NOTE 7. CONTRIBUTED CAPITAL

Contributed Capital which is listed below was contributed by the Developers and totaled \$2,999,517 and \$3,063,860 as of August 31, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Contributed Capital – Cash		
Brotherhood Construction	\$284,459	\$284,459
Crystal Springs	383,453	383,453
Fitzgibbons/Dautel	24,484	24,484
Contributed Capital – Property		
Brotherhood Construction	1,543,076	1,543,076
Briar Crest	368,935	368,935
Crystal Springs	<u>2,166,153</u>	<u>2,166,153</u>
Less: Accumulated Depreciation and Amortization	<u>(1,771,043)</u>	<u>(1,706,700)</u>
Net Contributed Capital	<u>\$2,999,517</u>	<u>\$3,063,860</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 8. DEVELOPER'S AGREEMENTS

On April 12, 1995, the Authority entered into a developer agreement with the HFH Development Corp. for operation of the Indian Fields water and sewer system. One of the major financial provisions of this agreement is as follows:

“Recognizing that there are operating and maintenance costs of the Authority which must be subsidized, which costs directly related to Developer’s specific project, as well as other administration costs such as payments for insurance coverage, salary of employees, amounts to independent contractors for billing, and portions of charges from professionals such as the auditor, attorney, engineer, it is agreed by Developer to pay its proportionate share of all operating, maintenance, and administration costs until completion of the project. Developer and the owner of the project formerly known as Crystal Springs and the development owned by Anton Pilz shall be obligated to pay such costs in the proportion that their respective approved flows as set forth in their approved CP-1 application form bear to the total of such costs and expenses less the revenues in the form of water and sewer rents or charges received from unit owners in the project known as Indian Fields at Hardyston and Forest Hill Estates. It is further agreed that if any Developer advances more than his, her or its pro-rata share, such developer shall be entitled to contribution from the others of the excess amount so paid, said adjustment to be made by the Authority in the form of an assessment. Developer agrees to pay any such assessment designed to equalize the contributions between the Developers. No Developer shall be entitled to contribution among any other person, firm or corporation contracting with the Authority for sewer service.

If either this Agreement or any Agreement with either of the other Developers is annulled or terminated for any reason, the remaining Developer or Developers shall pay all such assessments and contributions as set forth above, but the obligation to make payments shall be reduced pro tanto by the amount of service charges and other revenue received from customers.”

On May 10, 1995, a similar agreement was entered into with C.S. Acquisition for the operation of the Crystal Springs water and sewer system.

The Authority, by resolution at its September 12, 1990 meeting entered into an agreement with Riverdale Quarry Co., Inc. for the operation and ownership of a fire protection system to service the industrial buildings to be located within the North Church Technical Center subdivision.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 8. DEVELOPER'S AGREEMENTS, (continued)

On September 9, 1992 the Authority revoked 10,000 gpd of sewer allocations from Dautel and reallocated the allocation to Anton Pilz, subject to the condition that he enter into a developer's agreement with the Authority and make all payments therein specified. The Authority adopted, at its December 9, 1992 meeting, a developer's agreement similar to the agreement with HFH Development Corp. and C.S. Acquisitions.

On July 7, 1999 the Authority entered into a developers agreement with Sussex National Development, Inc. ("Developer"). The Authority has applied for sewer flow allocation in the amount of 125,000 gpd from the Borough of Franklin ("Borough") and has paid a reservation fee of \$3.17 per gallon or \$396,250.00 to the Borough. The final sewer allocation will be obtained upon payment of a transfer fee in accordance with the ordinance of the Borough and the Reservation Agreement between the Borough and the Authority. All reservation and sewer allocation fees are being paid by the developer to the Authority.

On August 13, 2003, the HTMUA reserved 17,000 gpd and 8,000 gpd of sewer capacity allocations into the SCMUA's Upper Wallkill System for Wallkill Valley and the YMCA, respectively. These reservations are subject to conditions entered into a developers agreement with the Authority that was adopted at it's August 13, 2003 meeting. Some of the major provisions of this agreement require the Authority to collect the following annual payments from developers on a quarterly basis. These payments are paid quarterly by the HTMUA to the Borough of Franklin.

At a meeting held on February 28, 2007, the Authority passed a resolution regarding a Sewer System Agreement with High Ridge Properties, L.L.C. regarding the acquisition of 25,000 gallons per day of sewage allocation from the Borough of Sussex and a written agreement with High Ridge for the development, construction, management and use of a sanitary sewage collection system.

In April 2012, judgment was in favor of the Authority against Beaver Run Shopping Center, LLC. This case was consolidated with the below-referenced High Ridge litigation.

In June 2012, judgment was in favor of the Authority against High Ridge Properties, LLC in the amount of \$350,092 plus counsel fees. As of the year end 2012, the Authority has not received any payment.

NOTE 9. OTHER MATTERS

The Authority currently services 360 customers at its Indian Field water and sewer system and 984 at its Crystal Springs water and sewer system. The Authority is able to finance the operating cost of these systems through water and sewer charges and its developers' agreements (see Note 8 for more information) until such time as the development is substantially completed.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012

NOTE 10. RISK MANAGEMENT

The Hardyston Township Municipal Utilities Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

Property and Liability Insurance

The Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund, a public entity risk pool currently composed of 46 member authorities. The Fund provides members with Property, Liability and Worker's Compensation Insurance. The Authority continues to carry Public Officials Liability and Public Employee Dishonesty insurance through outside policies.

NOTE 11. DUE TO/FROM OTHER FUNDS

At August 31, 2012, interfund receivables and payables that resulted in various designations and interfund transactions were as follows:

	<u>Due From</u>	<u>Due To</u>
HTMUA Operating Account	\$	\$129
Escrow Account	<u>129</u>	—
	<u>\$129</u>	<u>\$129</u>

NOTE 12. UNRESTRICTED – DESIGNATED NET ASSETS

As mentioned in Note 1, GASB No.34 classifies net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt as "unrestricted". Of this amount unrestricted, the Authority has designated for the following reserves:

	<u>2012</u>	<u>2011</u>
Reserve for Renewal and Replacement	\$2,027,562	\$1,856,376
Reserve for Purchase of Equipment	<u>53,641</u>	<u>53,641</u>
	<u>\$2,081,203</u>	<u>\$1,910,017</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Authority has committed the 479,000 GPD of capacity it has received from the Sussex County Municipal Utilities Authority as follows:

Indian Fields	89,500
Crystal Springs	327,500
High Ridge Properties	25,000
YMCA	10,000
Wallkill Valley RHS	17,000
Anton Pilz	<u>10,000</u>
	<u>479,000</u>

The Authority has received a billing statement dated April 12, 2012 from Sussex Borough indicating that the HTMUA is delinquent in the amount of \$582,597.00 in payment of its sewer allocation costs on behalf of High Ridge Properties, Inc. High Ridge Properties, Inc. has been making partial payments to the HTMUA. The HTMUA has been satisfying first the contractual obligations of High Ridge to the HTMUA and forwarding the remaining balance to Sussex Borough. During fiscal year ending August 31, 2012, the Authority has accrued a receivable and a liability in the amount of \$422,590.00 as a pass-through to Sussex Borough. The difference in the disputed delinquent amount and the amount the Authority accrued is only a pass-through to the Authority; therefore, no receivable or payable has been recorded for the difference since the ultimate payment is the responsibility of High Ridge Properties, Inc.

The Authority's attorney has advised us that:

1. High Ridge Properties, LLC v. Borough of Sussex, Hardyston Township Municipal Utilities Authority and Sussex County Municipal Utilities Authority. This action in the Superior Court of New Jersey, Law Division, Sussex County, bearing Docket No. SSX-L-835-10, **was resolved** in favor of the HTMUA. By Order of the Honorable Edward V. Gannon, J.S.C. dated June 25, 2012, the case was resolved as follows:
 - A. Judgement against High Ridge Properties, LLC and in favor of HTMUA in the amount of \$350,092.00;
 - B. Judgment of "NO CAUSE FOR ACTION" against High Ridge Properties, LLC and dismissal of plaintiff's claims with prejudice.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2012**

NOTE 13. COMMITMENTS AND CONTINGENCIES, (continued)

- C. Affirmation of HTMUA's contract with High Ridge Properties, LLC for reservation of sewer capacity allocation and affirmation of right of HTMUA to enter into contracts for reservation of sewer capacity allocation.
- D. Counsel fees awarded to HTMUA in the amount of \$1,545.00.

No appeal was filed. The judgment has been docketed and now bears the docketed judgment number: J217524-12.

- 2. Beaver Run Shopping Center, LLC v. Hardyston Township Municipal Utilities Authority. This action, originally filed in the Superior Court of New Jersey, Sussex County **Chancery** Division, Sussex County bearing Docket No. C-7-11 in 2011, was later transferred to the Superior Court of New Jersey, Sussex County, **Law** Division and consolidated with the above-referenced High Ridge litigation and assigned Docket No. SSX-L-229-11. By Order of the Honorable Edward V. Gannon dated April 30, 2012 this case **was resolved** in favor of HTMUA as follows:

- A. Judgment of "NO CAUSE FOR ACTION" was entered against plaintiff and in favor of HTMUA.
- B. Affirmation of the existence of plaintiff's sewer capacity allocation contract with HTMUA and affirmation of HTMUA's right to enter into such contracts.
- C. Dismissal of plaintiff's claims with prejudice.
- D. Counsel fees awarded to HTMUA in the amount of \$1,545.00.

No appeal was filed. The judgment has been docketed and now bears the docketed judgment number: J210900-12.

Supplementary Schedules

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - RESTRICTED AND UNRESTRICTED
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u>	<u>Total (Memo)</u>	
			<u>2012</u>	<u>2011</u>
Operating Revenues:				
Water and Sewer	1,123,941		1,123,941	1,092,360
Developer Fees	201,468		201,468	194,804
Miscellaneous	77,407		77,407	44,819
Total Operating Revenues	<u>1,402,816</u>		<u>1,402,816</u>	<u>1,331,983</u>
Operating Expenses:				
Costs of Providing Services	1,082,441		1,082,441	1,030,402
Administrative and General	180,558		180,558	191,143
Depreciation		127,265	127,265	127,266
Amortization		14,009	14,009	14,010
Total Operating Expenses	<u>1,262,999</u>	<u>141,274</u>	<u>1,404,273</u>	<u>1,362,821</u>
Operating Income (Loss)	<u>139,817</u>	<u>(141,274)</u>	<u>(1,457)</u>	<u>(30,838)</u>
Non-Operating Revenue (Expenses):				
Interest Income	6,758		6,758	11,619
Renewal and Replacement	(67,782)		(67,782)	(47,631)
Total Non-Operating Revenue (Expenses)	<u>(61,024)</u>		<u>(61,024)</u>	<u>(36,012)</u>
Increase/(Decrease) in Net Assets	<u>78,793</u>	<u>(141,274)</u>	<u>(62,481)</u>	<u>(66,850)</u>
Net Assets - September 1,	<u>2,969,704</u>	<u>2,813,525</u>	<u>5,783,229</u>	<u>5,850,079</u>
Net Assets - August 31,	<u>3,048,497</u>	<u>2,672,251</u>	<u>5,720,748</u>	<u>5,783,229</u>

SCHEDULE 2

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

	HTMUA Operating Account	Crystal Springs Account	Indian Fields Account	Renewal and Replacement Account	Escrow Account	Totals
	2012	2012	2012	2012	2012	2011
Cash and Cash Equivalents - September 1,	329,679	510,603	24,807	1,856,376	45,793	2,668,078
Cash Receipts:						
Contributions/Developers Fees	76,420					82,997
Interest Income	1,362	888	25	4,354	129	11,619
Water and Sewer Rents		823,451	290,317			1,094,391
Developers Deposits					31,700	45,814
Miscellaneous						
Transfers	1,217,033			170,593		1,351,507
Total Cash and Cash Equivalents Available	1,624,494	1,334,942	315,149	2,031,323	77,622	5,254,406
Cash Disbursements:						
Operations	1,038,624					1,004,301
Developers Withdrawals					29,949	65,212
Renewal and Replacement	67,782					47,631
Miscellaneous						18,497
Transfers	170,593	904,324	312,709			1,351,507
Total Cash Disbursements	1,276,999	904,324	312,709		29,949	2,487,148
Cash and Cash Equivalents - August 31,	347,495	430,618	2,440	2,031,323	47,673	2,767,258
Balance Comprised of:						
Cash and Cash Equivalents	347,495	430,618	2,440	2,031,323	47,673	2,767,258
Investments	347,495	430,618	2,440	2,031,323	47,673	2,767,258
Unrestricted	347,495	430,618	2,440	2,031,323	47,673	2,721,465
Restricted	347,495	430,618	2,440	2,031,323	47,673	45,793

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2012
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2011

	2012 Budget	2012 Budget After Modification	2012 Actual	2011 Actual
Revenues:				
Retained Earnings	216,631	216,631	216,631	160,161
Developer Fees	135,942	135,942	201,468	194,804
Interest on Investments	12,000	12,000	6,758	11,619
User Charges and Fees	1,086,296	1,086,296	1,123,941	1,092,360
Miscellaneous	43,000	43,000	77,407	44,819
Total Revenues	<u>1,493,869</u>	<u>1,493,869</u>	<u>1,626,205</u>	<u>1,503,763</u>
Expenditures:				
Cost of Providing Services:				
Fees, Permits and Dues	7,500	7,500	6,650	5,621
Contracted Operators	167,000	167,000	168,083	164,167
Electricity	72,000	72,000	67,044	58,710
Natural Gas	2,500	2,500	3,216	2,078
Lab Testing	6,000	6,000	6,604	4,992
Materials, Supplies and Markouts	45,000	45,000	41,407	27,630
Service Contract - SCMUA	650,000	650,000	650,000	633,000
Service Contract Borough of Sussex	65,000	65,000	125,488	110,716
Allocation Charges - Borough of Franklin				7,292
Chemicals	12,000	12,000	7,291	9,052
Alarm System	7,300	7,300	6,658	7,144
Sub-total Cost of Providing Services	<u>1,034,300</u>	<u>1,034,300</u>	<u>1,082,441</u>	<u>1,030,402</u>
Administrative and General:				
Interlocal Service Agreement-Hardyston	83,300	83,300	82,618	79,979
Accounting and Auditing	16,300	16,300	15,238	17,098
Legal Fees	44,000	44,000	19,275	25,012
Engineering Fees	32,000	32,000	23,421	30,056
Stationary and Supplies	3,000	3,000	2,136	2,325
Legal Advertising	1,000	1,000	643	466
Insurance	24,000	24,000	23,112	22,546
Postage	6,000	6,000	2,277	4,601
Miscellaneous	2,000	2,000	4,266	
Computer Software	9,000	9,000	7,572	9,060
Sub-total Administrative and General	<u>220,600</u>	<u>220,600</u>	<u>180,558</u>	<u>191,143</u>
Reserves:				
Renewal and Replacement	238,969	238,969	238,969	237,452
Total Expenditures	<u>1,493,869</u>	<u>1,493,869</u>	<u>1,501,968</u>	<u>1,458,997</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
 REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2011
 WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2010**

	<u>2012 Budget</u>	<u>2,012 Budget After Modification</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
Excess or (Deficit)			124,237	44,766
Reconciliation of Budgetary Basis to GAAP:				
Renewal and Replacement, net			171,187	189,821
Retained Earnings			(216,631)	(160,161)
Depreciation Expense			(127,265)	(127,266)
Amortization			(14,009)	(14,010)
Total Adjustments			<u>(186,718)</u>	<u>(111,616)</u>
Change in Net Assets			<u>(62,481)</u>	<u>(66,850)</u>

SCHEDULE 4

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF CAPITAL FINANCING SOURCES AND COSTS
FUNDED BY CAPITAL FINANCING SOURCES COMPARED TO BUDGET**

	<u>2012 Budget</u>	<u>2012 Budget After Modification</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
Capital Financing Sources:				
Reserve for Equipment				
Renewal and Replacement Reserve	<u>600,000</u>	<u>600,000</u>	<u>67,782</u>	<u>47,631</u>
Total Revenues	<u>600,000</u>	<u>600,000</u>	<u>67,782</u>	<u>47,631</u>
Expenditures:				
Capital Outlays:				
Waterspheriod Coating	350,000	350,000	35,442	8,800
Well Field Electrical Upgrades	25,000	25,000		
Various Improvements - Water				
Miscellaneous Equipment - Water	45,000	45,000		
Crystal Springs Road Pump Station	70,000	70,000	32,340	38,831
I & I Main Pump Station				
I & I Removal	35,000	35,000		
Various Improvements - Sewer				
Miscellaneous Equipment - Sewer	<u>75,000</u>	<u>75,000</u>		
Total Costs Funded by Capital Financing Sources	<u>600,000</u>	<u>600,000</u>	<u>67,782</u>	<u>47,631</u>

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

The Chairman and Commissioners of the
Hardyston Township Municipal Utilities Authority
149 Wheatsworth Road, Suite A
Hardyston, New Jersey 07419

We have audited the financial statements of the Hardyston Township Municipal Utilities Authority as of and for the fiscal years ended August 31, 2012 and 2011, and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Hardyston Township Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hardyston Township Municipal Utilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hardyston Township Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hardyston Township Municipal Utilities Authority's internal control over financial reporting.

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



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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Hardyston Township Municipal Utilities Authority's management, Commissioners and bondholders and appropriate state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ferraioli, Wielkots, Cerullo & Cuva P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

November 14, 2012



General Comments

GENERAL COMMENTS

Contracts and Agreements Requiring Advertisement for Bid

Effective January 1, 2011 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$17,500.

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

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$26,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

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

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

Resolutions were adopted authorizing the awarding of contracts and agreements for "Professional Services" N.J.S. 40A:11-5.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. No violations were disclosed.

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

Condition of Records

The Authority's records were in good order.

STATUS OF PRIOR YEARS' AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on all prior years' recommendations and corrective action was taken on prior years' recommendation.

There were no problems and weaknesses noted in our review that were of such magnitude that they would effect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments or recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

Very truly yours,

Ferraioli, Wielkotz, Cerullo & Cuva P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants