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THE HARDYSTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2013 AND 2012

THE HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

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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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Hardyston Township Municipal Utilities Authority as of August 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Hardyston Township Municipal Utilities Authority's financial statements. The schedule of revenues, expenses and changes in net position - restricted and unrestricted; schedule of cash receipts, cash disbursements and changes in cash and investments - unrestricted and restricted; schedule of operating revenue and costs funded by operating revenue compared to budget; schedule of capital budget program funded by financing services; and roster of officials (collectively referred to as the "Supplementary Schedules") are presented for purposes of additional analysis and are not a required part of the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of the Hardyston Township Municipal Utilities Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hardyston Township Municipal Utilities Authority's internal control over financial reporting and compliance.

Ferraioli, Wielkatz, Cerullo & Cura, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

October 30, 2013

Required Supplementary Information

Management Discussion and Analysis

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2013**

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, 2013 and 2012. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets and deferred outflows of resources exceeded its liabilities by \$5,716,371 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities by \$5,720,748.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$2,907,536 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 position of \$2,808,835 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$42,752 to \$671,225 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 Position* includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) 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.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2013**

Net Position

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

The Authority's net position at fiscal year-end was \$5,716,371. This is a \$4,377 decrease over last year's net position of \$5,720,748.

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

**Condensed Statement of Net Position at August 31, 2013
With Comparative Prior Year Balances**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	3,480,060	3,676,970	(196,910)	(5.36)%
Capital Assets	<u>2,683,386</u>	<u>2,434,091</u>	<u>249,295</u>	10.24%
Total Assets	<u>6,163,446</u>	<u>6,111,061</u>	<u>52,385</u>	0.86%
Total Deferred Outflows of Resources	<u>224,150</u>	<u>238,160</u>	<u>(14,010)</u>	(5.88)%
Total Liabilities	<u>671,225</u>	<u>628,473</u>	<u>42,752</u>	6.80%
Net Investment in Capital Assets	2,907,536	2,672,251	235,285	8.80%
Unrestricted	<u>2,808,835</u>	<u>3,048,497</u>	<u>(239,662)</u>	(7.86)%
Total Net Position	<u>5,716,371</u>	<u>5,720,748</u>	<u>(4,377)</u>	(0.08)%

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2013**

Net Position (Continued)

While the *Statement of Net Position* shows the change in financial position of net position, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position decreased by \$4,377 in FY 2013 and by \$62,481 in FY 2012.

**Condensed Statement of Revenues, Expenses and Changes
in Net Position for the Year Ending August 31, 2013
With Comparative Prior Year Balances**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,390,117	1,402,816	(12,699)	(0.91)%
Non-Operating Revenues	<u>2,793</u>	<u>6,758</u>	<u>(3,965)</u>	(58.67)%
Total Revenues	<u>1,392,910</u>	<u>1,409,574</u>	<u>(16,664)</u>	(1.18)%
Depreciation	127,267	127,265	2	0.00%
Other Operating Expenses	1,257,393	1,277,008	(19,615)	(1.54)%
Other Non-Operating Expense	<u>12,627</u>	<u>67,782</u>	<u>(55,155)</u>	(81.37)%
Total Expenses	<u>1,397,287</u>	<u>1,472,055</u>	<u>(74,768)</u>	(5.08)%
Change in Net Position	(4,377)	(62,481)	58,104	(92.99)%
Beginning Net Position	<u>5,720,748</u>	<u>5,783,229</u>	<u>(62,481)</u>	(1.08)%
Ending Net Position	<u>5,716,371</u>	<u>5,720,748</u>	<u>(4,377)</u>	(0.08)%

The Authority's Operating Revenues decreased by \$12,699 to \$1,390,117 in 2013 from \$1,402,816 in 2012 due to a one-time sale of developer's allocation in FY 2012. The Authority's non-operating revenues decreased by \$3,965 to \$2,793 in 2013 from \$6,758 reported in 2012 due to a decrease in interest on investments.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2013**

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 2013 and 2012 budget comparison:

Budget vs. Actual FY 2013			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,523,219	1,625,721	102,502
Non-Operating	<u>7,000</u>	<u>2,793</u>	<u>(4,207)</u>
Total Revenues	<u>1,530,219</u>	<u>1,628,514</u>	<u>98,295</u>
Expenses:			
Operating	1,284,450	1,243,383	(41,067)
Non-Operating Reserves	<u>245,769</u>	<u>245,769</u>	<u>0</u>
Total Expenses	<u>1,530,219</u>	<u>1,489,152</u>	<u>(41,067)</u>
Income Before Depreciation and Amortization	<u>0</u>	<u>139,362</u>	<u>139,362</u>

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>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2013**

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 POSITION
AUGUST 31, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current Assets:		
Unrestricted:		
Cash and Cash Equivalents	2,520,038	2,811,876
Petty Cash	50	50
Developer Fees Receivable	575,243	422,583
Prepaid Expenses	7,951	7,796
Water and Sewer Rents Receivable	335,741	386,992
Total Unrestricted Assets	<u>3,439,023</u>	<u>3,629,297</u>
Restricted:		
Cash and Cash Equivalents	41,037	47,673
Total Restricted Assets	<u>41,037</u>	<u>47,673</u>
Capital Assets		
Water and Sewer System (See Note 5)	4,709,500	4,332,938
Less: Accumulated Depreciation	<u>(2,026,114)</u>	<u>(1,898,847)</u>
Total Capital Assets	<u>2,683,386</u>	<u>2,434,091</u>
TOTAL ASSETS	<u>6,163,446</u>	<u>6,111,061</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Debits:		
Organizational Costs (Net of Amortization)	224,150	238,160
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>224,150</u>	<u>238,160</u>

See accompanying notes to the financial statements.

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

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water and Sewer Rents	1,136,154	1,123,941
Developer Fees	208,258	201,468
Miscellaneous	45,705	77,407
	<u>1,390,117</u>	<u>1,402,816</u>
Operating Expenses:		
Cost of Providing Services	1,051,938	1,082,441
Administrative and General	191,445	180,558
Depreciation	127,267	127,265
Amortization	14,010	14,009
	<u>1,384,660</u>	<u>1,404,273</u>
Operating Income	<u>5,457</u>	<u>(1,457)</u>
Nonoperating Revenue (Expenses):		
Interest on Investments	2,793	6,758
Cancellation of Water / Sewer Receivable	(12,627)	
Renewal and Replacement		(67,782)
	<u>(9,834)</u>	<u>(61,024)</u>
Change in Net Position	(4,377)	(62,481)
Net Position, September 1	<u>5,720,748</u>	<u>5,783,229</u>
Net Position, August 31	<u>5,716,371</u>	<u>5,720,748</u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Cash Received From:		
Water and Sewer Rents	1,159,228	1,071,981
Developers Fees	55,598	76,420
Miscellaneous	55,799	83,229
Cash Paid to Vendors and Employees		
Cost of Providing Services	(997,094)	(899,362)
Administrative and General	(191,600)	(180,833)
Renewal and Replacement		(67,782)
Miscellaneous	(6,636)	1,880
	<u>75,295</u>	<u>85,533</u>
Cash Flows From Investing Activities:		
Interest Received	2,793	6,758
Fixed Capital Additions	(376,562)	
	<u>(373,769)</u>	<u>6,758</u>
Net Cash Provided (Used) by Investing Activities:		
	<u>(373,769)</u>	<u>6,758</u>
Net Increase (Decrease) in Cash	(298,474)	92,291
Cash and Cash Equivalents, Beginning of Year	2,859,549	2,767,258
Cash and Cash Equivalents, End of Year	<u>2,561,075</u>	<u>2,859,549</u>
Cash and Cash Equivalents:		
Unrestricted	2,520,038	2,811,876
Restricted	41,037	47,673
	<u>2,561,075</u>	<u>2,859,549</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

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, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

- *Net investment in Capital Assets* - This component of net position 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 net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position used 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 position consists of net position 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, 2013

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

F. Property and Depreciation: (continued)

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.

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.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

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

K. Cash, Cash Equivalents and Investments, (continued)

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.

L. Recent Accounting Pronouncements

The Government Accounting Standards Board issued *GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government 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 inter-period 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. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority has reviewed this Statement and believes it will not materially impact future financial statements.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013**

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

As of August 31, 2013, 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>\$2,561,075</u>	<u>\$2,561,075</u>
		<u>Analysis</u>
Unrestricted Accounts		\$2,520,038
Restricted Accounts		<u>41,037</u>
		<u>\$2,561,075</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, 2013, the Authority had \$-0- on deposit with the New Jersey Cash Management Fund.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013**

NOTE 4. DEVELOPERS' FEES, (continued)

Of this \$575,243 Developers' fees receivable balance, \$561,583 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.

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, 2013 and 2012, respectively, is as follows:

Forest Hill Village

	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</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>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</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, 2013

NOTE 6. ORGANIZATION COSTS

Net organization costs which are listed below totaled \$238,160 and \$238,160 as of August 31, 2013 and 2012, respectively. See Note 1 regarding the amortization of organization costs.

<u>Organization Costs</u>	<u>2013</u>	<u>2012</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>336,226</u>	<u>322,216</u>
Net Organization Costs	<u>\$224,150</u>	<u>\$238,160</u>

NOTE 7. CONTRIBUTED CAPITAL

Contributed Capital which is listed below was contributed by the Developers and totaled \$2,935,174 and \$2,999,517 as of August 31, 2013 and 2012, respectively.

	<u>2013</u>	<u>2012</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>
	4,770,560	4,770,560
Less: Accumulated Depreciation and Amortization	<u>(1,835,386)</u>	<u>(1,771,043)</u>
Net Contributed Capital	<u>\$2,935,174</u>	<u>\$2,999,517</u>

As mentioned in Note 5, several contributed water and sewer plants are not included in the list above.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

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 its 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 2013, the Authority has not received any payment but is actively working with the Hardyston Township tax collector and current lienholder of HRP for collection.

NOTE 9. OTHER MATTERS

The Authority currently services 360 customers at its Indian Field water and sewer system and 988 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, 2013**

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 October 11, 2013 from Sussex Borough indicating that the HTMUA is delinquent in the amount of \$1,038,031 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, 2013, the Authority has accrued a receivable and a liability in the amount of \$561,583 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:

MCNJ, Inc. Et al. V. Township of Hardyston et al. This action in the Superior Court of New Jersey, Law Division, Sussex County, bearing Docket No. SSX-L-151-13, **was resolved** by settlement and dismissal with prejudice, filed on July 5, 2013 with the Court. Plaintiff had filed a complaint in lieu of prerogative writs on March 19, 2013 against Hardyston Township, HTMUA, Hardyston Township Council, Hardyston Township Engineer seeking return of performance guarantees from Hardyston Township. While reserving its rights on other issues, the HTMUA agreed to adopt a resolution agreeing to release of said performance guarantees by the Hardyston Township and the matter was settled by settlement agreement, release and stipulation dismissal.

Supplementary Schedules

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
 NET POSITION - RESTRICTED AND UNRESTRICTED
 FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012**

	Net Investment in Capital Assets	Unrestricted			Total (Memo)	
		Designated Renewal and Replacement	Equipment Reserve	Undesignated	2013	2012
Operating Revenues:						
Water and Sewer				1,136,154	1,123,941	
Developer Fees				208,258	201,468	
Miscellaneous				45,705	77,407	
Total Operating Revenues				1,390,117	1,402,816	
Operating Expenses:						
Costs of Providing Services				1,051,938	1,082,441	
Administrative and General				191,445	180,558	
Depreciation	127,267			127,267	127,265	
Amortization	14,010			14,010	14,009	
Total Operating Expenses	141,277			1,243,383	1,404,273	
Operating Income (Loss)	(141,277)			146,734	(1,457)	
Non-Operating Revenue (Expenses):						
Interest Income				2,793	6,758	
Cancellation of Water/Sewer Receivable				(12,627)	(12,627)	
Renewal and Replacement (net)		240,769		(240,769)	(67,782)	
Equipment Reserve (net)			5,000	(5,000)		
Total Non-Operating Revenue (Expenses)		240,769	5,000	(255,603)	(61,024)	
Transfers:						
Capital Expenditures	376,562	(333,418)	(43,144)			
Increase/(Decrease) in Net Position	235,285	(92,649)	(38,144)	(108,869)	(4,377)	(62,481)
Net Position - September 1,	2,672,251	2,027,562	53,641	967,294	5,720,748	5,783,229
Net Position - August 31,	2,907,536	1,934,913	15,497	858,425	5,716,371	5,720,748

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2012**

	2013 Budget	2013 Budget After Modification	2013 Actual	2012 Actual
Revenues:				
Retained Earnings	235,604	235,604	235,604	216,631
Developer Fees	138,967	138,967	208,258	201,468
Interest on Investments	7,000	7,000	2,793	6,758
User Charges and Fees	1,104,648	1,104,648	1,136,154	1,123,941
Miscellaneous	44,000	44,000	45,705	77,407
Total Revenues	<u>1,530,219</u>	<u>1,530,219</u>	<u>1,628,514</u>	<u>1,626,205</u>
Expenditures:				
Cost of Providing Services:				
Fees, Permits and Dues	7,500	7,500	6,646	6,650
Contracted Operators	177,450	177,450	178,330	168,083
Electricity	76,000	76,000	56,319	67,044
Natural Gas	2,500	2,500	2,806	3,216
Lab Testing	6,000	6,000	5,378	6,604
Materials, Supplies and Markouts	60,000	60,000	24,050	41,407
Service Contract - SCMUA	650,000	650,000	625,000	650,000
Service Contract Borough of Sussex	65,000	65,000	138,993	125,488
Chemicals	12,000	12,000	7,948	7,291
Alarm System	7,500	7,500	6,468	6,658
Sub-total Cost of Providing Services	<u>1,063,950</u>	<u>1,063,950</u>	<u>1,051,938</u>	<u>1,082,441</u>
Administrative and General:				
Interlocal Service Agreement-Hardyston	86,000	86,000	87,529	82,618
Accounting and Auditing	17,500	17,500	16,625	15,238
Legal Fees	42,500	40,000	18,460	19,275
Engineering Fees	32,000	32,000	25,131	23,421
Stationary and Supplies	3,000	3,000	2,809	2,136
Legal Advertising	1,000	1,000	616	643
Insurance	24,000	24,000	25,733	23,112
Postage	6,000	6,000	6,983	2,277
Miscellaneous	2,000	2,000	1,700	4,266
Computer Software	9,000	9,000	5,859	7,572
Sub-total Administrative and General	<u>223,000</u>	<u>220,500</u>	<u>191,445</u>	<u>180,558</u>
Reserves:				
Equipment Reserve	2,500	5,000	5,000	
Renewal and Replacement	240,769	240,769	240,769	238,969
Sub-total Reserves	<u>243,269</u>	<u>245,769</u>	<u>245,769</u>	<u>238,969</u>
Total Expenditures	<u>1,530,219</u>	<u>1,530,219</u>	<u>1,489,152</u>	<u>1,501,968</u>

SCHEDULE 4

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

	2013 Budget	2013 Budget After Modification	2013 Actual	2012 Actual
Capital Financing Sources:				
Reserve for Equipment	32,500	32,500	43,144	
Renewal and Replacement Reserve	725,000	725,000	333,418	67,782
Total Revenues	757,500	757,500	376,562	67,782
Expenditures:				
Capital Outlays:				
Waterspheriod Coating	350,000	350,000	333,418	35,442
Crystal Springs Misc. - Water	55,000	55,000		
Water Treatment Bldg. Access Road	10,000	10,000		
Abandon Well No. 2	15,000	15,000		
Purchase of Truck	22,500	22,500	43,144	
Crystal Spings Road Pump Station	50,000	50,000		32,340
Crystal Springs I & I	50,000	50,000		
Pump Station Improvements	70,000	70,000		
Misc. Improvements - Sewer	125,000	125,000		
Sewer Lateral Improvements	10,000	10,000		
Total Costs Funded by Capital Financing Sources	757,500	757,500	376,562	67,782

SCHEDULE 5

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
AUGUST 31, 2013**

The following officials were in office on August 31, 2013:

Board Commissioners

Positions

Frank Cicerale

Chairman

Santo Verrilli

Vice Chairman

Stanley Kula

Secretary

Ellis Marples

Treasurer

Jeffrey Albanese

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

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
Fax 973-835-6631

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

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

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

We have audited, 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, the financial statements of the Hardyston Township Utilities Authority, as of and for the year ended August 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying General Comments (Finding 2013-1) to be a material weakness.

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.



General Comments

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2013**

FINDING: 2013-1*

STATEMENT OF CONDITION

Evidence of failure to properly maintain an itemized fixed assets schedule.

CRITERIA

Governmental entities should maintain a fixed asset list providing the cost and description of property and equipment, as well as any depreciation previously expensed against such listed assets. This list should be updated regularly to include purchases or contributions of new capital items and exclude capital assets that have been disposed of or replaced.

EFFECT

Absent or inadequate controls over the safeguarding of assets. The Authority's fixed asset list does not include several contributed water and sewer systems.

CAUSE

Unknown

RECOMMENDATION

The Authority should maintain a fixed asset list providing the cost and description of its property and equipment, as well as any depreciation previously expensed against such listed assets.

MANAGEMENT'S RESPONSE

Management recognizes the importance of maintaining an itemized fixed asset schedule and is investing possible solutions to this problem.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
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.