

THE HARDYSTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2014 AND 2013

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, 2014 and 2013, 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.



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

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

Basis for Adverse Opinion on the Financial Statements

Management has not recorded certain contributed assets in the financial statements and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those contributed assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Financial Statements" paragraph, the financial statements referred to previously do not present fairly the net position of the Hardyston Township Municipal Utilities Authority, as of August 31, 2014 and 2013, or the changes in net position thereof for the years then ended.

Other Matters

Required Supplementary Information

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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses

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

Other 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 cash equivalents - 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 December 2, 2014 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 & Cova, P.A.

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

December 2, 2014



**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

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, 2014 and 2013. 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 \$5,687,619 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities by \$5,716,371.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$2,758,791 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 \$2,928,828 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$136,320 to \$807,545 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, 2014**

Overview of the Financial Statements (Continued)

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

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

One of the most important questions asked about the Authorities finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net position of the Authority and the changes in those assets. The reader can think of the Authority's net position – the difference between assets and deferred outflows of resources and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. 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.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2014**

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 \$5,687,619. This is a \$28,752 decrease over last year's net position of \$5,716,371.

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, 2014
With Comparative Prior Year Balances**

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	3,736,373	3,480,060	256,313	7.37%
Capital Assets	<u>2,548,650</u>	<u>2,683,386</u>	<u>(134,736)</u>	(5.02)%
Total Assets	<u>6,285,023</u>	<u>6,163,446</u>	<u>121,577</u>	1.97%
Total Deferred Outflows of Resources	<u>210,141</u>	<u>224,150</u>	<u>(14,009)</u>	(6.25)%
Total Liabilities	<u>768,689</u>	<u>671,225</u>	<u>97,464</u>	14.52%
Net Investment in Capital Assets	2,758,791	2,907,536	(148,745)	(5.12)%
Unrestricted	<u>2,928,828</u>	<u>2,808,835</u>	<u>119,993</u>	4.27%
Total Net Position	<u>5,687,619</u>	<u>5,716,371</u>	<u>(28,752)</u>	(0.50)%

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2014**

Net Position (Continued)

A summary of the Authority's prior year statement of net position is presented with comparative FY 2012 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, 2014**

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 \$28,752 in FY 2014 and by \$4,377 in FY 2013.

**Condensed Statement of Revenues, Expenses and Changes
in Net Position for the Year Ending August 31, 2014
With Comparative Prior Year Balances**

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,420,544	1,390,117	30,427	2.19%
Non-Operating Revenues	<u>3,151</u>	<u>2,793</u>	<u>358</u>	12.82%
Total Revenues	<u>1,423,695</u>	<u>1,392,910</u>	<u>30,785</u>	2.21%
Depreciation	134,736	127,267	7,469	5.87%
Other Operating Expenses	1,297,402	1,257,393	40,009	3.18%
Other Non-Operating Expense	<u>20,309</u>	<u>12,627</u>	<u>7,682</u>	60.84%
Total Expenses	<u>1,452,447</u>	<u>1,397,287</u>	<u>55,160</u>	3.95%
Change in Net Position	(28,752)	(4,377)	(24,375)	556.89%
Beginning Net Position	<u>5,716,371</u>	<u>5,720,748</u>	<u>(4,377)</u>	(0.08)%
Ending Net Position	<u>5,687,619</u>	<u>5,716,371</u>	<u>(28,752)</u>	(0.50)%

The Authority's Operating Revenues increased by \$30,427 to \$1,420,544 in 2014 from \$1,390,117 in 2013 due to an increase in water and sewer customers and developer's contribution. The Authority's non-operating revenues increased by \$358 to \$3,151 in 2014 from \$2,793 reported in 2013 due to an increase in interest on investments.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2014**

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and changes in net position is presented with comparative FY12 year figures in the following table:

**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>	<u>(58.67)%</u>
Total Revenues	<u>1,392,910</u>	<u>1,409,574</u>	<u>(16,664)</u>	<u>(1.18)%</u>
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>	<u>(81.37)%</u>
Total Expenses	<u>1,397,287</u>	<u>1,472,055</u>	<u>(74,768)</u>	<u>(5.08)%</u>
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>	<u>(1.08)%</u>
Ending Net Position	<u>5,716,371</u>	<u>5,720,748</u>	<u>(4,377)</u>	<u>(0.08)%</u>

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, 2014**

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 2014 and 2013 budget comparison:

Budget vs. Actual FY 2014			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,548,166	1,639,582	91,416
Non-Operating	<u>2,600</u>	<u>3,151</u>	<u>551</u>
Total Revenues	<u>1,550,766</u>	<u>1,642,733</u>	<u>91,967</u> 0
Expenses:			
Operating	1,300,500	1,283,393	(17,107)
Non-Operating Reserves	<u>250,266</u>	<u>250,266</u>	<u>0</u>
Total Expenses	<u>1,550,766</u>	<u>1,533,659</u>	<u>(17,107)</u>
Income Before Depreciation and Amortization	<u>0</u>	<u>109,074</u>	<u>109,074</u>
 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>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AUGUST 31, 2014**

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 N.J.S.A. 40:14B.

Capital Assets

During 2014, the Authority's net property, plant and equipment at fiscal year-end was \$2,548,650. This is a \$134,736 decrease over last year's net property, plant and equipment of \$2,683,386.

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

CAPITAL ASSETS			
(000's)			
	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</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>433,924</u>	<u>433,924</u>	<u>57,362</u>
 Total Property, Plant and Equipment	 4,709,500	 4,709,500	 4,332,938
 Less: Accumulated Depreciation	 <u>(2,160,850)</u>	 <u>(2,026,114)</u>	 <u>(1,898,847)</u>
 Net Property, Plant and Equipment	 <u>2,548,650</u>	 <u>2,683,386</u>	 <u>2,434,091</u>

As mentioned in Note 5 of the Notes to the Financial Statements, several contributed water and sewer systems are not included in the summary of the Authority's capital assets above. 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, 2014**

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.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
AUGUST 31, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Unrestricted:		
Cash and Cash Equivalents	2,650,674	2,520,038
Petty Cash	50	50
Developer Fees Receivable	718,376	575,243
Prepaid Expenses	8,204	7,951
Water and Sewer Rents Receivable	320,213	335,741
Total Unrestricted Assets	<u>3,697,517</u>	<u>3,439,023</u>
Restricted:		
Cash and Cash Equivalents	38,856	41,037
Total Restricted Assets	<u>38,856</u>	<u>41,037</u>
Capital Assets		
Water and Sewer System (See Note 5)	4,709,500	4,709,500
Less: Accumulated Depreciation	<u>(2,160,850)</u>	<u>(2,026,114)</u>
Total Capital Assets	<u>2,548,650</u>	<u>2,683,386</u>
TOTAL ASSETS	<u>6,285,023</u>	<u>6,163,446</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u> 		
Deferred Debits:		
Organizational Costs (Net of Amortization)	210,141	224,150
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>210,141</u>	<u>224,150</u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
AUGUST 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Payable from Unrestricted Assets		
Accounts Payable and Accrued Liabilities	757,141	618,837
Deferred Revenue	4,148	3,951
Due to Swedeland Development Group, Inc.	7,400	7,400
	<u>768,689</u>	<u>630,188</u>
Payable from Restricted Assets		
Escrow Deposits Payable	38,856	41,037
	<u>38,856</u>	<u>41,037</u>
TOTAL LIABILITIES	<u>807,545</u>	<u>671,225</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	2,758,791	2,907,536
Unrestricted:		
Designated	2,180,367	1,950,410
Undesignated	748,461	858,425
TOTAL NET POSITION	<u>5,687,619</u>	<u>5,716,371</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water and Sewer Rents	1,142,853	1,136,154
Developer Fees	232,079	208,258
Miscellaneous	45,612	45,705
	<u>1,420,544</u>	<u>1,390,117</u>
Operating Expenses:		
Cost of Providing Services	1,084,840	1,051,938
Administrative and General	198,553	191,445
Depreciation	134,736	127,267
Amortization	14,009	14,010
	<u>1,432,138</u>	<u>1,384,660</u>
Operating Income	<u>(11,594)</u>	<u>5,457</u>
Nonoperating Revenue (Expenses):		
Interest on Investments	3,151	2,793
Cancellation of Water / Sewer Receivable		(12,627)
Renewal and Replacement	(20,309)	
	<u>(17,158)</u>	<u>(9,834)</u>
Change in Net Position	(28,752)	(4,377)
Net Position, September 1	<u>5,716,371</u>	<u>5,720,748</u>
Net Position, August 31	<u><u>5,687,619</u></u>	<u><u>5,716,371</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash Received From:		
Water and Sewer Rents	1,158,381	1,159,228
Developers Fees	88,946	55,598
Miscellaneous	45,809	55,799
Cash Paid to Vendors and Employees		
Cost of Providing Services	(946,789)	(997,094)
Administrative and General	(198,553)	(191,600)
Renewal and Replacement	(20,309)	
Miscellaneous	(2,181)	(6,636)
Net Cash Provided (Used) by Operating Activities:	125,304	75,295
Cash Flows From Investing Activities:		
Interest Received	3,151	2,793
Fixed Capital Additions		(376,562)
Net Cash Provided (Used) by Investing Activities:	3,151	(373,769)
Net Increase (Decrease) in Cash	128,455	(298,474)
Cash and Cash Equivalents, Beginning of Year	2,561,075	2,859,549
Cash and Cash Equivalents, End of Year	2,689,530	2,561,075
Cash and Cash Equivalents:		
Unrestricted	2,650,674	2,520,038
Restricted	38,856	41,037
	2,689,530	2,561,075

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	(11,594)	5,457
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:		
Depreciation	134,736	127,267
Amortization	14,009	14,010
Renewal and Replacement	(20,309)	
Cancellation of Water / Sewer Receivable		(12,627)
(Increase)/Decrease in Due from Developers	(143,133)	(152,660)
(Increase)/Decrease in Accounts Receivable	15,528	51,251
(Increase)/Decrease in Prepaid Expenses	(253)	(155)
Increase/(Decrease) in Deferred Revenue	197	(5,456)
Increase/(Decrease) in Accounts Payable	138,304	54,844
Increase/(Decrease) in Escrow Deposits Payable	(2,181)	(6,636)
Total Adjustments	<u>136,898</u>	<u>69,838</u>
Net Cash Used by Operating Activities	<u><u>125,304</u></u>	<u><u>75,295</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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 convents), 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, 2014

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

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.

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.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2014

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, 2014

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

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.

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.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2014

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

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

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.

L. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. 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, 2014

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

L. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

The Government Accounting Standards Board issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Guarantees*. This Statement requires a state or local government grantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The Authority does not believe this Statement will materially affects its current practice.

The Government Accounting Standards Board issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The Authority does not believe this Statement will materially affect its current practice.

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, 2014**

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

As of August 31, 2014, 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>\$2,689,530</u>	<u>\$2,689,530</u>
		<u>Analysis</u>
Unrestricted Accounts		\$2,650,674
Restricted Accounts		<u>38,856</u>
		<u>\$2,689,530</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, 2014, 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, 2014

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

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, 2014, \$-0- of the Authority's bank balance of \$2,683,452 was exposed to custodial risk. As of August 31, 2014, the Authority did not hold any investments.

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, 2014 are as follows:

High Ridge Properties ("HRP")	\$714,558
Anton Pitz	<u>3,818</u>
	<u>\$718,376</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2014

NOTE 4. DEVELOPERS' FEES, (continued)

Of this \$718,376 Developers' fees receivable balance, \$714,558 has been outstanding for a period greater than 120 days. In December 2013, the Authority put a lien on this balance and are 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, 2014 and 2013, respectively, is as follows:

Forest Hill Village

	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</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>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</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, 2014

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

Briar Crest

	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</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>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</u>
Waterspheriod Coating - IF	333,418			333,418
Truck	43,144			43,144
Equipment	57,362			57,362
Total Property, Plant and Equipment	4,709,500	0		4,709,500
Accumulated Depreciation	(2,026,114)	(134,736)		(2,160,850)
Net Property, Plant and Equipment	<u>2,683,386</u>	<u>(134,736)</u>		<u>2,548,650</u>

The Authority has several contributed water and sewer systems that have not been valued or included in the above list of Property, Plant and Equipment as of August 31, 2014. The Authority is currently working with the original contributing developers to determine a value of these contributed capital assets.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2014

NOTE 6. ORGANIZATION COSTS

Net organization costs which are listed below totaled \$210,141 and \$224,150 as of August 31, 2014 and 2013, respectively. See Note 1 regarding the amortization of organization costs.

	<u>2014</u>	<u>2013</u>
<u>Organization Costs</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>350,235</u>	<u>336,226</u>
Net Organization Costs	<u>\$210,141</u>	<u>\$224,150</u>

NOTE 7. CONTRIBUTED CAPITAL

Contributed Capital which is listed below was contributed by the Developers and totaled \$2,810,861 and \$2,935,174 as of August 31, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</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>(1,959,699)</u>	<u>(1,835,386)</u>
Net Contributed Capital	<u>\$2,810,861</u>	<u>\$2,935,174</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, 2014**

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, 2014

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 2014, 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 359 customers at its Indian Field water and sewer system and 994 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, 2014

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.

NOTE 11. DUE TO/FROM OTHER FUNDS

At August 31, 2014, 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	\$	\$
Escrow Account	<u>302</u>	<u>302</u>
	<u>\$302</u>	<u>\$302</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>2014</u>	<u>2013</u>
Reserve for Renewal and Replacement	\$2,164,870	\$1,934,913
Reserve for Purchase of Equipment	<u>15,497</u>	<u>15,497</u>
	<u>\$2,180,367</u>	<u>\$1,950,410</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2014

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Authority has committed the 477,000 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
Walkkill Valley RHS	17,000
Anton Pilz	<u>8,000</u>
	<u>477,000</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, 2014, the Authority has accrued a receivable and a liability in the amount of \$714,558 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.

NOTE 14. SUBSEQUENT EVENTS

The Hardyston Township Municipal Utilities Authority has evaluated subsequent events through December 2, 2014, the date which the financial statements were available to be issued. No additional items were noted for disclosure or adjustment

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
 NET POSITION - RESTRICTED AND UNRESTRICTED
 FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	Net Investment in Capital Assets	Unrestricted			Total (Memo)	
		Designated		Undesignated	2014	2013
		Renewal and Replacement	Equipment Reserve			
Operating Revenues:						
Water and Sewer			1,142,853	1,142,853	1,136,154	
Developer Fees			232,079	232,079	208,258	
Miscellaneous			45,612	45,612	45,705	
Total Operating Revenues			1,420,544	1,420,544	1,390,117	
Operating Expenses:						
Costs of Providing Services			1,084,840	1,084,840	1,051,938	
Administrative and General			198,553	198,553	191,445	
Depreciation	134,736			134,736	127,267	
Amortization	14,009			14,009	14,010	
Total Operating Expenses	148,745		1,283,393	1,432,138	1,384,660	
Operating Income (Loss)	(148,745)		137,151	(11,594)	5,457	
Non-Operating Revenue (Expenses):						
Interest Income			3,151	3,151	2,793	
Cancellation of Water/Sewer Receivable Renewal and Replacement (net)		229,957	(250,266)	(20,309)	(12,627)	
Total Non-Operating Revenue (Expenses)		229,957	(247,115)	(17,158)	(9,834)	
Increase/(Decrease) in Net Position	(148,745)	229,957	(109,964)	(28,752)	(4,377)	
Net Position - September 1,	2,907,536	1,934,913	858,425	5,716,371	5,720,748	
Net Position - August 31,	2,758,791	2,164,870	748,461	5,687,619	5,716,371	

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
 AND CHANGES IN CASH AND CASH EQUIVALENTS
 FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	HIMUA Operating Account	Crystal Springs Account	Indian Fields Account	Renewal and Replacement Account	Escrow Account	Totals 2014	2013
Cash and Cash Equivalents - September 1,	210,443	372,495	2,442	1,934,913	40,782	2,561,075	2,859,549
Cash Receipts:							
Contributions/Developers Fees	88,946					88,946	55,598
Interest Income	452	409	2	2,248	40	3,151	2,793
Water and Sewer Rents	253,588	904,793			17,000	1,158,381	1,159,228
Developers Deposits	49,120					49,120	27,000
Miscellaneous	989,207			227,709	1,345	1,218,261	55,799
Transfers							1,392,245
Total Cash and Cash Equivalents Available	1,591,756	1,277,697	2,444	2,164,870	59,167	5,095,934	5,552,212
Cash Disbursements:							
Operations	1,145,342					1,145,342	1,188,394
Developers Withdrawals					20,311	20,311	33,936
Renewal and Replacement	20,309					20,309	
Miscellaneous	2,181					2,181	376,562
Transfers	229,054	988,015	1,192			1,218,261	1,392,245
Total Cash Disbursements	1,396,886	988,015	1,192		20,311	2,406,404	2,991,137
Cash and Cash Equivalents - August 31,	194,870	289,682	1,252	2,164,870	38,856	2,689,530	2,561,075
Balance Comprised of:							
Cash and Cash Equivalents	194,870	289,682	1,252	2,164,870	38,856	2,689,530	2,561,075
Investments							
Unrestricted							
Restricted							

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2013

	2014 Budget	2014 Budget After Modification	2014 Actual	2013 Actual
Revenues:				
Retained Earnings	219,038	219,038	219,038	235,604
Developer Fees	142,579	142,579	232,079	208,258
Interest on Investments	2,600	2,600	3,151	2,793
User Charges and Fees	1,136,549	1,136,549	1,142,853	1,136,154
Miscellaneous	50,000	50,000	45,612	45,705
Total Revenues	<u>1,550,766</u>	<u>1,550,766</u>	<u>1,642,733</u>	<u>1,628,514</u>
Expenditures:				
Cost of Providing Services:				
Fees, Permits and Dues	7,500	7,500	6,266	6,646
Contracted Operators	183,000	183,000	161,864	178,330
Electricity	76,000	76,000	62,841	56,319
Natural Gas	3,500	3,500	2,098	2,806
Lab Testing	7,000	7,000	4,039	5,378
Materials, Supplies and Markouts	60,000	60,000	30,810	24,050
Service Contract - SCMUA	650,000	650,000	650,000	625,000
Service Contract Borough of Sussex	65,000	65,000	152,975	138,993
Chemicals	12,000	12,000	7,479	7,948
Alarm System	7,500	7,500	6,468	6,468
Sub-total Cost of Providing Services	<u>1,071,500</u>	<u>1,071,500</u>	<u>1,084,840</u>	<u>1,051,938</u>
Administrative and General:				
Interlocal Service Agreement-Hardyston	98,500	98,500	97,717	87,529
Accounting and Auditing	17,500	17,500	13,649	16,625
Legal Fees	30,000	30,000	12,667	18,460
Engineering Fees	32,000	32,000	26,377	25,131
Stationary and Supplies	3,000	3,000	3,406	2,809
Legal Advertising	1,000	1,000		616
Insurance	24,000	24,000	24,359	25,733
Postage	6,000	6,000	2,731	6,983
Miscellaneous	2,000	2,000	130	1,700
Computer Software	15,000	15,000	17,017	5,859
Sub-total Administrative and General	<u>229,000</u>	<u>229,000</u>	<u>198,053</u>	<u>191,445</u>
Reserves:				
Equipment Reserve				5,000
Renewal and Replacement	250,266	250,266	250,266	240,769
Sub-total Reserves	<u>250,266</u>	<u>250,266</u>	<u>250,266</u>	<u>245,769</u>
Total Expenditures	<u>1,550,766</u>	<u>1,550,766</u>	<u>1,533,159</u>	<u>1,489,152</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2014
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2013

	2014 Budget	2014 Budget After Modification	2014 Actual	2013 Actual
Excess or (Deficit)			109,574	139,362
Reconciliation of Budgetary Basis to GAAP:				
Renewal and Replacement, net			229,957	240,769
Equipment Reserve				5,000
Cancellation of Water / Sewer Receivable				(12,627)
Retained Earnings			(219,038)	(235,604)
Depreciation Expense			(134,736)	(127,267)
Amortization			(14,009)	(14,010)
Total Adjustments			(137,826)	(143,739)
Change in Net Position			(28,252)	(4,377)

SCHEDULE 4

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

	<u>2014 Budget</u>	<u>2014 Budget After Modification</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Capital Financing Sources:				
Reserve for Equipment				43,144
Renewal and Replacement Reserve	<u>1,000,000</u>	<u>1,000,000</u>	<u>20,309</u>	<u>333,418</u>
Total Revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>20,309</u>	<u>333,418</u>
Expenditures:				
Capital Outlays:				
Waterspheriod Coating				333,418
Various Capital Projects - Water	500,000	500,000	3,243	
Purchase of Truck				43,144
Various Capital Projects - Sewer	<u>500,000</u>	<u>500,000</u>	<u>17,066</u>	
Total Costs Funded by Capital Financing Sources	<u>1,000,000</u>	<u>1,000,000</u>	<u>20,309</u>	<u>376,562</u>

SCHEDULE 5

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
AUGUST 31, 2014**

The following officials were in office on August 31, 2014:

Board Commissioners

Positions

Frank Cicerale

Chairman

Stanley Kula

Vice Chairman

Ellis Marples

Secretary

Jeffrey Albanese

Treasurer

Randy Roof

Commissioner

Brian Kaminski

Commissioner

Michael O'Grady

Commissioner

Authority Professionals

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

Auditors

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

Attorney

Guerin & Vreeland Engineering Inc.

Engineer

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

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

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

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

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, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

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 2014-1) 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.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hardyston Township 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. We noted certain other matters that we reported to management of the Authority in the comments and recommendations section of this report.

This report is intended solely for the information of the governing body, management, and The Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

Purpose of this Report

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

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

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

December 2, 2014

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2014**

FINDING: 2014-1*

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.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
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, Wielkutz, Cerullo & Cova P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Pompton Lakes, New Jersey