

THE HARDYSTON TOWNSHIP
MUNICIPAL UTILITIES AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2019 AND 2018

THE HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibit</u>
1	Independent Auditor's Report	
	REQUIRED SUPPLEMENTARY INFORMATION	
4	Management Discussion and Analysis	
	BASIC FINANCIAL STATEMENTS	
13	Statement of Net Position	A
15	Statement of Revenues, Expenses and Changes in Net Position	B
16	Statement of Cash Flows	C
18	Notes to the Financial Statements	
	SUPPLEMENTARY SCHEDULES	
35	Schedule of Revenues, Expenses and Changes in Net Position - Restricted and Unrestricted	1
36	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents	2
37	Schedule of Operating Revenues and Cost Funded by Operating Revenues Compared to Budget	3
39	Schedule of Capital Financing Sources and Costs Funded by Capital Financing Sources Compared to Budget	4
40	Roster of Officials	5
41	Independent 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	
43	Schedule of Findings and Questioned Costs	
44	General Comments	
45	Status of Prior Years' Audit Findings/Recommendations	

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

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, 2019 and 2018, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the 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, 2019 and 2018, or the changes in net position thereof for the years then ended.

Emphasis of Matter

As discussed in Note 15 to the financial statements, certain assets being contributed by developers had not been recorded on the records of the Authority until final inspection and acceptance by the Authority. These assets have been recorded by the Authority at the depreciated value from the time they were placed in service. Our opinion is not modified with respect to these assets.

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 19, 2019 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 19, 2019



Required Supplementary Information

Management Discussion and Analysis

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2019 and 2018. 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 \$6,723,951 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities by \$6,682,390 as restated.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$3,346,711 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 \$3,377,240 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$284,924 to \$1,833,434 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)

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 Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The *Statement of Net 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)**

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 \$6,723,951. This is a \$41,083 increase over last year's net position of \$6,682,868, as restated.

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, 2019
With Comparative Prior Year Balances**

	<u>FY 2019</u>	<u>Restated FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	5,210,674	4,767,593	443,081	9.29%
Capital Assets	<u>3,206,616</u>	<u>3,309,681</u>	<u>(103,065)</u>	(3.11)%
Total Assets	<u>8,417,290</u>	<u>8,077,274</u>	<u>340,016</u>	4.21%
Total Deferred Outflows of Resources	<u>140,095</u>	<u>154,104</u>	<u>(14,009)</u>	(9.09)%
Total Liabilities	<u>1,833,434</u>	<u>1,548,510</u>	<u>284,924</u>	18.40%
Net Investment in Capital Assets	3,346,711	3,463,785	(117,074)	(3.38)%
Unrestricted	<u>3,377,240</u>	<u>3,219,083</u>	<u>158,157</u>	4.91%
Total Net Position	<u>6,723,951</u>	<u>6,682,868</u>	<u>41,083</u>	0.61%

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Net Position (Continued)

A summary of the Authority's prior year statement of net position is presented with comparative FY 2017 year balances in the following table:

**Condensed Statement of Net Position at August 31, 2018
With Comparative Prior Year Balances**

	<u>Restated FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	4,767,593	4,450,225	317,368	7.13%
Capital Assets	<u>3,309,681</u>	<u>2,152,982</u>	<u>1,156,699</u>	53.73%
Total Assets	<u>8,077,274</u>	<u>6,603,207</u>	<u>1,474,067</u>	22.32%
Total Deferred Outflows of Resources	<u>154,104</u>	<u>168,113</u>	<u>(14,009)</u>	(8.33)%
Total Liabilities	<u>1,548,510</u>	<u>1,371,115</u>	<u>177,395</u>	12.94%
Net Investment in Capital Assets	3,463,785	2,321,095	1,142,690	49.23%
Unrestricted	<u>3,219,083</u>	<u>3,079,110</u>	<u>139,973</u>	4.55%
Total Net Position	<u>6,682,868</u>	<u>5,400,205</u>	<u>1,282,663</u>	23.75%

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 increased by \$41,083 in FY 2019 and increased by \$1,282,663 in FY 2018.

**Condensed Statement of Revenues, Expenses and Changes
in Net Position for the Year Ending August 31, 2019
With Comparative Prior Year Balances**

	<u>FY 2019</u>	<u>Restated FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,592,450	1,563,115	29,335	1.88%
Non-Operating Revenues	<u>47,113</u>	<u>36,720</u>	<u>10,393</u>	28.30%
Total Revenues	<u>1,639,563</u>	<u>1,599,835</u>	<u>39,728</u>	2.48%
Depreciation	121,440	116,924	4,516	3.86%
Other Operating Expenses	<u>1,477,040</u>	<u>1,428,711</u>	<u>48,329</u>	3.38%
Total Expenses	<u>1,598,480</u>	<u>1,545,635</u>	<u>52,845</u>	3.42%
Change in Net Position	<u>41,083</u>	<u>54,200</u>	<u>(13,117)</u>	(24.20)%
Beginning Net Position	6,682,868	5,400,205	1,282,663	23.75%
Prior Period Adjustment (See Note 15)	_____	<u>1,228,463</u>	<u>(1,228,463)</u>	(100.00)%
Beginning Net Position, as Restated	<u>6,682,868</u>	<u>6,628,668</u>	<u>54,200</u>	0.82%
Ending Net Position	<u>6,723,951</u>	<u>6,682,868</u>	<u>41,083</u>	0.61%

The Authority's Operating Revenues increased by \$29,335 to \$1,592,450 in 2019 from \$1,563,115 in 2018 due to an increase in water and sewer customers and developer's contribution. The Authority's non-operating revenues increased by \$10,393 to \$47,113 in 2019 from \$36,720 in 2018 due to an increase in interest rate earned on investments.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and changes in net position is presented with comparative FY17 year figures in the following table:

**Condensed Statement of Revenues, Expenses and Changes
in Net Position for the Year Ending August 31, 2018
With Comparative Prior Year Balances**

	<u>Restated FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	1,563,115	1,535,534	27,581	1.80%
Non-Operating Revenues	<u>36,720</u>	<u>7,617</u>	<u>29,103</u>	382.08%
Total Revenues	<u>1,599,835</u>	<u>1,543,151</u>	<u>56,684</u>	3.67%
Depreciation	116,924	130,561	(13,637)	(10.44)%
Other Operating Expenses	1,428,711	1,441,828	(13,117)	(0.91)%
Other Non-Operating Expense	<u> </u>	<u>47,260</u>	<u>(47,260)</u>	(100.00)%
Total Expenses	<u>1,545,635</u>	<u>1,619,649</u>	<u>(74,014)</u>	(4.57)%
Change in Net Position	<u>54,200</u>	<u>(76,498)</u>	<u>130,698</u>	(170.85)%
Beginning Net Position	5,400,205	5,476,703	(76,498)	(1.40)%
Prior Period Adjustment (See Note 15)	<u>1,228,463</u>	<u> </u>	<u>1,228,463</u>	100.00%
Beginning Net Position, as Restated	<u>6,628,668</u>	<u>5,476,703</u>	<u>1,151,965</u>	21.03%
Ending Net Position	<u>6,682,868</u>	<u>5,400,205</u>	<u>1,282,663</u>	23.75%

The Authority's Operating Revenues increased by \$27,581 to \$1,563,115 in 2018 from \$1,535,534 in 2017 due an increase in water and sewer customers and developer's contribution. The Authority's non-operating revenues increased by \$29,103 to \$36,720 in 2018 from \$7,617 reported in 2017 due to an increase in interest on investments.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 2019 and 2018 budget comparison:

Budget vs. Actual FY 2019			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,426,280	1,592,450	166,170
Non-Operating	<u>30,000</u>	<u>47,113</u>	<u>17,113</u>
Total Revenues	<u>1,456,280</u>	<u>1,639,563</u>	<u>183,283</u>
Expenses:			
Operating	1,433,100	1,481,406	48,306
Non-Operating Reserves	<u>23,180</u>	<u>23,180</u>	<u> </u>
Total Expenses	<u>1,456,280</u>	<u>1,504,586</u>	<u>48,306</u>
Income Before Depreciation and Amortization	<u> </u>	<u>134,977</u>	<u>134,977</u>

Budget vs. Actual FY 2018			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	1,418,907	1,563,115	144,208
Non-Operating	<u>5,000</u>	<u>36,720</u>	<u>31,720</u>
Total Revenues	<u>1,423,907</u>	<u>1,599,835</u>	<u>175,928</u>
Expenses:			
Operating	1,409,100	1,467,762	58,662
Non-Operating Reserves	<u>14,807</u>	<u>14,807</u>	<u> </u>
Total Expenses	<u>1,423,907</u>	<u>1,482,569</u>	<u>58,662</u>
Income Before Depreciation and Amortization	<u> </u>	<u>117,266</u>	<u>117,266</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 2019, the Authority's net property, plant and equipment at fiscal year-end was \$3,206,616. This is a \$103,065 decrease over last year's net property, plant and equipment of \$3,309,681, as restated.

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

CAPITAL ASSETS

	<u>FY2019</u>	<u>Restated FY2018</u>	<u>FY2017</u>
Forest Hill Village	\$1,723,276	\$1,723,276	\$1,723,276
Crystal Springs	3,653,419	3,653,419	2,183,365
Briar Crest	368,935	368,935	368,935
HTMUA	<u>479,084</u>	<u>433,924</u>	<u>433,924</u>
Total Property, Plant and Equipment	6,224,714	6,179,554	4,709,500
Construction in Progress	18,375	45,160	
Less: Accumulated Depreciation	<u>(3,036,473)</u>	<u>(2,915,033)</u>	<u>(2,556,518)</u>
Net Property, Plant and Equipment	<u>\$3,206,616</u>	<u>\$3,309,681</u>	<u>\$2,152,982</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's ongoing capital plan is reviewed each year by the Authority's consulting engineer. Notable future capital improvements are listed below:

Various Water Capital Improvements	\$300,000
Various Sewer Capital Improvements	300,000
Improvements to Water Tanks and Meters	<u>1,400,000</u>
	<u>\$2,000,000</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>Restated 2018</u>
Current Assets:		
Unrestricted:		
Cash and Cash Equivalents	3,157,249	2,942,072
Petty Cash	50	50
Developer Fees Receivable	1,693,000	1,473,880
Prepaid Expenses	9,069	9,069
Water and Sewer Rents Receivable	309,718	316,238
Total Unrestricted Assets	<u>5,169,086</u>	<u>4,741,309</u>
Restricted:		
Cash and Cash Equivalents	<u>41,588</u>	<u>26,284</u>
Total Restricted Assets	<u>41,588</u>	<u>26,284</u>
Capital Assets		
Water and Sewer System	6,224,714	6,179,554
Construction in Progress	18,375	45,160
Less: Accumulated Depreciation	<u>(3,036,473)</u>	<u>(2,915,033)</u>
Total Capital Assets	<u>3,206,616</u>	<u>3,309,681</u>
TOTAL ASSETS	<u>8,417,290</u>	<u>8,077,274</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u> 		
Deferred Debits:		
Organizational Costs (Net of Amortization)	<u>140,095</u>	<u>154,104</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>140,095</u>	<u>154,104</u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
AUGUST 31, 2019 AND 2018

	<u>2019</u>	<u>Restated 2018</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Payable from Unrestricted Assets		
Accounts Payable and Accrued Liabilities	1,780,846	1,511,226
Deferred Revenue	3,600	3,600
Due to Swedeland Development Group, Inc.	<u>7,400</u>	<u>7,400</u>
Total Payable from Unrestricted Liabilities	<u>1,791,846</u>	<u>1,522,226</u>
Payable from Restricted Assets		
Escrow Deposits Payable	<u>41,588</u>	<u>26,284</u>
Total Payable from Restricted Liabilities	<u>41,588</u>	<u>26,284</u>
TOTAL LIABILITIES	<u><u>1,833,434</u></u>	<u><u>1,548,510</u></u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	3,346,711	3,463,785
Unrestricted:		
Designated	2,574,556	2,569,751
Undesignated	<u>802,684</u>	<u>649,332</u>
TOTAL NET POSITION	<u><u>6,723,951</u></u>	<u><u>6,682,868</u></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, 2019 AND 2018

	<u>2019</u>	<u>Restated 2018</u>
Operating Revenues:		
Water and Sewer Rents	1,239,515	1,235,451
Developer Fees	296,824	281,249
Miscellaneous	56,111	46,415
	<u>1,592,450</u>	<u>1,563,115</u>
Operating Expenses:		
Cost of Providing Services	1,265,668	1,237,921
Administrative and General	215,738	229,841
Depreciation	121,440	116,924
Amortization	14,009	14,009
	<u>1,616,855</u>	<u>1,598,695</u>
Operating Income	<u>(24,405)</u>	<u>(35,580)</u>
Nonoperating Revenue (Expenses):		
Interest on Investments	47,113	36,720
Cancellation of Accrued Liabilities		7,900
Renewal and Replacement	18,375	45,160
	<u>65,488</u>	<u>89,780</u>
Change in Net Position	41,083	54,200
Net Position, September 1	<u>6,682,868</u>	<u>5,400,205</u>
Prior Period Adjustment - Net Addition of Contributed Fixed Assets		<u>1,228,463</u>
Net Position, September 1, As Restated	<u>6,682,868</u>	<u>6,628,668</u>
Net Position, August 31	<u><u>6,723,951</u></u>	<u><u>6,682,868</u></u>

See accompanying notes to the financial statements.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

	<u>2019</u>	<u>Restated 2018</u>
Cash Flows From Operating Activities:		
Cash Received From:		
Water and Sewer Rents	1,246,035	1,247,904
Developers Fees	77,704	65,102
Miscellaneous	56,111	46,415
Cash Paid to Vendors and Employees		
Cost of Providing Services	(962,369)	(1,007,466)
Administrative and General	(215,738)	(229,841)
	<u>201,743</u>	<u>122,114</u>
Cash Flows From Investing Activities:		
Interest Received	47,113	36,720
Fixed Capital Additions	(18,375)	(45,160)
	<u>28,738</u>	<u>(8,440)</u>
Net Cash Provided (Used) by Operating Activities:	<u>201,743</u>	<u>122,114</u>
Net Cash Provided (Used) by Investing Activities:	<u>28,738</u>	<u>(8,440)</u>
Net Increase (Decrease) in Cash	230,481	113,674
Cash and Cash Equivalents, Beginning of Year	<u>2,968,356</u>	<u>2,854,682</u>
Cash and Cash Equivalents, End of Year	<u><u>3,198,837</u></u>	<u><u>2,968,356</u></u>
Cash and Cash Equivalents:		
Unrestricted	3,157,249	2,942,072
Restricted	41,588	26,284
	<u><u>3,198,837</u></u>	<u><u>2,968,356</u></u>

See accompanying notes to the financial statements.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS

	<u>2019</u>	<u>Restated 2018</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	(24,405)	(35,580)
 Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:		
Depreciation	121,440	116,924
Amortization	14,009	14,009
Renewal and Replacement	18,375	45,160
Cancellation of Water / Sewer Receivable		7,900
(Increase)/Decrease in Due from Developers	(219,120)	(216,147)
(Increase)/Decrease in Accounts Receivable	6,520	12,453
Increase/(Decrease) in Accounts Payable	269,620	179,758
Increase/(Decrease) in Escrow Deposits Payable	15,304	(2,363)
 Total Adjustments	<u>226,148</u>	<u>157,694</u>
 Net Cash Used by Operating Activities	<u><u>201,743</u></u>	<u><u>122,114</u></u>

See accompanying notes to the financial statements.

Notes to Financial Statements

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018

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 "net investment in capital assets."

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

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. Component Unit:

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2019 AND 2018**

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

C. Component Unit:(continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units.

D. 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.

E. 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.

F. 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.

G. Property and Depreciation:

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

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

Sewer Lines	75 Years
Sewer Pump Station	40 Years
Water System	75 Years
Water Mains	75 Years
Wells	75 Years
Water Tanks	75 Years
Water Treatment Building	75 Years
Well Pump House	75 Years
Service Meters	25 Years
Equipment	5 Years

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

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

G. Property and Depreciation: (continued)

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

H. 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.

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. These estimates and assumptions include depreciation expense and the amount payable to the Borough of Sussex. Actual results could differ from those estimates.

J. Budgetary Procedures:

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

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

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

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

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

J. Budgetary Procedures: (continued)

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.

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%.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

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

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

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:

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, as a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to the financial statements.

In June 2018, the Government Accounting Standards Board issued GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

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

L. Recent Accounting Pronouncements: (continued)

financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This Statement is effect for fiscal years beginning after December 15, 2019, though earlier application is encouraged. The Authority believes this Statement may impact the reporting of certain interest payments previously recorded as capital expenditures.

In August 2018, the Government Accounting Standards Board issued GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Authority does not believe this Statement will have any effect on future financial statements.

In May 2019, the Government Accounting Standards Board issued GASB Statement No. 91, Conduit Debt Obligations. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020. The Authority believes this Statement will effect future financial statements.

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, 2019 AND 2018**

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

As of August 31, 2019 and 2018, cash and cash equivalents of the Hardyston Township Municipal Utilities Authority consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents:		
Checking Accounts	<u>\$3,198,837</u>	<u>\$2,968,356</u>
Analysis:		
Unrestricted Accounts	\$3,157,249	\$2,942,072
Restricted Accounts	<u>41,588</u>	<u>26,284</u>
	<u>\$3,198,837</u>	<u>\$2,968,356</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, 2019 and 2018, 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, 2019 AND 2018**

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, 2019, \$-0- of the Authority's bank balance of \$3,197,880 was exposed to custodial risk. As of August 31, 2019 and 2018, 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.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

NOTE 4. DEVELOPERS' FEES

Developers' fees receivable at August 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
High Ridge Properties ("HRP")	\$1,693,000	\$1,467,930
Anton Pitz		<u>5,950</u>
	<u>\$1,693,000</u>	<u>\$1,473,880</u>

Of this \$1,693,000 Developers' fees receivable balance reported at August 31, 2019, \$1,693,000 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. The Authority established a corresponding liability in the amount of \$1,693,000 as a pass-through to Sussex Borough (see Note 13).

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, 2019 and 2018, respectively, is as follows:

<u>Forest Hill Village</u>	<u>Restated 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</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
	<u>1,723,276</u>			<u>1,723,276</u>
Total Forest Hill Village	<u>1,723,276</u>			<u>1,723,276</u>

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

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

<u>Crystal Springs</u>	<u>Restated 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</u>
Water Lines	487,540			487,540
Water Tank	901,261			901,261
Water Hydrants	74,442			74,442
Water Service Connection	128,538			128,538
Water Treatment Building/System	91,405			91,405
Transfer Lines	100,101			100,101
Wells	181,487			181,487
Well House/Pump	183,613			183,613
Sewer Lines	842,973			842,973
Manhole	139,432			139,432
Sewer Pump Station	166,280			166,280
Sewer Lift Station	200,883			200,883
Sewer Service Connection	38,320			38,320
Emergency Generators	63,264			63,264
Equipment	53,880			53,880
Total Crystal Springs	3,653,419			3,653,419
<u>Briar Crest</u>	<u>Restated 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</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
	368,935			368,935
<u>HTMUA</u>	<u>Restated 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</u>
Waterspheriod Coating - IF	333,418	45,160		378,578
Truck	43,144			43,144
Equipment	57,362			57,362
Construction in Progress	45,160	18,375	45,160	18,375
Total Property, Plant and Equipment	6,224,714	63,535	45,160	6,243,089
Accumulated Depreciation	(2,915,033)	(121,440)		(3,036,473)
Net Property, Plant and Equipment	3,309,681	(57,905)	45,160	3,206,616

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

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

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, 2019. The Authority is currently working with the original contributing developers to determine a value of these contributed capital assets.

NOTE 6. ORGANIZATION COSTS

Net organization costs which are listed below totaled \$140,095 and \$154,104 as of August 31, 2019 and 2018, respectively. See Note 1 regarding the amortization of organization costs.

	<u>2019</u>	<u>2018</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	30,000	30,000
	560,376	560,376
Amortization of Organization Costs	<u>(420,281)</u>	<u>(406,272)</u>
Net Organization Costs	<u>\$140,095</u>	<u>\$154,104</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

NOTE 7. CONTRIBUTED CAPITAL

Contributed Capital which is listed below was contributed by the Developers and totaled \$3,636,814 and \$2,313,609 as of August 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>Restated 2018</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>3,636,207</u>	<u>3,636,207</u>
	6,240,614	6,240,614
Less: Accumulated Depreciation and Amortization	<u>(2,626,336)</u>	<u>(2,479,487)</u>
Net Contributed Capital	<u>\$3,614,278</u>	<u>\$3,761,127</u>

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

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,

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

NOTE 8. DEVELOPER'S AGREEMENTS, (continued)

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.

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 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.

HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018

NOTE 8. DEVELOPER'S AGREEMENTS, (continued)

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 2019, 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 925 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.

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 72 member authorities. The Fund provides members with Property, Liability and Worker's Compensation Insurance.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

NOTE 11. UNRESTRICTED – DESIGNATED NET POSITION

As mentioned in Note 1, GASB No.34 classifies net position 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>2019</u>	<u>2018</u>
Reserve for Renewal and Replacement	\$2,559,059	\$2,554,254
Reserve for Purchase of Equipment	<u>15,497</u>	<u>15,497</u>
	<u>\$2,574,556</u>	<u>\$2,569,751</u>

NOTE 12. 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
Wallkill Valley RHS	17,000
Crystal Springs	<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, 2019, the Authority has accrued a receivable and a liability in the amount of \$1,693,000 as a pass-through to Sussex Borough.

On March 4, 2019, the Authority awarded a contract to Brave Industrial Paint LLC for the painting of the Crystal Springs water tank in the amount of \$599,000. As of August 31, 2019, the Authority had not yet received any bills from the vendor regarding this contract.

The Authority is funding this project through its renewal and replacement reserve.

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2019 AND 2018**

NOTE 13. SUBSEQUENT EVENTS

The Hardyston Township Municipal Utilities Authority has evaluated subsequent events through December 19, 2019, the date which the financial statements were available to be issued. No additional items were noted for disclosure.

NOTE 14. PRIOR PERIOD ADJUSTMENTS

As of August 31, 2019, the Authority had determined that several capital assets placed in service years ago and not turned over by the developer's contributing those assets had not been recorded or depreciated. Therefore, the accompanying financial statements have been restated to reflect these additional assets. Below is an illustration of the restatement:

	Balance 08/31/18 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 08/31/18 as Restated
Assets:			
Capital Assets:			
Water and Sewer System	\$4,709,500	\$1,470,054	\$6,179,554
Accumulated Depreciation	(2,650,906)	(264,127)	(2,915,033)
Net Position:			
Net Investment in Capital Assets	2,257,858	1,205,927	3,463,785

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, 2019 AND 2018**

	Net Investment in Capital Assets	Unrestricted			Total (Memo)	
		Renewal and Replacement	Designated Equipment Reserve	Undesignated	2019	Restated 2018
Operating Revenues:						
Water and Sewer			1,239,515	1,239,515	1,239,515	1,235,451
Developer Fees			296,824	296,824	296,824	281,249
Miscellaneous			56,111	56,111	56,111	46,415
Total Operating Revenues			1,592,450	1,592,450	1,592,450	1,563,115
Operating Expenses:						
Costs of Providing Services			1,265,668	1,265,668	1,265,668	1,237,921
Administrative and General			215,738	215,738	215,738	229,841
Depreciation	121,440			121,440	121,440	116,924
Amortization	14,009			14,009	14,009	14,009
Total Operating Expenses	135,449		1,481,406	1,481,406	1,616,855	1,598,695
Operating Income (Loss)	<u>(135,449)</u>		<u>111,044</u>	<u>(24,405)</u>	<u>(35,580)</u>	
Non-Operating Revenue (Expenses):						
Interest Income			47,113	47,113	47,113	36,720
Cancellation of Accrued Liabilities						7,900
Renewal and Replacement (net)	18,375	4,805	(4,805)	18,375	18,375	45,160
Total Non-Operating Revenue (Expenses)	18,375	4,805	42,308	65,488	65,488	89,780
Increase/(Decrease) in Net Position	<u>(117,074)</u>	<u>4,805</u>	<u>153,352</u>	<u>41,083</u>	<u>41,083</u>	<u>54,200</u>
Net Position - September 1, Restated	<u>3,463,785</u>	<u>2,554,254</u>	<u>649,332</u>	<u>6,682,868</u>	<u>6,682,868</u>	<u>6,628,668</u>
Net Position - August 31,	<u>3,346,711</u>	<u>2,559,059</u>	<u>802,684</u>	<u>6,723,951</u>	<u>6,723,951</u>	<u>6,682,868</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

	HTMUA Operating Account	Crystal Springs Account	Indian Fields Account	Renewal and Replacement Account	Escrow Account	Total (Memo)
	2019	2019	2019	2019	2019	2018
Cash and Cash Equivalents - September 1,	28,547	520,289	303	2,392,933	26,284	2,968,356
Cash Receipts:						
Contributions/Developers Fees	77,704					77,704
Interest Income	5,211	5,360	5	36,042	495	47,113
Water and Sewer Rents	1,246,035					1,246,035
Developers Deposits					22,125	22,125
Miscellaneous	63,598					63,598
Transfers	1,226,092	907,840		4,805		2,138,737
Total Cash and Cash Equivalents Available	2,647,187	1,433,489	308	2,433,780	48,904	4,925,000
Cash Disbursements:						
Operations	1,226,094					1,226,094
Developers Withdrawals						
Transfers	1,378,495	752,926			7,316	2,138,737
Total Cash Disbursements	2,604,589	752,926			7,316	3,364,831
Cash and Cash Equivalents - August 31,	42,598	680,563	308	2,433,780	41,588	2,968,356
Balance Comprised of:						
Cash and Cash Equivalents	42,598	680,563	308	2,433,780	41,588	2,968,356
	42,598	680,563	308	2,433,780	41,588	2,968,356
Unrestricted	42,598	680,563	308	2,433,780	41,588	2,942,072
Restricted						26,284
	42,598	680,563	308	2,433,780	41,588	2,968,356

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2019
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>2019 Budget</u>	<u>2019 Budget After Modification</u>	<u>2019 Actual</u>	<u>2018 Actual</u>
Revenues:				
Retained Earnings				
Developer Fees	143,806	143,806	296,824	281,249
Interest on Investments	30,000	30,000	47,113	36,720
User Charges and Fees	1,231,474	1,231,474	1,239,515	1,235,451
Miscellaneous	51,000	51,000	56,111	46,415
Total Revenues	<u>1,456,280</u>	<u>1,456,280</u>	<u>1,639,563</u>	<u>1,599,835</u>
Expenditures:				
Cost of Providing Services:				
Fees, Permits and Dues	7,500	7,500	5,905	6,390
Contracted Operators	204,000	204,000	203,890	199,892
Electricity	65,000	65,000	64,484	62,470
Natural Gas	3,000	3,000	2,503	2,470
Lab Testing	7,000	7,000	17,306	5,860
Materials, Supplies and Markouts	96,000	96,000	76,146	61,110
Service Contract - SCMUA	694,000	694,000	653,457	673,957
Service Contract Borough of Sussex	65,000	65,000	225,070	210,279
Chemicals	10,000	10,000	10,094	9,025
Alarm System	7,500	7,500	6,813	6,468
Sub-total Cost of Providing Services	<u>1,159,000</u>	<u>1,159,000</u>	<u>1,265,668</u>	<u>1,237,921</u>
Administrative and General:				
Interlocal Service Agreement-Hardyston	114,000	114,000	111,472	111,837
Accounting and Auditing	24,000	24,000	18,000	17,907
Legal Fees	42,000	42,000	23,321	37,151
Engineering Fees	46,600	46,600	28,088	23,440
Stationary and Supplies	4,500	4,500	815	4,550
Legal Advertising	2,000	2,000		
Insurance	28,000	28,000	27,208	27,208
Postage	5,000	5,000	3,413	4,468
Miscellaneous	2,000	2,000	149	
Computer Software	6,000	6,000	3,272	3,280
Sub-total Administrative and General	<u>274,100</u>	<u>274,100</u>	<u>215,738</u>	<u>229,841</u>
Reserves:				
Renewal and Replacement	23,180	23,180	23,180	14,807
Sub-total Reserves	<u>23,180</u>	<u>23,180</u>	<u>23,180</u>	<u>14,807</u>
Total Expenditures	<u>1,456,280</u>	<u>1,456,280</u>	<u>1,504,586</u>	<u>1,482,569</u>

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COST FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET YEAR ENDED AUGUST 31, 2019
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>2019 Budget</u>	<u>2019 Budget After Modification</u>	<u>2019 Actual</u>	<u>2018 Actual</u>
Excess or (Deficit)			134,977	117,266
Reconciliation of Budgetary Basis to GAAP:				
Renewal and Replacement, net			23,180	14,807
Capitalization of Water Tank Project to Construction in Progress			18,375	45,160
Cancellation of Accrued Liabilities				7,900
Depreciation Expense			(121,440)	(116,924)
Amortization			(14,009)	(14,009)
Total Adjustments			<u>(93,894)</u>	<u>(63,066)</u>
Change in Net Position			<u>41,083</u>	<u>54,200</u>

SCHEDULE 4

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

	<u>2019 Budget</u>	<u>2019 Budget After Modification</u>	<u>2019 Actual</u>	<u>2018 Actual</u>
Capital Financing Sources:				
Unrestricted Net Position Utilized	600,000	600,000		45,160
Debt Authorization	1,400,000			
Renewal & Replacement Reserve		1,400,000	18,375	
Total Revenues	<u>2,000,000</u>	<u>2,000,000</u>	<u>18,375</u>	<u>45,160</u>
Expenditures:				
Capital Outlays:				
Improvements to Water Tanks & Meters	1,400,000	1,400,000	18,375	
Various Capital Projects - Water	300,000	300,000		45,160
Various Capital Projects - Sewer	300,000	300,000		
Total Costs Funded by Capital Financing Sources	<u>2,000,000</u>	<u>2,000,000</u>	<u>18,375</u>	<u>45,160</u>

SCHEDULE 5

**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
AUGUST 31, 2019**

The following officials were in office on August 31, 2019:

Board Commissioners

Positions

Frank Cicerale

Chairman

Stanley Kula

Vice Chairman

Ellis Marples

Secretary

Brian Kaminski

Treasurer

Michael O'Grady

Commissioner

Michele Van Allen

Commissioner

Authority Professionals

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

Auditors

DeCotiis, FitzPatrick, Cole & Giblin, LLP

Attorney

Van Cleef Engineering Associates LLC

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2019.

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 2019-001) 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 & Cova, P.A.

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

December 19, 2019



**HARDYSTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2019**

FINDING: 2019-001*

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 bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.00.

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 all items, except those noted with an asterisk "*".

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, Wielkatz, Cerullo & Cova, P.A.

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