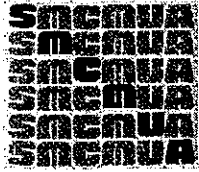


SOUTHEAST MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
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INTRODUCTORY SECTION



Southeast Morris County Municipal Utilities Authority

19 SADDLE ROAD • CEDAR KNOLLS, NEW JERSEY 07927 • TEL 973-326-6880 • FAX 973-326-9521

1

March 22, 2014

The Honorable Chairman and Members
of the Southeast Morris County
Municipal Utilities Authority
Cedar Knolls, NJ 07927

Dear Authority Members:

The annual financial report of the Southeast Morris County Municipal Utilities Authority (The "Authority") for the years ended December 31, 2013 and 2012, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The annual financial report is presented in four sections: introductory, financial, *Government Auditing Standards* section and comments and recommendations. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. Information related to *Government Auditing Standards* section, including the auditors' report on internal control and compliance with applicable laws and regulations and findings are included in the *Government Auditing Standards* section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Southeast Morris County Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey and was created by parallel ordinances adopted by the governing bodies, effective in December 1976, of the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown ("the creating municipalities").

The Authority was created for the purpose of acquiring, constructing, maintaining, operating and improving the water supply and distribution system previously owned and operated by the Town of Morristown.

The ordinances creating the Authority provide that the Authority shall consist of eight members, two of whom shall be appointed by each of the governing bodies of the creating municipalities.

All bond proceeds, revenue or other cash receipts must be applied for specific purposes in accordance with the provisions of the Bond resolution dated September 5, 1991 and amended and restated in its entirety by the Authority on June 21, 2001 and September 2, 2010, as more fully described in Note 5.

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

REPORTING ENTITY AND ITS SERVICES: (Cont'd)

Governmental Accounting Standards Board Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency and a resulting benefit or burden, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to Financial Statements", Note 6. The Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds which are described in the "Notes to Financial Statements", Note 7.

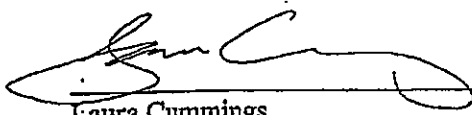
OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia, LLP, CPAs, was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Southeast Morris County Municipal Utilities Authority for their concern in providing fiscal accountability to the citizens of the participating municipalities and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

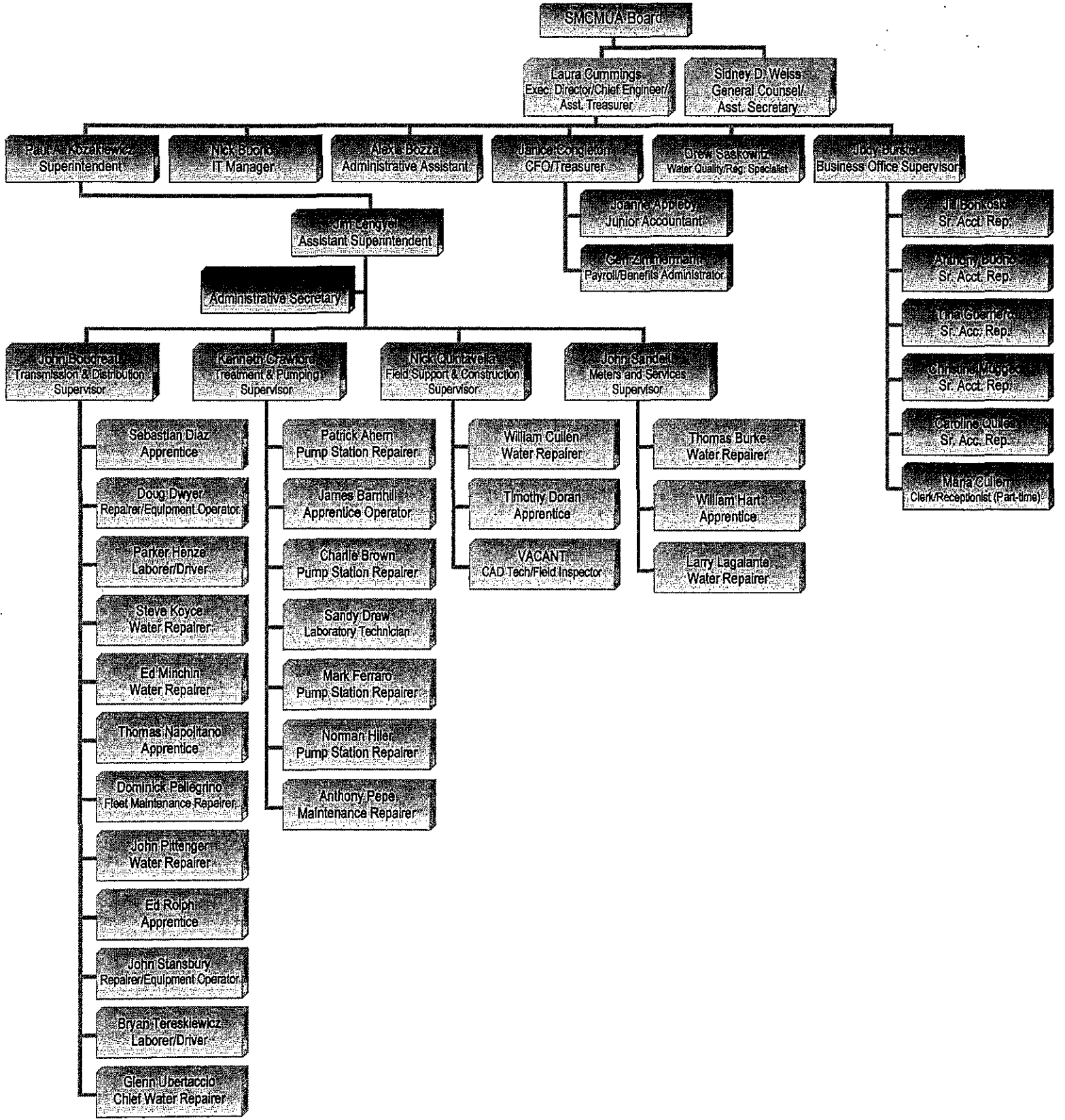
Respectfully submitted,



Laura Cummings
Executive Director/Chief Engineer



Janice A. Congleton
Chief Financial Officer/Treasurer



SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2013

Commissioners

<u>Commissioners</u>	<u>Position</u>
Mary E. Dougherty	Chairperson
William Conradi	Vice Chairperson
Edward A. Taratko, Jr.	Secretary
Dennis Baldassari	Board Member
Robert Carroll	Board Member
Saverio C. Iannaccone	Board Member
Donald Kissil	Board Member
Adolf Schimpf	Board Member

Other Officials

Laura Cummings, P.E.	Executive Director/Chief Engineer/ Assistant Treasurer
Janice A. Congleton	Chief Financial Officer/Treasurer
Paul Kozakiewicz	Superintendent
Sydney D. Weiss, Esquire	General Counsel/Assistant Secretary

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia, LLP
200 Valley Road, Suite 300
Mt. Arlington, New Jersey 07856

ATTORNEY

Sydney D. Weiss, Esquire
84 Washington Avenue
Morristown, NJ 07960

CONSULTING ENGINEER

Hatch Mott McDonald
Metropark, 111 Wood Avenue South
Iselin, New Jersey 08830

INSURANCE AGENT

Willis of New Jersey
1015 Briggs Road, Suite 100
Mount Laurel, New Jersey 08054

FINANCIAL SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

The Honorable Chairman and Members
 of the Southeast Morris County
 Municipal Utilities Authority
 Cedar Knolls, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the Southeast Morris County Municipal Utilities Authority, (the "Authority") for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 Authority'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 Authority'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 opinions.

Opinions

In our opinion, the component unit financial statements referred to above, present fairly, in all material respects, the financial position of the Authority as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary and Other Information

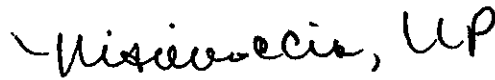
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplementary data schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary data schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

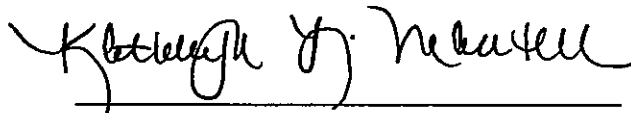
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2014 on our consideration of the 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 Authority's internal control over financial reporting and compliance.



Mt. Arlington, New Jersey
March 22, 2014

NISIVOCCIA, LLP



Kathryn L. Mantell
Registered Municipal Accountant #447
Certified Public Accountant

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

This section presents management's analysis of the Authority's financial condition and activities for the year ended December 31, 2013. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position to be strong. The Authority is functioning within its stringent financial policies and guidelines set forth by the Authority members. Following is a list of key highlights for 2013:

- Overall Operating Revenue for 2013 was down 7.26% when compared to 2012.
- Water Consumption was down by 3.25% when compared to 2012; however, Metered Sales were up 3.03% from 2012 and 1.42% over the anticipated revenue in the 2013 budget.
- Revenues from Connection Fees were \$403,932; this represents a decrease of \$1,641,319 over 2012.
- When compared to the 2013 Budget, anticipated revenues were up by \$266,729 and appropriations were below budget by \$1,138,426 before Depreciation and Amortization.
- Cash and Cash Equivalents and Investments have increased by \$2,761,459 from 2012.
- Total expenses for capital projects and other capital assets were \$2.235 million.
- Purchased water costs were under budget by \$315,699.
- Revenue from Metered Sales was up \$360,450 from 2012.
- Capital transfer for 2013 was \$3,500,000, which is \$350,000 more than in 2012.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. In addition, there are several supplementary information schedules.

The *Statement of Net Position* presents the financial position of the Authority on a full accrual historical cost basis. The Statement of Net Position presents information on all of the Authority's assets and liabilities as well as any deferred inflows or outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the Authority is improving or deteriorating.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and ensure that capital costs are allocated on the basis of long-term requirements, ensuring that growth pays for growth.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, capital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *Notes to Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary information schedules* provide detailed comparison of budget to actual expenses, as well as important debt information.

FINANCIAL CONDITION

The Authority's total net position increased 4.28%. This was mainly the result of normal business operations and the continued reduction of debt associated with capital assets. The Authority is in excellent shape to meet future financial demands. The analysis below focuses on the Authority's net position (Table 1).

**TABLE 1
Condensed Statement of Net Position**

	Dec. 31, 2013	Dec. 31, 2012	Increase/ (Decrease) from 2012	Percentage Increase/ (Decrease)
Current and Other Assets	\$ 11,330,815	\$ 9,611,964	\$ 1,718,851	17.88%
Capital Assets	64,384,221	63,627,658	756,563	1.19%
Total Assets	<u>75,715,036</u>	<u>73,239,622</u>	<u>2,475,414</u>	3.38%
Deferred Outflows of Resources	111,804	167,705	(55,901)	-33.33%
Current Liabilities	2,112,343	1,606,491	505,852	31.49%
Long-Term Liabilities	2,891,330	3,884,497	(993,167)	-25.57%
Total Liabilities	<u>5,003,673</u>	<u>5,490,988</u>	<u>(487,315)</u>	-8.87%
Net Investment in Capital Assets	60,841,968	59,164,084	1,677,884	2.84%
Restricted Net Position	3,489,520	3,548,757	(59,237)	-1.67%
Unrestricted Net Position	6,491,679	5,203,498	1,288,181	24.76%
Total Net Position	<u>\$ 70,823,167</u>	<u>\$ 67,916,339</u>	<u>\$ 2,906,828</u>	4.28%

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

FINANCIAL RESULTS

Changes in the Authority's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year. The Authority's total net position increased from the prior year by \$2,906,828. The analysis below focuses on the Authority's changes in net position (Table 2) during the year.

**TABLE 2
Condensed Statement of Revenue, Expenses
and Changes in Net Position**

	2013	2012	Increase/ (Decrease) from 2012	Percentage Increase/ (Decrease)
Operating Revenue	\$ 14,325,531	\$ 15,447,490	\$ (1,121,959)	-7.26%
Nonoperating Revenue	28,455	430,118	(401,663)	-93.38%
Total Revenue	<u>14,353,986</u>	<u>15,877,608</u>	<u>(1,523,622)</u>	-9.60%
Operating Expenses	9,360,760	9,227,278	133,482	1.45%
Depreciation	1,822,190	1,867,705	(45,515)	-2.44%
Nonoperating Expenses	200,880	237,744	(36,864)	-15.51%
Total Expenses	<u>11,383,830</u>	<u>11,332,727</u>	<u>51,103</u>	0.45%
Disposal of Capital Assets	<u>63,328</u>	<u>63,328</u>	<u>63,328</u>	100.00%
Change in Net Position	2,906,828	4,544,881	(1,638,053)	-36.04%
Beginning Net Position	<u>67,916,339</u>	<u>63,371,458</u>	<u>4,544,881</u>	7.17%
Ending Net Position	<u>\$ 70,823,167</u>	<u>\$ 67,916,339</u>	<u>\$ 2,906,828</u>	4.28%

Operating Revenues: The decrease in operating revenues is primarily due to the decrease in connection fees resulting from various construction projects in the constituent communities from the previous year.

Expenses: Operating expenses increased 1.45% from 2012. The Authority closely monitors its budget and spending throughout the year in order to control its operations.

When comparing the expenses from 2012 to 2013, the items to be noted are:

- Increase in Base Salaries of 1.5% per labor agreement.
- Decrease in Purchased Water and Energy costs of \$311,044.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

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

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

The greatest impacts on the Authority's performance were:

- Metered sales were above budget for the second year in a row. This is due to a conservative revenue projection and the completion of some of the new development which began in 2012. Revenue from metered sales for 2013 was \$171,634 above the projected amount.
- Miscellaneous revenue was \$775,725; much lower than the \$2,372,296 realized in 2012 due to a decrease of \$1,641,319 in connection fees. The Authority continues to reduce its dependency on connection fees.
- Interest income for the Authority was only \$5,749, down \$5,262 from 2012 and below budget by \$251. Until interest rates improve on certificates of deposits and similar instruments, investment income is limited to interest from money market accounts.
- The cost of purchased water remained relatively the same when compared to 2012. Passaic Valley Water Commission did increase its bulk water rate by 4% in 2013. It is anticipated that Passaic Valley Water Commission will continue to have annual increases of 4-5% for 10 years.
- The Authority paid its actuarially calculated pension payment of \$342,342 in 2013.

BUDGETARY HIGHLIGHTS

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

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

In order to continue its aggressive capital improvement program as outlined in the 2006 Master Plan on a "pay-as-you-go" basis, the Authority raised rates 9.5% effective January 1, 2008 and 6% again effective January 1, 2010. In order to continue to pay for capital projects without incurring debt, the Authority raised water rates by 3% in 2013. For 2014, an analysis of revenues and expenditures will be performed in May to see if a mid-year rate increase is necessary to maintain our pay-as-you-go capital plan. Statutory adjustments to the connection fee will continue annually.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the Authority had \$63,384,221 invested in a broad range of utility capital assets, including water treatment plants, water storage facilities, water mains, pump stations, and related land, facilities and equipment.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2013. These changes are presented in detail in Note 2 to the financial statements.

**TABLE 3
Capital Assets, Net of Accumulated Depreciation**

	Dec. 31, 2013	Dec. 31, 2012	Increase/ (Decrease) from 2012	Percentage Increase/ (Decrease)
Land	\$ 4,045,860	\$ 4,045,860		
Plant, Equipment and Vehicles	86,030,201	80,047,567	\$ 5,982,634	7.47%
Construction in Progress	1,003,820	4,519,156	(3,515,336)	-77.79%
Total	<u>91,079,881</u>	<u>88,612,583</u>	2,467,298	2.78%
Less: Accumulated Depreciation	<u>26,695,660</u>	<u>24,984,925</u>	1,710,735	6.85%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 64,384,221</u>	<u>\$ 63,627,658</u>	<u>\$ 756,563</u>	1.19%

Major additions during the year ended December 31, 2013 included:

Water System Improvements	\$ 1,455,901
Meter and Meter Interface Unit Replacement	320,304
Facilities Improvements	31,293
Well and Pump Station Maintenance and Standpipes	46,617

Based on the revised Master Plan completed in 2006, and revised in 2013, the Authority's 2014 capital budget plans for investing another \$3,035,245 in capital projects, including the following:

Engineering and Architectural Design Services	\$ 75,000
Information Technology	140,000
Facilities Improvements	60,000
Meters and Services	665,745
Transmission and Distribution Improvements	1,810,000
Treatment and Pumping Improvements	<u>284,500</u>
 Total Capital Budget for 2014	 <u>\$3,035,245</u>

The Authority plans to continue funding its capital projects through the its general operating budget which also comprises annual depreciation and connection fee transfers from revenues.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Long-term Debt: At year-end, the Authority had \$3,852,717 in debt outstanding – a decrease of \$953,101 from last year – as shown in Table 4. (More detailed information about the Authority’s long-term liabilities is presented in Note 5 to the financial statements.)

**TABLE 4
Outstanding Long-Term Debt**

	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>	<u>Increase/ (Decrease) from 2012</u>	<u>Percentage Increase/ (Decrease)</u>
Water Revenue Refunding				
Bonds Payable	\$ 2,970,000	\$ 3,890,000	\$ (920,000)	-23.65%
Loan - Town of Morristown	572,253	573,574	(1,321)	-0.23%
Other Long-Term Liabilities	310,464	342,244	(31,780)	-9.29%
	<u>\$ 3,852,717</u>	<u>\$ 4,805,818</u>	<u>\$ (953,101)</u>	-19.83%

At December 31, 2013, the Authority had outstanding revenue refunding bonds in the amount of \$2,970,000. The debt service schedule goes out to 2016 and the interest rates range from 2.0% to 4.00%. Moody’s Investor Service assigned its municipal bond rating of “Aa2” to the 2010 Refunding Bonds maturing in the years 2012 through 2016 and required NO reserve fund. The refunding proceeds of \$1,463,500 were used to pay down the 2001 refunding bonds resulting in the favorable budgetary savings. Full details of the specific Bond Issues outstanding are found on Schedule 2.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Authority’s 2014 budget revenues projected conservatively, at \$13,538,000 with total budgetary expenses equal to \$14,276,373. The contribution from unrestricted net position to balance the budget is \$738,373.

In 2013, the Authority experienced slightly higher than expected sales due to the 3% rate increase for the year. The 2014 Budget shows a decrease in anticipated metered sales due to expected changes in the corporate customer base. The anticipated revenue in 2014 for connection fees is conservatively estimated at \$150,000.

The 2014 operating budget was developed based upon the operating results for 2013. In 2014, anticipated metered water sales were reduced by \$300,000 (in order to bring the budget in line with 2013 actual revenue) and were offset with a related decrease in the amounts of purchased water. Salary and wages for 2014 are estimated as we do not currently have a contractual labor agreement in place, and increases in NJ State Health Benefits are projected at 4% due to the increase in employee contributions toward benefit costs. The total increase in 2014 appropriations is .76% net of depreciation, amortization and capital reserves.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
(UNAUDITED)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

2014 Budget highlights include:

- An overall budget increase of .76% (before Amortization and Depreciation) from 2013 has been projected.
- Revenues from Metered Sales have been anticipated to be \$300,000 less than the 2013 budgeted revenues (and are based upon 2013 actual revenues).
- 5% increase in the cost of water purchased from the Passaic Valley Water Commission.
- Connection fee projections are at the same level of \$150,000 as in 2013.
- The 2014 budget forecasts \$2,637,193 in depreciation, amortization and contribution to capital reserves.
- Decreases in line items for water purchases, fuel costs, road repairs and vehicle replacement were budgeted for 2014.
- The Water treatment chemical costs line item for 2014 has been increased by \$63,000.
- Two new budget departments have been added: Water Quality Division and IT Administration.
- Mandatory expenses are as follows:
 - o Mandatory contribution to the Public Employment Retirement System of \$371,500.
 - o NJ State Health Benefits Program average premium increase of 4% for active employees after the offset of higher employee contributions.

Completion of the Master Plan revision provided a blueprint for budgeting and rate planning. As recommended, water rates were adjusted 9.5% in January 2008 and 6% as of January 1, 2010 in order to finance the ongoing Capital Program. The Authority's projections do not anticipate a rate increase in 2014, however a comprehensive analysis of revenues will be conducted the second quarter to determine if a rate increase may be necessary mid-year.

It should be noted that based on the Board's commitment to supply the highest water quality and superior customer service and the practice of internal financing for projects and capital improvements, an annual review of revenues and rates is required.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Authority's customers, creditors and bond holders with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Laura Cummings, P.E., Executive Director/Chief Engineer at the Southeast Morris County Municipal Utilities Authority, 19 Saddle Road, Cedar Knolls, NJ 07927 or e-mail lcummings@smcmua.org.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and Cash Equivalents	\$ 9,183,019	\$ 6,421,560
Change Fund	400	400
Total Cash and Cash Equivalents	<u>9,183,419</u>	<u>6,421,960</u>
Water Charges Receivable	1,389,487	1,492,645
Other Accounts Receivable	567,327	1,532,253
State Grant Receivable		29,681
Prepaid Expenses	30,846	30,846
Inventory	<u>159,736</u>	<u>104,579</u>
Total Current Assets	<u>11,330,815</u>	<u>9,611,964</u>
Noncurrent Assets:		
Depreciable Capital Assets	59,334,541	55,062,642
Land	4,045,860	4,045,860
Construction in Progress	<u>1,003,820</u>	<u>4,519,156</u>
Total Capital Assets	<u>64,384,221</u>	<u>63,627,658</u>
Total Noncurrent Assets	<u>64,384,221</u>	<u>63,627,658</u>
TOTAL ASSETS	<u>75,715,036</u>	<u>73,239,622</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Unamortized Deferred Amount on Bond Refunding	<u>111,804</u>	<u>167,705</u>
Total Deferred Outflow of Resources	<u>111,804</u>	<u>167,705</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012
(Continued)

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Accounts Payable - Vendors	\$ 450,602	\$ 380,765
Contracts Payable - Vendors	527,089	120,311
Payroll Deductions Payable	12,399	22,158
Accrued Wages Payable	91,552	74,222
Accrued Interest Payable	58,150	76,550
Customer Deposits and Refunds	11,164	11,164
Bonds Payable	960,000	920,000
Loan Payable - Due to Town of Morristown	1,387	1,321
	<hr/>	<hr/>
Total Current Liabilities	2,112,343	1,606,491
	<hr/>	<hr/>
Noncurrent Liabilities:		
Bonds Payable	2,010,000	2,970,000
Unamortized Bond Premium	33,757	50,635
Compensated Absences Payable	276,707	291,609
Loan Payable - Due to Town of Morristown	570,866	572,253
	<hr/>	<hr/>
Total Noncurrent Liabilities	2,891,330	3,884,497
	<hr/>	<hr/>
Total Liabilities	5,003,673	5,490,988
	<hr/>	<hr/>
<u>NET POSITION</u>		
Net Investment in Capital Assets	60,841,968	59,164,084
Unrestricted	6,491,679	5,203,498
Restricted	3,489,520	3,548,757
	<hr/>	<hr/>
Total Net Position	<u>\$ 70,823,167</u>	<u>\$ 67,916,339</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Water Charges	\$ 13,549,806	\$ 13,075,194
Water Connection Fees	403,932	2,045,251
Wet Cut Application Fees	3,418	4,664
Tap Application Fees	26,440	35,438
Main Extension Inspection Fees	1,270	2,020
Fines/Penalties	64,904	44,954
Leases/Rents	91,672	121,239
Miscellaneous	184,089	118,730
Total Operating Revenue	<u>14,325,531</u>	<u>15,447,490</u>
Operating Expenses:		
Operating Appropriations	9,360,760	9,227,278
Depreciation	1,822,190	1,867,705
Total Operating Expenses	<u>11,182,950</u>	<u>11,094,983</u>
Operating Income	<u>3,142,581</u>	<u>4,352,507</u>
Nonoperating Revenue (Expenses):		
Interest Income	5,749	11,011
Amortization of Bond Premium	16,878	16,878
Interest Expense - Bonds	(172,201)	(209,002)
Interest Expense - Loans	(28,679)	(28,742)
Prior Year Accounts Payable Cancelled	5,828	394,387
Prior Year Customer Deposits and Refunds Cancelled		7,842
Total Nonoperating Revenue (Expenses)	<u>(172,425)</u>	<u>192,374</u>
Change in Net Position (Before Disposal of Capital Assets)	2,970,156	4,544,881
Disposal of Capital Assets, Net of Accumulated Depreciation	<u>(63,328)</u>	
Change in Net Position	2,906,828	4,544,881
Net Position, Beginning of Year	<u>67,916,339</u>	<u>63,371,458</u>
Net Position, End of Year	<u>\$ 70,823,167</u>	<u>\$ 67,916,339</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 15,423,296	\$ 13,643,851
Cash Paid to Suppliers and Employees	(9,347,583)	(9,524,623)
Net Cash Provided by Operating Activities	6,075,713	4,119,228
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(112,008)	(188,914)
Construction in Progress	(2,123,295)	(2,014,130)
Principal Paid on Bonds and Loans	(921,321)	(891,258)
Interest Expense	(163,379)	(195,192)
Net Cash Used for Capital and Related Financing Activities	(3,320,003)	(3,289,494)
Cash Flows from Investing Activities:		
Interest on Investments	5,749	11,011
Net Cash Provided by Investing Activities	5,749	11,011
Net Increase in Cash and Cash Equivalents	2,761,459	840,745
Cash and Cash Equivalents - Beginning of Year	6,421,960	5,581,215
Cash and Cash Equivalents - End of Year	\$ 9,183,419	\$ 6,421,960
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 3,142,581	\$ 4,352,507
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,822,190	1,867,705
Prior Year Accounts Payable Cancelled	5,828	394,387
Changes in Net Assets:		
(Increase) Decrease in Water Rents Receivable	103,158	(380,910)
(Increase) (Decrease) in Other Accounts Receivable	964,926	(1,415,164)
Decrease in State Grant Receivable	29,681	
(Increase) Decrease in Inventory	(55,157)	4,948
Increase (Decrease) in Accounts Payable	69,837	(590,116)
(Decrease) in Payroll Deductions Payable	(9,759)	(42,293)
(Decrease) in Deferred Revenue		(7,565)
(Decrease) in Accrued Compensated Absences Payable	(14,902)	(67,355)
Increase in Accrued Wages Payable	17,330	3,084
Net Cash Provided By Operating Activities	\$ 6,075,713	\$ 4,119,228

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

Note 1 - Organization and Summary of Significant Accounting Policies

The Southeast Morris County Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey and was created by parallel ordinances adopted by the governing bodies, effective in December 1976, of the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown (“the creating municipalities”), all municipal corporations of the State of New Jersey located in the County of Morris.

The Authority was created for the purpose of acquiring, constructing, maintaining, operating and improving the water supply and distribution system previously owned and operated by the Town of Morristown.

The ordinances creating the Authority provide that the Authority shall consist of eight members, two of whom shall be appointed by each of the governing bodies of the creating municipalities.

All bond proceeds, revenue or other cash receipts must be applied for specific purposes in accordance with the provisions of the Bond resolution dated September 5, 1991 and amended and restated on June 21, 2001 as more fully described in Note 5.

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned and/or expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net Position (i.e., totals assets and deferred outflows net of total liabilities and deferred inflows) are segregated into “net investment in capital assets”; “restricted for debt service”; and “unrestricted” components.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

A. Basis of Presentation and Accounting (Cont'd)

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency and a resulting financial benefit or burden relationship, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Authority is a legally separate organization. Financial transactions are processed and accounted for by the Authority's financial administration. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Authority is not includable in any other reporting entity on the basis of such criteria.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are recorded as unearned revenue.

Grant related expenses incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue. The Authority was not awarded any grants in either 2012 or 2013.

C. Inventories

The cost of inventories of supplies are recorded on a first-in, first-out basis and are stated at cost.

D. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

E. Investments

Investments are stated at cost which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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 revenue and expenses during the reporting period. Actual results could differ from the estimates.

G. Compensated Absences

The Authority accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Authority employees are granted varying amounts of vacation and sick leave in accordance with the Authority's employee contracts/agreements and personnel manual. Employees are permitted to accrue up to one year of unused vacation time and all unused sick time. Upon retirement, employees shall be paid for their unused vacation time. Employees hired prior to December 31, 2011 shall be paid for their unused sick leave in accordance with the Authority's applicable employee contracts/agreements and personnel manual. Employees hired after December 31, 2011, are not entitled to payment for their unused sick time.

In the *Statement of Net Position*, the liabilities, whose average maturities are greater than one year, should be reported in two components – the amount due within one year and the amount due in more than one year. Compensated absences are accrued and reported as a liability in the period earned. The balance as of December 31, 2013 was \$276,707, which is included on the Statement of Net Position as a non-current liability.

H. Net Position

The Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the prior year. This statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

The Authority early implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*, during the prior year. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

H. Net Position (Cont'd)

A deferred outflow of resources is a consumption of net position by the Authority that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Authority that is applicable to a future reporting period. The Authority did not have any deferred inflows of resources at December 31, 2013. The Authority had a deferred outflow of resources for the Deferred Amount on Refunding at December 31, 2013.

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

I. Allowance for Uncollectible Accounts

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

J. Revenue Recognition

Large commercial customers are billed monthly and residential and small commercial customers are billed quarterly. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

K. Restricted (Accounts) Funds

By its nature as a local government unit, the Authority is subject to various federal, state and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources is as follows:

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
 (Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

K. Restricted (Accounts) Funds (Cont'd)

Bond Resolution

Set forth below are statements which are summaries of certain provisions of the Bond Resolution, Adopted September 5, 1991 and amended and restated on June 21, 2001 and September 2, 2010:

1. Collection and Disposition of Revenues – The Resolution provides for the establishment of a Revenue Fund, Operating Fund, Bond Service Fund, Sinking Fund, Bond Reserve Fund, Subordinated Indebtedness Fund, General Fund and Rebate Fund. The Subordinated Indebtedness Fund and General Fund are held by the Authority, all remaining funds are held by the Trustee.

All revenues collected by the Authority are deposited into the Revenue Fund. Any moneys received by the Authority from any other source for operating, maintaining or repairing the system is also deposited into the Revenue Fund.

The Trustee makes payments from the Revenue Fund for the Authority's operating expenses upon requisition of the Authority.

2. The Trustee, at the discretion of the Authority, makes the following payments from the Revenue Fund to the following Funds in the order of priority as listed:

- a. Operating Fund – Until the amount on deposit in the Operating Fund equals the Operating Account requirement. The Authority has determined the Operating Fund Requirement to be equal to approximately one quarter of its annual operating expenses, subject to the Authority's review on a continual basis, within the limits of its annual budget.
- b. Bond Service Fund – Until the amount on deposit in the Bond Service Fund equals any unpaid interest and principal then due plus the interest to become due and the principal maturing on or before the next January (the "Bond Service Requirement").
- c. Sinking Fund – Until the amount on deposit equals the aggregate amount of all Sinking Fund Installments payable on or before the next January (the "Sinking Fund Requirement").
- d. Bond Reserve Fund – Until the amount in the Bond Reserve Fund equals maximum annual debt service on all outstanding bonds (the "Bond Reserve Requirement").
- e. Subordinated Indebtedness Fund – To the extent of future subordinated indebtedness.
- f. General Account – To any extent available.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
 (Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

K. Bond Resolution (Cont'd)

3. General Fund – Moneys in the General Fund are available for deficiencies in the Bond Reserve Fund until the amount on deposit equals the Bond Reserve Requirement. Whenever all amounts set forth have been paid into the Operating Fund, the Bond Service Fund, the Sinking Fund and the Bond Reserve Fund, and the Authority is not in default in the payment of the principal or redemption premium or the interest on any bonds and any costs of any Bond Insurance Policy, Credit Facility or Liquidity Facility, and all administrative costs of the Authority have been paid, the Trustee, upon direction of the Authority, shall pay to the Authority from the General Fund, free and clear of any lien or pledge created by the Resolutions, any amount which is then on deposit in the General Fund.

All amounts so paid to the Authority from the General Fund may be spent by the Authority for any lawful purpose.

4. Construction Fund – The resolution provides for the establishment of a Construction Fund with a separate account for the acquisition of the water system and for the construction and acquisition of any authorized project of the Authority. Amounts in the Construction Fund will be used to pay the costs of construction and acquisition of the system.

The Trustee shall withdraw from the Construction Fund the balance in any account upon completion of the project being constructed related to such account after providing for the payment of all costs in connection therewith, and pay the amount so withdrawn to either (1) payment of the cost of any portion of the System (other than the aforementioned completed project), (2) payment of the principal of or interest on the Bonds, (3) payment of any Sinking Fund Installment of any Series of Bonds issued for or with respect to the System, or (4) payment of the Redemption Price of any Bonds, all in accordance with the certificate of an Authority Officer.

5. Rebate Fund – The Authority shall determine the arbitrage amount subject to rebate to the United States Government in accordance with the terms of the tax certificate executed by the Authority in connection with the authentication and delivery of the series 1991 Bonds. Such amounts shall be held in the Rebate Fund for payment to the United States Government.
6. Special Fund – Cash and investments in the Special Fund are the accumulated excess funds transferred from the General Fund to the Authority. Although these amounts may be spent by the Authority for any lawful purpose, these funds are presently being used solely to improve the Authority's water supply and distribution system.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 2 - Capital Assets

Capital assets are recorded at cost and consisted of the following:

	<u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Dec. 31, 2013</u>
Capital Assets Being Depreciated:					
Plant	\$ 56,897,686			\$ 5,378,534	\$ 62,276,220
Vehicles	1,046,026	\$ 112,008	\$(111,455)		1,046,579
Machinery and Equipment	22,103,855			603,547	22,707,402
Total Capital Assets Being Depreciated	<u>80,047,567</u>	<u>112,008</u>	<u>(111,455)</u>	<u>5,982,081</u>	<u>86,030,201</u>
Capital Assets not Being Depreciated:					
Land	4,045,860				4,045,860
Construction in Progress	4,519,156	2,530,073	(63,328)	(5,982,081)	1,003,820
Total Capital Assets not Being Depreciated	<u>8,565,016</u>	<u>2,530,073</u>	<u>(63,328)</u>	<u>(5,982,081)</u>	<u>5,049,680</u>
Total Capital Assets	88,612,583	2,642,081	(174,783)		91,079,881
Accumulated Depreciation	<u>(24,984,925)</u>	<u>(1,822,190)</u>	<u>111,455</u>		<u>(26,695,660)</u>
Capital Assets (Net)	<u>\$ 63,627,658</u>	<u>\$ 819,891</u>	<u>\$ (63,328)</u>	<u>\$ - 0 -</u>	<u>\$ 64,384,221</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets have been reviewed for impairments.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

Structures and Improvements	50-100 Years
Transmission and Distribution Mains, Reservoirs and Standpipes	100 Years
Vehicles and Equipment	5-100 Years

Construction-in-Progress

As of December 31, 2013, the Authority continues to move forward with plans to upgrade its water treatment facilities with cumulative costs totaling \$1,003,820.

Note 3 - Pension

Authority employees are enrolled in one cost sharing multiple-employer public employee retirement system: the Public Employees' Retirement System (PERS). The State of New Jersey sponsors and administers this plan which covers substantially all Authority employees. As a general rule, all full-time employees are eligible to join this public employees' retirement system.

Employees who are members of PERS and retire at a specified age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" (Tiers 1,2 and 3 use the 3 years prior to retirement or the highest 3 years of salary and Tier 4 uses the five years prior to retirement or the highest 5 years of salary) during years of creditable service. Vesting occurs after 8 to 10 years of service.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
 (Continued)

Note 3 - Pension (Cont'd)

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

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. For PERS, the contribution rate was 6.64% effective July 1, 2012 and increased to 6.78% effective July 1, 2013. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate in both funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Authority contributions to PERS amounted to \$342,342, \$350,422, and \$336,874 for 2013, 2012, and 2011, respectively.

Note 4 - Operating Leases

The Authority has commitments to lease copying equipment and a postage machine under operating leases which expire in April 2014. Total operating lease payments made during the year ended December 31, 2013 were \$8,287.

Future lease payments are as follows:

Year	Amount
2014	\$ 2,412

Note 5 - Long-Term Debt

Bonds Payable

The Authority issued \$4,785,000 Water Revenue Refunding Bonds, Series 2010 on October 5, 2010 to currently refund Water Revenue Refunding Bonds, Series 2001 and pay the costs of issuance. The bonds are serial bonds which mature annually in varying amounts ranging from \$5,000 to \$1,025,000. The bonds bear multiple interest rates varying from 2%-4% per annum.

The Authority had bonds outstanding at December 31, 2013 as follows:

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 5 - Long-Term Debt (Cont'd)

Bonds Payable (Cont'd)

<u>Purpose</u>	<u>Maturities of Bonds</u>		<u>Interest</u>	<u>Balance</u>
	<u>Outstanding Dec. 31, 2013</u>			
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Dec. 31, 2013</u>
Water Revenue	1/1/14	\$ 960,000	4.00%	
Refunding Bonds	1/1/15	985,000	4.00%	
Series 2010	1/1/16	250,000	3.00%	
	1/1/16	775,000	4.00%	\$ 2,970,000
	Short-Term Portion			\$ 960,000
	Long-Term Portion			2,010,000
	Long-Term Portion			\$ 2,970,000

Principal and interest due on the bonds for the next succeeding three years is as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Rate</u>			
2014	4.00%	\$ 960,000	\$ 97,100	\$ 1,057,100
2015	4.00%	985,000	58,200	1,043,200
2016	3.00% - 4.00%	1,025,000	19,250	1,044,250
		\$ 2,970,000	\$ 174,550	\$ 3,144,550
Short-Term Portion		\$ 960,000	\$ 97,100	\$ 1,057,100
Long-Term Portion		2,010,000	77,450	2,087,450
Total		\$ 2,970,000	\$ 174,550	\$ 3,144,550

The Authority recorded a deferred amount on the 2001 refunding in the gross amount of \$929,807 which is being amortized over the life of the refunding bonds. The amortization expense was \$55,901 and \$55,902 for the years ended December 31, 2013 and 2012. The unamortized deferred amount on the refunding was \$111,804 and \$167,705 at December 31, 2013 and 2012, respectively.

Loans Payable

On January 20, 1977, under a regionalization plan approved by ordinances of the creating municipalities (see Note 1), the Authority acquired the water utility owned and operated by the Town of Morristown. Under the plan, a portion of the acquisition cost is required to be paid to the Town of Morristown in annual installments of \$30,000 until year 2076. The present values of the unpaid balances at December 31, 2013 and 2012 were \$572,253 and \$573,574, respectively, at an assumed interest rate of 5%. Interest expense on the annual payment due to the Town of Morristown was \$28,679 and \$28,742 for 2013 and 2012, respectively.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
 (Continued)

Note 5 - Long-Term Debt (Cont'd)

Bonds Authorized But Not Issued

As of December 31, 2013, the Authority had no authorized but not issued bonds.

Note 6 - Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures*, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk -- In accordance with its cash management plan, the Authority ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk -- The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed on the following pages.

Deposits:

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

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

The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit.

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

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
 (Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

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

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 6 - Cash and Cash Equivalents and Investments (Cont'd)

As of December 31, 2013, cash and cash equivalents and investments of the Southeast Morris County Municipal Utilities Authority consisted of the following:

	<u>Cash on Hand</u>	<u>Checking/ Savings Accounts</u>	<u>Money Market Funds</u>	<u>NJ Cash Management Fund</u>	<u>Total</u>
Cash and Cash Equivalents	<u>\$ 400</u>	<u>\$ 6,523,336</u>	<u>\$ 1,214,131</u>	<u>\$ 1,445,552</u>	<u>\$ 9,183,419</u>

The carrying amount of the Authority's cash and cash equivalents and investments at December 31, 2013, was \$9,183,419, and the bank balance was \$9,251,671. The \$1,445,552 invested with the State of New Jersey Cash Management Fund is uninsured and unregistered. The Authority did not hold any investments during the period ended December 31, 2013.

Note 7: Risk Management

The 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 disasters. Health benefits are provided to employees through the State of New Jersey health benefits plan. The Authority carries commercial insurance coverage for all other risks of loss except for Workers' Compensation Insurance coverage.

The Authority is a member of the Statewide Insurance Fund (the "Fund"). The Fund provides its members with Workers' Compensation. The Fund is a risk-sharing public entity risk pool that is both an insured and self-administered group of governmental entities established for the purpose of providing low-cost insurance coverage for its members in order to keep local property taxes at a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Fund are elected.

As a member of the Fund, the Authority could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. The members may either receive payment or offset their subsequent year assessments with their respective share of the distribution.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 7: Risk Management (Cont'd)

The December 31, 2013 audit report has not been filed as of the date of this audit. Selected financial information for the Fund as of December 31, 2012 is as follows:

	Statewide Insurance Fund Dec. 31, 2012
Total Assets	\$ 35,903,110
Net Position	\$ 4,749,231
Total Revenue	\$ 23,147,328
Total Expenses	\$ 22,992,413
Change in Net Position	\$ 154,915
Members Dividends	\$ -0-

Financial statements for the Fund are available at the offices of the Fund's Executive Director:

Statewide Insurance Fund
30A Columbia Turnpike
P.O. Box 678
Florham Park, NJ 07932-0678
(973) 549-1900

New Jersey Unemployment Compensation Insurance

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

The following is a summary of Authority and employee contributions, interest earned and reimbursements to the State for benefits paid and the ending balance of the Authority's account for the current and previous two years which is included in the Authority's restricted net position:

Year	Authority/ Employee Contributions	Interest Earned	Amount Reimbursed	Ending Balance
2011	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ 108,826
2012	8,000	- 0 -	1,967	114,859
2013	5,614	- 0 -	15,453	105,020

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 8: Post-Retirement Benefits

The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP.

Rules governing the operations and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/ substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body by statute to be responsible for the operations of the SHBP. The New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. This report may be obtained by writing to the New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on the pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health benefits of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget.

The Authority provides its retirees with health benefits which are funded by the Authority (and in some cases, may be offset by employee contributions). These benefits are negotiated through each bargaining unit's contract. In order to receive fully paid health benefits, retirees must have been enrolled in the Public Employees Retirement System for 25 years and have served 20 consecutive years with the Authority. Retirees receive the same type of health insurance coverage that they were receiving prior to retirement. There are thirteen (13) retirees and eight (8) spouses enrolled in health benefits programs which are fully funded by the Authority. The annual costs are determined by the provider, per approved schedules in accordance with the insured individual's age and plan status. This represents billings to the Authority on an experience basis. The Authority's annual costs for the years ended December 31, 2013 and 2012 was \$202,814 and \$177,188, respectively.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 9: Intraentity and Interfund Transfers

In the normal course of business, the Authority will from time to time authorize advances between accounts. Also, as stated in the Bond Resolution, when the amount on deposit in the Operating Fund, Bond Service Fund and Bond Reserve Funds equals or exceeds the requirements for the current year, monies can be transferred into the General Fund that is free and clear of any lien or pledge created by said resolution, to be used for any lawful purpose of the Authority. During 2013, the Authority transferred \$3,150,000 from the Revenue Bond Service Fund to the General Special Fund based on the Bond Resolution. There were no advances outstanding as of December 31, 2013.

Note 10: Accounts Payable, Contracts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

	<u>2013</u>	<u>2012</u>
Vendors	\$ 977,691	\$ 501,076
Payroll Deductions Payable	12,399	22,158
Accrued Wages Payable	91,552	74,222
Accrued Interest Payable	<u>58,150</u>	<u>76,550</u>
Total	<u>\$ 1,139,792</u>	<u>\$ 674,006</u>

Note 11: Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenditures, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

Note 12: Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 13: Service Contract

On January 20, 1977, the Authority entered into service contracts with the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown. The contracts authorize the Authority to supply water within the territorial boundaries of the participating municipalities and to establish service charges at rates sufficient (1) to pay or provide for the expenses of operations and maintenance of the system and the principal of and interest on any and all bonds as the same become due, (2) to maintain such reserves and sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolutions, or as may be deemed necessary or desirable by the Authority to the Town of Morristown pursuant to its agreement with said Town, (3) to provide for any deficits of the Authority resulting from failure to receive any sum payable by any municipality, any county or any person, or from any other cause, and (4) to comply in all respects with the terms and provisions of any Bond Resolutions and of the Act.

The service contract does not obligate any municipality to make payments in lieu of service charges; however, the creating municipalities are required to enforce a lien on real property equal to the unpaid balance of service charges with respect to real property located within such municipalities.

The service contract also provides that the Authority shall not supply or distribute water to any property located outside its district (the territorial area of the creating municipalities) without the consent of all the creating municipalities unless such property was previously supplied with water by the Town of Morristown water system.

SUPPLEMENTARY INFORMATION

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Water Charges	\$ 13,549,806	\$ 13,075,194
Water Connection Fees	403,932	2,045,251
Wet Cut Application Fees	3,418	4,664
Tap Application Fees	26,440	35,438
Main Extension Inspection Fees	1,270	2,020
Fines/Penalties	64,904	44,954
Leases/Rents	91,672	121,239
Miscellaneous	184,089	118,730
Total Operating Revenue	<u>14,325,531</u>	<u>15,447,490</u>
Operating Expenses:		
Operating Appropriations	9,360,760	9,227,278
Depreciation	1,822,190	1,867,705
Total Operating Expenses	<u>11,182,950</u>	<u>11,094,983</u>
Operating Income	<u>3,142,581</u>	<u>4,352,507</u>
Nonoperating Revenue (Expenses):		
Interest Income	5,749	11,011
Amortization of Bond Premium	16,878	16,878
Interest Expense - Bonds	(172,201)	(209,002)
Interest Expense - Loans	(28,679)	(28,742)
Prior Year Accounts Payable Cancelled	5,828	394,387
Prior Year Customer Deposits and Refunds Cancelled		7,842
Total Nonoperating Revenue (Expenses)	<u>(172,425)</u>	<u>192,374</u>
Change in Net Position (Before Disposal of Capital Assets)	2,970,156	4,544,881
Disposal of Capital Assets, Net of Accumulated Depreciation	<u>(63,328)</u>	
Change in Net Position	2,906,828	4,544,881
Net Position, Beginning of Year	<u>67,916,339</u>	<u>63,371,458</u>
Net Position, End of Year	<u>\$ 70,823,167</u>	<u>\$ 67,916,339</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENDITURES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012

	2013 Budget	Budget After Modification	2013 Actual	Excess or (Deficit)	2012 Actual
Revenue:					
Water Charges:					
Unmetered Sales	\$ 8,000	\$ 8,000	\$ 8,156	\$ 156	\$ 6,831
Metered Sales	12,100,000	12,100,000	12,271,634	171,634	11,911,184
Bulk Service Invoices	65,000	65,000	65,455	455	56,122
Fire Protection	675,000	675,000	677,844	2,844	639,877
Contract Operations	500,000	500,000	526,717	26,717	461,180
Water Connection Fees	150,000	150,000	403,932	253,932	2,045,251
Wet Cut Application Fees	3,000	3,000	3,418	418	4,664
Tap Application Fees	20,000	20,000	26,440	6,440	35,438
Main Extension Inspection Fees			1,270	1,270	2,020
Fines/Penalty Charges	35,000	35,000	64,904	29,904	44,954
Leases/Rents	103,592	103,592	91,672	(11,920)	121,239
Miscellaneous Income	70,000	70,000	184,089	114,089	118,730
Interest on Investments and Deposits	6,000	6,000	5,749	(251)	11,011
Contribution from Unrestricted Net Assets	328,959	328,959		(328,959)	
Total Revenue	14,064,551	14,064,551	14,331,280	266,729	15,458,501
Expenses:					
Operating Expenses:					
Administration Expenses:					
Salaries and Wages:					
General Administration	320,700	390,370	391,108	(738)	267,912
Financial Operations	208,000	209,423	201,839	7,584	189,344
Customer Service and Collection	375,000	404,123	400,628	3,495	331,485
Administration Division	363,500	418,470	409,273	9,197	360,632
Employee Benefits:					
Dental Benefits	27,000	24,210	23,754	456	37,585
Medical Benefits	872,150	808,422	836,042	(27,620)	817,834
Social Security Tax	270,000	276,000	276,223	(223)	261,614
Public Employees' Retirement System	373,860	343,860	342,342	1,518	350,422
Accumulated Sick Time	108,500	81,700	81,661	39	35,855
Other Expenses:					
General Administration	267,500	278,815	258,105	20,710	213,940
Financial Operations	95,700	123,320	103,739	19,581	94,543
Customer Service and Collection	293,600	429,968	396,653	33,315	326,584
Cost of Providing Services:					
Salaries and Wages:					
Administration Division	159,372	149,548	148,996	552	133,836
Transmission and Distribution	810,000	775,920	749,304	26,616	767,811
Treatment and Pumping Division	528,220	591,827	581,441	10,386	573,782
Services and Meter Division	350,000	353,970	320,324	33,646	352,425
Field Support/Construction Divisor	321,000	255,500	239,123	16,377	252,414

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENDITURES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2013
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

	2013 Budget	Budget After Modification	2013 Actual	Excess or (Deficit)	2012 Actual
Expenses: (Cont'd):					
Operating Expenses: (Cont'd)					
Cost of Providing Services: (Cont'd)					
Other Expenses:					
Administration Division	\$ 2,931,000	\$ 2,519,003	\$ 1,941,696	\$ 577,307	\$ 2,200,113
Transmission and Distribution	447,500	584,945	430,577	154,368	471,930
Treatment and Pumping Division	582,000	722,380	559,345	163,035	472,980
Services and Meter Division	31,000	35,000	22,842	12,158	30,117
Field Support/Construction Divisior	25,500	20,100	1,693	18,407	15,510
Insurance and Taxes	705,450	669,678	644,052	25,626	668,610
Total Operating Expenses	<u>10,466,552</u>	<u>10,466,552</u>	<u>9,360,760</u>	<u>1,105,792</u>	<u>9,227,316</u>
Debt Service:					
Bond Principal	920,000	920,000	920,000		890,000
Loan Principal	1,321	1,321	1,321		1,258
Bond Interest	134,700	134,700	116,300	18,400	153,100
Loan Interest	28,679	28,679	28,679		28,742
Amortization Expense	51,257	51,257	39,023	12,234	51,257
Other Interest Charges	2,000	2,000		2,000	
Total Debt Service Expenses	<u>1,137,957</u>	<u>1,137,957</u>	<u>1,105,323</u>	<u>32,634</u>	<u>1,124,357</u>
Depreciation Expense	<u>2,460,042</u>	<u>2,460,042</u>	<u>1,822,190</u>	<u>637,852</u>	<u>1,867,705</u>
Total Costs Funded by Operating Revenue	<u>14,064,551</u>	<u>14,064,551</u>	<u>12,288,273</u>	<u>1,776,278</u>	<u>12,219,378</u>
Operating Excess/(Deficit)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,043,007</u>	<u>\$ 2,043,007</u>	<u>\$ 3,239,123</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE

	<u>Original</u>		<u>Interest Rate</u>	<u>Maturities of Bonds Outstanding Dec. 31, 2013</u>		<u>Balance Jan. 1, 2013</u>	<u>Matured</u>	<u>Balance Dec. 31, 2013</u>
	<u>Date</u>	<u>Amount</u>		<u>Date</u>	<u>Amount</u>			
Water Revenue Refunding Bond Series 2010	10/05/10	\$ 4,785,000	4.00%	1/1/14	\$ 960,000			
			4.00%	1/1/15	985,000			
			3.00%	1/1/16	250,000			
			4.00%	1/1/16	775,000	\$ 3,890,000	\$ 920,000	\$ 2,970,000
						<u>\$ 3,890,000</u>	<u>\$ 920,000</u>	<u>\$ 2,970,000</u>
			Balance Comprised of:					
			Short-Term Portion			\$ 920,000	\$ 40,000	\$ 960,000
			Long-Term Portion			2,970,000	(960,000)	2,010,000
						<u>\$ 3,890,000</u>	<u>\$ (920,000)</u>	<u>\$ 2,970,000</u>

GOVERNMENT AUDITING STANDARDS SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax
 Lawrence Business Park
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

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*

Independent Auditors' Report

The Honorable Chairman and Members
 of the Southeast Morris County
 Municipal Utilities Authority
 Cedar Knolls, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, the financial statements of the Southeast Morris County Municipal Utilities Authority (the "Authority") as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated March 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable Chairman and Members
of the Southeast Morris County
Municipal Utilities Authority
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nisivoccia, UP

Mount Arlington, New Jersey
March 22, 2014

NISIVOCCIA, LLP

Kathryn L. Mantell

Kathryn L. Mantell
Registered Municipal Accountant #447
Certified Public Accountant

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Authority.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' 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*.
- No instances of noncompliance material to the financial statements of the Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

The finding noted during 2012 regarding the segregation of duties with respect to recording and treasury functions was resolved in the current year.

COMMENTS AND RECOMMENDATIONS SECTION

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

N.J.S. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, 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, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. 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 subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective January 1, 2011 the bid threshold in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$17,500 and with a qualified purchasing agent the threshold may be up to \$36,000.

The minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services", per N.J.S. 40A:11-5.

Inasmuch as the system of records did provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

(Continued)

Health Benefits

Finding

Employee contributions for health benefits and compensation for waiving health benefit coverage were calculated based upon P.L. 2011, Chapter 78 phase-in schedules. According to the statute, contributions should be withheld based upon “the higher of 1.5% of base salary or the Chapter 78 phase-in (schedules)”. As a result, employee contributions were approximately \$1,700 less than they should have been. Since the Authority has made the necessary adjustments to employee withholdings for the higher of 1.5% of base salary or the Chapter 78 phase-in schedules, no formal recommendation is judged to be warranted.

Payroll Filing

Finding

Quarterly unemployment tax returns (NJ 927 forms) were not filed on a timely basis due to unfamiliarity with the system for the first and second quarters of 2013. As a result, the Authority was assessed a nominal amount in penalties due to the late filings. Since the third and fourth quarter of 2013 were filed on a timely basis, no recommendation is deemed necessary.

Status of Prior Year Findings

The prior year audit finding and recommendation regarding the segregation of duties of the CFO/Treasurer and staff was resolved in the current year.

Suggestions to Management:

Capital Assets

The capital asset inventory has been updated annually with additions and deletions, and inventory control numbers have been assigned to all assets in the inventory report. However, inventory control tags have not been created or affixed to all moveable assets. We suggest that the Authority review the existing capital asset inventory and ensure that all moveable capital assets bear an inventory control (number) tag.

Budget Transfers

The Authority over expended three of its internal budget appropriation line items but did not over expend the consolidated line items that are contained in the budget which is submitted to NJ Division of Local Government Services, Bureau of Local Authorities. For good business practice, we suggest that the Authority authorize and obtain Board approval for budget transfers among its internal appropriation line items to cover actual expenditures.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

(There are no current year recommendations).
