

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**

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**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010**

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

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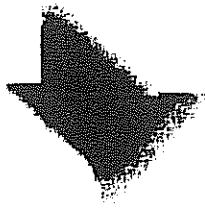
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**FINANCIAL SECTION**

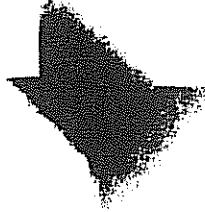
**INDEPENDENT AUDITOR'S REPORT**



*T. M. Vrabel & Associates, LLC*  
*Accountants and Auditors*

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*Timothy M. Vrabel, RMA, PSA*  
*Chris C. Hwang, CPA*



INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members  
The Southeast Morris County Municipal Utilities Authority  
Cedar Knolls, New Jersey 07927

We have audited the accompanying basic financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of The Southeast Morris County Municipal Utilities Authority as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Southeast Morris County Municipal Utilities Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

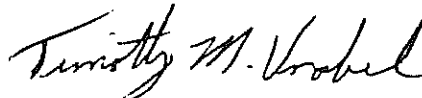
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of The Southeast Morris County Municipal Utilities Authority as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2011 on our consideration of The Southeast Morris County Municipal Utilities Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

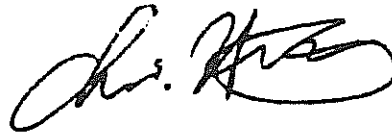
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The Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on Exhibit I are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Southeast Morris County Municipal Utilities Authority's basic financial statements. The accompanying other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Timothy M. Vrabel  
Registered Municipal Accountant  
License No. CR00339



Chris C. W. Hwang  
Certified Public Accountant  
License No. CC033704

April 20, 2011

**REQUIRED SUPPLEMENTARY INFORMATION - PART 1**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The Southeast Morris County Municipal Utility Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the year ended December 31, 2010.

### FINANCIAL HIGHLIGHTS

- Overall, Water Consumption was up 7.9% when compared to 2009, bringing Metered Sales up 14.5% from 2009 and but fell short by 3.2% when compared to budget.
- Overall Operating Revenue for 2010 was up 1.9% when compared to 2009. It should be noted that there was a 6% rate increase effective January 1, 2010.
- Refunded the 2001 Revenue Bonds resulting in a Net Present Value Savings of \$581,724 or 9.125%; an aggregate budgetary savings of \$2,127,299. Interest expense on the bonds was \$190,479 lower than in 2009.
- Revenues from Connection Fees were \$100,320, \$1,305,487 below 2009.
- When compared to the 2010 Budget, revenues were down by \$346,628 and appropriations were below budget by \$894,396 before Depreciation and Amortization.
- Cash and Cash Equivalents and Investments have decreased \$1,323,807 from 2009. This is mainly due to the elimination of the Bond Reserve Fund balance that was used to retire \$1,463,500 of the outstanding Bond Principal as part of the 2010 Refunding.
- Total expenditures on capital projects and other fixed assets were \$2.5 million.
- Energy costs were below budget by \$118,394 but \$57,228 above last year.
- Purchased water costs were under budget by \$243,583.
- The Authority's net capital contributions increased \$267,242 in 2010.
- Cash Receipts from Metered Sales were up 12.6% over 2009. However, cash receipts from miscellaneous sales were down \$1,341,089 from last year.
- General/Capital Fund transfer for 2010 was \$2,600,000, \$900,000 above the amount transferred in 2009.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a corporate and politic body organized under the laws of the State of New Jersey. The Comprehensive Annual Financial Report is presented in two sections: Financial Statements and Notes, Supplemental Schedules and comments. The Financial section includes Management's Discussion and Analysis and Financial Statements with notes. The Supplemental Schedules include detailed financial information along with general comments and recommendations from the Independent Auditor's Reports. The Authority adopted the Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal period ended December 31, 2004.

### REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

## *MD&A Continued*

The **Balance Sheet** includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The **Statement of Revenues, Expenses and Changes in Net Assets** accounts for all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges. This statement also measures the Authority's surplus and credit worthiness.

The **Statement of Cash Flows provides** information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. This statement provides the answers to such questions as "where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period?"

### **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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority, and changes in them. The Authority's net assets – the difference between assets and liabilities – are a measurement of the financial health or financial position.

Over time, increases or decreases in the Authority's net assets 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:

- As a result of lower than expected sales in the winter months and not withstanding a very hot, dry summer, projected metered sales were still below the budgeted amount. This combined with minimal connection fees and low interest earnings contributed to a revenue shortfall of over \$340,000. This is the third year in a row that projected metered sales were below budget.
- Cash receipts from miscellaneous revenue were \$756,888; well below the \$2,097,976 collected in 2009 which included \$1,439,102 in connection fees; \$758,416 was from Morristown Epstein's, LLC. This is a primary driver of the scheduled water rate increases in order to compensate for the anticipated decrease in construction and therefore connection fees. The Authority is successfully reducing its dependency on connection fees.
- Interest income for the Authority was \$34,280, down \$10,738 from 2009 and below budget by \$34,645. This was due to continued historically low interest rates. The Authority did invest in a fixed rate Certificate of Deposit (1.75%) during the year when cash flow was available earning \$7,012. This practice will continue in 2011 to optimize interest income, if and when these instruments become available, but it is highly unlikely that the Authority will get that opportunity in 2011.
- Although the cost of purchased water cost remained relatively the same when compared to 2009, Passaic Valley Water Commission did increase its bulk water rate by 4% in 2010.
- The phase-in of employer pension contributions was complete in 2009. The Authority paid \$259,678 of the actuarially calculated amount in 2010. The employee contribution remained at 5.5% or \$171,746 for 2010.

The Authority's total net assets increased from last year by 3.3%. The analysis, which follows, focuses on the Authority's net assets and changes in net assets during the year.

Table 1  
Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	Increase/(Decrease)	
			\$	%
Operating Revenue	\$13,622,554	\$13,372,842	\$249,712	1.9%
Operating Expenses:				
Operating Appropriations	9,278,525	9,456,973	(178,448)	(1.9%)
Reserve for Renewal & Replacement	0	0	0	
Depreciation	<u>1,978,094</u>	<u>1,754,056</u>	<u>224,038</u>	<u>12.8%</u>
Total Operating Expenses	<u>11,256,619</u>	<u>11,211,029</u>	<u>45,590</u>	<u>0.4%</u>
Operating Income	<u>\$2,365,935</u>	<u>\$2,161,813</u>	<u>\$204,122</u>	<u>9.4 %</u>
Non-Operating Revenue (Expenses):				
Interest Income	34,280	45,018	(10,738)	(23.9%)
Amortization Expense	(51,257)	(58,257)	7,000	(12.0%)
Interest Expense on Debt	(278,172)	(468,701)	190,533	(40.7%)
Other	178,049	13,607	164,442	1209%
Additions to Capital Assets fm Budget	<u>237,965</u>	<u>271,994</u>	<u>(34,029)</u>	<u>(12.5%)</u>
Total Non-Oper Rev (Exp)	(196,343)	(65,873)	(130,470)	(198.1%)
Change in Net Assets before Disposal of Capital Assets	2,169,592	2,095,940	(73,652)	3.5%
Disposal of Capital Assets, Net of Accumulated Depreciation	(524,835)	(115,625)	(409,210)	353.9%
<b>Change in Net Assets</b>	<b>\$1,961,966</b>	<b>\$1,849,845</b>	<b>\$112,121</b>	<b>6.1%</b>
Beginning Net Assets	\$60,337,334	\$58,487,489		
Ending Net Assets	<u>\$62,299,300</u>	<u>\$60,337,334</u>	<u>\$1,961,966</u>	<u>3.3%</u>

When comparing the expenses from 2009 to 2010, the items to be noted are:

- Increase in Base Salaries of 3.0% per labor agreement.
- Decrease in Purchased Water and Energy costs by \$55,899.
- Capital disposal of assets net of depreciation of \$524,835. An aging water infrastructure, Meters and MIU's are being replaced over the next few years per the Master Plan, the Authority will be taking the old assets off of the books. This represents the "book value" or original purchase amount less accumulated depreciation.

## MD&A Con't

- Employee Benefits were up \$110,463 from 2009 mainly due to the phase in of the statutory employer contribution to the NJ PERS (pension). However, these expenses were below projected by \$36,500.

## 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 this 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 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. The Authority does not plan to issue additional debt to finance capital program as currently planned. The success of the 2010 Refunding Bond Issue combined with cost control measures results in NO anticipated rate increases in the near future, barring unforeseen circumstances. However, statutory adjustments to the connection fee will continue annually.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2010, the Authority had \$62,180,188 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. Major additions completed during the year ended December 31, 2010 included:

Water System Improvements	\$ 854,340
Meter/Meter Interface Unit Replacement 2010	618,934
Countrywood Tank Rehab/Repair	574,118
Vehicles/Trucks	155,559
Treatment Plant Equipment	55,607
Well & Pump Station Maintenance & Standpipes	41,680
SCADA Equipment	34,920
Computer & Office Equip, Building Improv.	27,322
Payroll/Time Clock System	25,658
Misc Trans & Distr Equip	22,452
Field Support Equipment	2,605

Based on the revised Master Plan completed in 2006, the Authority's 2011 capital budget plans for investing another \$2,820,000 in capital projects, including the following:

Water System Improvements	\$1,500,000
Automatic Meter Reading	900,000
Emergency Generator/Motor Controls	150,000
Facilities Rehabilitation	100,000
Relocations	50,000
Filter Media Replacement	50,000
System Maps/GIS	50,000
SCADA/IT Security	<u>20,000</u>
Total Capital Budget-2011	\$2,820,000

## MD&A Con't

The Authority plans to continue funding the capital projects through the General Fund. The General Fund comprises annual depreciation and connection fee transfers from revenues.

### Capital Projects - 2011

Capital Budget – 2011	\$2,820,000
Projects in Process – Dec 31, 2010	<u>1,766,753</u>
Total Projects – 2011	\$4,586,753
Less: Paid	<u>( 1,275,819)</u>
Total Funds Required – 2011	<u>\$3,310,934</u>

### Capital Projects Fund Sources – 2011

Surplus General Fund	<u>\$3,780,617</u>
Total Funds	<u>\$3,780,617</u>

## Debt Service

In 2010, the Authority refunded the 2001 Callable Bonds resulting in a net present value savings of 9.125% or \$581,724 and an aggregate budgetary savings of \$2,127,299. At December 31, 2010, the Authority had outstanding revenue bonds in the amount of \$5,880,000. 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. These monies, \$1,463,500, were used to pay down the 2001 principal resulting in the favorable budgetary savings. Full details of the specific Bond Issues outstanding are found on Schedule 11.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's 2011 budget projected revenues, conservatively, at \$13,488,106 with total budgetary expenses equal to \$13,533,412 and a nominal contribution of \$45,306 from unrestricted net assets to balance the budget.

In 2008 & 2009, the Authority experienced lower than expected customer demand due to cooler weather conditions in the summer months. In 2010, a dry, hot summer drove up demand during the peak months. However, demand was lower during 2010 as a whole causing a shortfall in revenues. The 2011 budget contemplates the economic climate combined with the continuing increase in the use of structural conservation products that reduces overall water usage. Additionally, the collection of significant connection fees or large budget savings is not anticipated.

There were many adjustments in the operating portion of the budget in 2010 which resulted in an overall budget decrease of 3.5%. In 2011, changes were done to reflect increases in statutory expenses and decreases in debt service.

Budget highlights include:

- Overall, there is an overall budget decrease of 1.45% before Amortization and Depreciation from 2010 projected.

## *MD&A Con't*

- Revenues from Metered Sales are anticipated to be below the level of 2010 by \$400,000. Connection fee projections have been reduced to \$100,000 for 2011.
- Interest Income has been reduced to being almost nonexistent. Interest rates at all time lows combined with lowered cash balances due to the elimination of the Bond Reserve of \$1,463,500.
- The 2011 budget forecasts \$2,448,807 in depreciation, amortization and contribution to capital reserves.
- The Series 2002 Jr. Lien Bond was retired in 2009 resulting in a reduction in Debt Service of \$789,911 or 34% in 2010. The Debt Service is further reduced by \$400,913 or 27% as a result of the 2001 Bond Refunding.
- Larger line items such as purchased water, energy costs, and fuel and street repairs remain flat or show a decrease based on actual costs.
- Increases in mandatory expenses are as follows:
  - Mandatory contribution to the Public Employees Retirement System of \$336,874.
  - NJ State Health Benefit Program average premium increase of 20% for active employees and 7.8% for retirees.
- Operational efficiencies have helped keep other non-salary costs in check.

Completion of the Master Plan revision provided a blueprint for budgeting and rate planning. As recommended, water rates were adjusted 9.5% January 2008 and 6% as of January 1, 2010 in order to finance the ongoing Capital Program. Barring an emergency, the Authority's projections do not anticipate an addition rate increase in the near future.

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 ratepayers, 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 Ann M. Cucci, CMFO/QPA, Chief Financial Officer and Treasurer at Southeast Morris County Municipal Utilities Authority, 19 Saddle Road, Cedar Knolls, NJ 07927 or e-mail [acucci@smcmua.org](mailto:acucci@smcmua.org).

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**NOT APPLICABLE**

## **FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS**

**NOT APPLICABLE**

**PROPRIETARY FUNDS**

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2010**

	<b>Business-type Activities - Enterprise Funds</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 5,845,080.41	\$ 7,168,887.80
Change Fund	100.00	100.00
Cash - Restricted - Net Payroll and Payroll Expense	69,592.14	55,196.90
Accounts Receivable	1,169,548.62	1,025,561.36
Amount Due from Morris County Municipal Utilities Authority	44,606.03	55,985.47
State Grant Receivable	29,680.54	29,680.54
Prepaid Expenses	34,346.19	30,846.19
Inventory	98,117.77	100,213.67
Total Current Assets	7,291,071.70	8,466,471.93
Noncurrent Assets:		
Unamortized Bond Issue Costs	61,166.33	73,399.60
Capital Assets:		
Capital Assets not being depreciated:		
Land	4,045,860.21	4,052,610.21
Construction in Progress	1,820,503.71	1,082,132.42
	5,866,363.92	5,134,742.63
Capital Assets	77,393,303.88	76,387,548.10
Less: Accumulated Depreciation	(21,079,479.50)	(19,609,344.38)
	56,313,824.38	56,778,203.72
Total Capital Assets	62,180,188.30	61,912,946.35
Total Noncurrent Assets	62,241,354.63	61,986,345.95
Total Assets	69,532,426.33	70,452,817.88
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	304,506.38	443,637.89
Reserve for Unemployment	108,825.56	116,412.16
Net Payroll and Payroll Deductions Payable	69,592.14	55,196.90
Deferred Revenue	2,140.50	
Accrued Interest on Bonds	66,457.36	209,231.25
Customer Deposits and Refunds	13,617.40	13,425.00
Total Current Liabilities	565,139.34	837,903.20
Noncurrent Liabilities (Note IV:B.):		
Due within one year:		
Bonds Payable	1,110,000.00	1,055,000.00
Due beyond one year:		
Bonds Payable	4,780,000.00	7,480,000.00
Less: Deferred Amount on Refunding	(279,509.25)	(335,411.11)
Bond Premium	84,391.23	101,269.48
Amount Due to Town of Morristown	576,030.50	577,171.90
Compensated Absences	397,074.84	399,550.50
Total Noncurrent Liabilities	6,667,987.32	9,277,580.77
Total Liabilities	7,233,126.66	10,115,483.97
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	55,714,157.80	52,800,774.45
Restricted for:		
Debt Service	-	1,447,087.50
Operations	3,372,026.50	3,510,871.75
Unrestricted	3,213,115.37	2,578,600.21
Total Net Assets	\$ 62,299,299.67	\$ 60,337,333.91

The accompanying Notes to Financial Statements are an integral part of this statement.

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>2010</u>	<u>2009</u>
<b>Operating Revenues:</b>		
Water Charges		
Unmetered Sales	\$ 7,568.70	7,951.50
Metered Sales	12,229,649.57	10,706,713.38
Bulk Service Invoices	75,783.24	79,753.17
Fire Protection	655,349.02	607,067.14
Connection Fees	100,320.12	1,405,806.65
Wet Cut Application Fees	2,361.00	3,070.00
Tap Application Fees	17,385.00	20,360.00
Main Extension Inspection Fees	2,416.00	32,557.39
Miscellaneous	51,719.61	48,289.17
Fines/Penalties	46,190.49	42,084.95
Contract Operations	332,425.56	342,431.11
Leases	<u>101,385.64</u>	<u>76,757.58</u>
Total Operating Revenues	<u>13,622,553.95</u>	<u>13,372,842.04</u>
<b>Operating Expenses:</b>		
Operating Appropriations	9,278,525.37	9,456,973.24
Depreciation	<u>1,978,093.88</u>	<u>1,754,055.53</u>
Total Operating Expenses	<u>11,256,619.25</u>	<u>11,211,028.77</u>
Operating Income	<u>2,365,934.70</u>	<u>2,161,813.27</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest Income	34,280.15	45,018.29
Amortization Expense		
Bond Issue Costs	(12,233.27)	(19,233.27)
Bond Premium - 2001 Issue	16,878.25	16,878.25
Deferred Amount on Refunding	(55,901.86)	(55,901.86)
Interest Expense - Bonds	(249,313.61)	(439,792.50)
Interest Expense - Loan	(28,858.60)	(28,912.90)
Accounts Payable Canceled	51,549.28	13,606.76
Additional Defeasance of 2001 Refunding Bonds	126,500.00	
Additions to Capital Assets		
Paid From Budget	237,965.27	271,993.84
Disposal of Capital Assets, net of		
Accumulated Depreciation	<u>(524,834.55)</u>	<u>(115,624.73)</u>
Total Nonoperating Revenues (Expenses)	<u>(403,968.94)</u>	<u>(311,968.12)</u>
Income (loss) before contributions and transfers	1,961,965.76	1,849,845.15
Transfers in (out)	-	-
Change in net assets	1,961,965.76	1,849,845.15
Total Net Assets—Beginning	<u>60,337,333.91</u>	<u>58,487,488.76</u>
Total Net Assets—Ending	<u>\$ 62,299,299.67</u>	<u>\$ 60,337,333.91</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY  
 COMPARATIVE STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 13,492,086.63	\$ 13,424,341.25
Payments to Employees	(3,355,900.20)	(3,288,620.99)
Payments for Employee Benefits	(1,345,999.25)	(1,239,476.00)
Payments to Suppliers	(4,712,828.55)	(5,461,733.21)
Net Cash Provided by Operating Activities	4,077,358.63	3,434,511.05
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Customer Deposits	6,829.30	1,922.60
Customer Refunds	(6,636.90)	(15,047.60)
Accounts Payable Canceled	51,549.28	13,606.76
Net Cash Provided by Non-Capital Financing Activities	51,741.68	481.76
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(2,532,205.11)	(1,694,777.83)
Principal Paid on Capital Debt	(2,519,641.10)	(1,801,087.10)
Interest Paid on Capital Debt	(420,946.40)	(496,646.65)
Net Cash (Used for) Capital and Related Financing Activities	(5,472,792.61)	(3,992,511.58)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends	34,280.15	45,018.29
Net Cash Provided by Investing Activities	34,280.15	45,018.29
Net Increase in Cash and Cash Equivalents	(1,309,412.15)	(512,500.48)
Balances—Beginning of Year	7,224,184.70	7,736,685.18
Balances—End of Year	\$ 5,914,772.55	\$ 7,224,184.70
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 2,365,934.70	\$ 2,161,813.27
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,978,093.88	1,754,055.53
(Increase) in Accounts Receivable, Net	(132,607.82)	51,499.21
(Increase) in Prepaid Expenses	(3,500.00)	153.81
Decrease in Inventory	2,095.90	(5,334.32)
(Decrease) in Accounts Payable	(132,322.87)	(558,270.72)
Increase in Deferred Revenue	2,140.50	
(Decrease) in Compensated Absences Payable	(2,475.66)	30,594.27
Total Adjustments	1,711,423.93	1,272,697.78
Net Cash Provided by Operating Activities	\$ 4,077,358.63	\$ 3,434,511.05

The accompanying Notes to Financial Statements are an integral part of this statement.

**FIDUCIARY FUNDS**  
**NOT APPLICABLE**

**NOTES TO BASIC FINANCIAL STATEMENTS**

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of The Southeast Morris County Municipal Utilities Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments throughout the United States. It required new information and restructuring much of the information that governments had presented in the past. The Authority began implementing these standards for the year ending December 31, 2003.

Other GASB Statements were also required to be implemented in conjunction with GASB Statements No. 34. Therefore, the Authority implemented for the year ending December 31, 2003, Statement No. 37 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38 – Certain Financial Statement Note Disclosures.

B. Reporting Entity

The Southeast Morris County Municipal Utilities Authority (the Authority, SMCMUA) is a public body corporate and politic body organized under the laws of the State of New Jersey and was created by parallel ordinances adopted by the governing bodies, effective in December 1976, 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.

New Jersey Statutes provide for the creation, dissolution and operations of separate bodies corporate and politic for the purpose of fostering the provision and distribution of an adequate supply of water and the collection, treatment, disposal and recycling of waste water and sewage sludge. These statutes were enacted as the “Municipal and Counties Utilities Authorities Act”, and are codified in New Jersey Statutes Annotated as NJSA 40:14B-1 et seq. Additional statutory requirements relating to the financial operations of independent local authorities were established as the “Local Authorities Fiscal Control Law”, which is codified as NJSA 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs (DCA), State of New Jersey, as oversight agencies for the creation, project financing, budgeting and overall financial condition of local authorities.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

The Authority has no stockholders or equity holders. All bond proceeds, revenues 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 Notes 4 and 7.

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

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. GASB pronouncements constitute GAAP for governmental units.

The primary criterion for including activities within the Authority's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Authority. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the Authority over which the Board exercises operating control. 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.

C. Basic Financial Statements- Fund Financial Statements

The financial transactions of the Authority are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net assets, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Authority:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Authority is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges; or, where the Authority has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Fund Financial Statements (Continued)

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Structures and Improvements	50-100 years
Distribution Reservoirs and Standpipes	100 years
Transmissions and Distribution Mains	100 years
Vehicles and Equipment	5-100 years

D. Measurement Focus and Basis of Accounting

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

E. Budgets/Budgetary Control

The annual budget is required to be balanced and authorities are permitted to utilize unreserved retained earnings to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved retained earnings or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

For the purpose of using projected Unreserved Retained Earnings or funding operating deficits, Authorities are permitted to amend or modify the annual operating budget, since actual results may differ from the amount estimated in the budget process.

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 et. seq. provides a list of permissible investments that may be purchased by New Jersey Authorities.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Authority and that are due within one year.

3. Inventories

Inventories are stated at cost.

4. Bond Discounts/Premiums Issuance Costs/Deferred Amount on Refunding

Bond discounts, issuance costs, and deferred amount on refundings are deferred and amortized over the term of the bonds using a straight-line method. Bond discounts are presented as a reduction of the face amount of the bonds payable, whereas issuance costs are recorded as other assets.

5. Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

Structures and Improvements	50-100 years
Distribution Reservoirs and Standpipes	100 years
Transmissions and Distribution Mains	100 years
Vehicles and Equipment	5-100 years

Land and Construction in Progress are not depreciated.

6. Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt related trustee accounts and debt service reserve (no longer required for the 2010 Refunding Bonds) and operating requirements (25% of succeeding year's budget).

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

7. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Authority and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

In the Proprietary fund, compensated absences that are expected to be liquidated with expendable available financial resources are reported as a fund liability.

8. Long-term Obligations

Long – term debt is recognized as a liability of the proprietary fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long – term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately.

9. Equity Classifications

Fund Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note II: Stewardship, Compliance and Accountability

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 follows.

**BOND RESOLUTION**

Set forth below are statements which are summaries of certain provisions of the 2001 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 the 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 direction of the Authority, makes the following payments from the Revenue Fund to the following Funds in the order of priority as listed:

- (a) The Operating Fund until the amount on deposit in the Operating Fund equals the Operating Fund 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 (available for deficiencies in the Bond Service Fund) until the amount in the Bond Reserve Fund equals maximum annual debt service on all outstanding bonds (the "Bond Reserve Requirement").
- (e) The Subordinated Indebtedness Fund to the extent of future subordinated indebtedness.
- (f) General Fund to any extent available.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note II: Stewardship, Compliance and Accountability (Continued)

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 Account – Cash and investments in the Special Account 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.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

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

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

At December 31, 2010 The Southeast Morris County Municipal Utilities Authority's cash and cash equivalent's amounted to \$6,517,944.83. Of this amount, \$500,000.00 was covered by federal depository insurance (F.D.I.C.) and \$5,427,750.36 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2010 The Southeast Morris County Municipal Utilities Authority participation in the State of New Jersey Cash Management Fund amounted to \$590,194.47

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, The Southeast Morris County Municipal Utilities Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of December 31, 2010, \$590,194.47 of The Southeast Morris County Municipal Utilities Authority's cash and cash equivalents of \$6,517,944.83 was exposed to custodial credit risk as follows:

Uninsured and collateral held by public depository or by its' trust department not in the Authority's name	<u>\$ 590,194.47</u>
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THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit The Southeast Morris County Municipal Utilities Authority to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of commissioners of any Authority may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority;

(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 Authority or bonds or other obligations of local unit or units within which the Authority 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 the Authority;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(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 section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

The Southeast Morris County Municipal Utilities Authority has no investments as described in Note I:F.1. at December 31, 2010.

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Business - type activities:					
Capital assets not being depreciated:					
Land	\$ 4,052,610.21	\$ -	\$ (6,750.00)	\$ -	\$ 4,045,860.21
Construction in Progress	1,082,132.42	738,371.29	-	-	1,820,503.71
Total capital assets not being depreciated	<u>5,134,742.63</u>	<u>738,371.29</u>	<u>(6,750.00)</u>	<u>-</u>	<u>5,866,363.92</u>
Infrastructure	50,126,325.91	1,064,706.29	(2,683.70)		51,188,348.50
Buildings and Improvements	4,004,200.64				4,004,200.64
Vehicles	1,036,765.49	155,559.00	(162,304.64)		1,030,019.85
Machinery and Equipment	21,220,256.06	811,533.80	(861,054.97)	-	21,170,734.89
Totals at historical cost	<u>76,387,548.10</u>	<u>2,031,799.09</u>	<u>(1,026,043.31)</u>	<u>-</u>	<u>77,393,303.88</u>
Less accumulated depreciation for:					
Assets	<u>(19,609,344.38)</u>	<u>(1,978,093.88)</u>	<u>507,958.76</u>	<u>-</u>	<u>(21,079,479.50)</u>
Total accumulated depreciation	<u>(19,609,344.38)</u>	<u>(1,978,093.88)</u> (1)	<u>507,958.76</u>	<u>-</u>	<u>(21,079,479.50)</u>
Net capital assets being depreciated	<u>56,778,203.72</u>	<u>53,705.21</u>	<u>(518,084.55)</u>	<u>-</u>	<u>56,313,824.38</u>
Business - type activities capital assets, net	<u>\$ 61,912,946.35</u>	<u>\$ 792,076.50</u>	<u>\$ (524,834.55)</u>	<u>\$ -</u>	<u>\$ 62,180,188.30</u>

(1) Depreciation expense was charged to governmental functions as follows:

Water	<u>\$ 1,978,093.88</u>
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SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The District has commitments to leases for copiers and a postage machine which expire in April 2014. Total operating lease payments made in 2010 were \$4,699.00. Future minimum lease payments are:

<u>Year Ended</u>	<u>Amount</u>
December 31, 2011	\$ 8,748.00
December 31, 2012	8,748.00
December 31, 2013	8,287.00
December 31, 2014	<u>2,412.00</u>
Total future minimum	<u>\$ 28,195.00</u>

B. Long - Term Liabilities

Long - Term liability activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities:					
Long - Term debt:					
Bonds	\$ 8,535,000.00	\$ 4,785,000.00	\$(7,430,000.00)	\$ 5,890,000.00	\$ 1,110,000.00
Loans	577,171.90	-	(1,141.40)	576,030.50	1,198.50
Total debt payable	<u>9,112,171.90</u>	<u>4,785,000.00</u>	<u>(7,431,141.40)</u>	<u>6,466,030.50</u>	<u>1,111,198.50</u>
Other liabilities:					
Compensated absences	399,550.50	-	(2,475.66)	397,074.84	-
Total other liabilities	<u>399,550.50</u>	<u>-</u>	<u>(2,475.66)</u>	<u>397,074.84</u>	<u>-</u>
Business-type activities long - term liabilities	<u>\$ 9,511,722.40</u>	<u>\$ 4,785,000.00</u>	<u>\$(7,433,617.06)</u>	<u>\$ 6,863,105.34</u>	<u>\$ 1,111,198.50</u>

1 Bonds Payable

The principal maturities on bonds payable at December 31, 2010 is as follows:

<u>Year</u>	<u>2001 Refunding Bonds</u>		<u>2010 Refunding Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011	\$ 1,105,000.00	\$ 23,481.25	\$ 5,000.00	\$ 132,876.11	\$ 1,266,357.36
2012			890,000.00	166,450.00	1,056,450.00
2013			920,000.00	134,700.00	1,054,700.00
2014			960,000.00	97,100.00	1,057,100.00
2015			985,000.00	58,200.00	1,043,200.00
2016	-	-	1,025,000.00	19,250.00	1,044,250.00
	<u>\$ 1,105,000.00</u>	<u>\$ 23,481.25</u>	<u>\$ 4,785,000.00</u>	<u>\$ 608,576.11</u>	<u>\$ 6,522,057.36</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

1. Bonds Payable

Water Revenue Refunding Bonds, Series 2010 – The Authority issued Water Revenue Refunding Bonds, Series 2010, dated 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 on January 1, 2011 to the final maturity of \$1,025,000 on January 1, 2016. The bonds bear multiple interest rates varying between 2.00% and 4.00% per annum.

Interest expense has been accrued in the amounts of \$66,457 and \$209,231 for the years ended December 31, 2010 and 2009, respectively. Interest expense paid for the years ended December 31, 2010 and 2009 was \$392,087 and \$467,733, respectively.

Defeasance of Water Revenue Refunding Bonds Series 2001 – Pursuant to an Escrow Agreement, the Authority deposited the proceeds of the Water Revenue Refunding Bonds, Series 2010 to currently refund the outstanding Water Revenue Refunding Bonds, Series 2001. As a result, Water Revenue Refunding, Series 2001 are considered defeased and the liability for those bonds of \$6,375,000 has been removed from the Authority's balance sheet.

2. Loans Payable

Due to the Town of Morristown – On January 20, 1977, Under a regionalization plan approved by ordinances of the creating municipalities (see Note A), 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 value of the unpaid balance at December 31, 2010 and 2009 was \$576,080 and \$577,171, respectively, at an assumed interest rate of 5%. Interest expense on the annual payment amount due to the Town of Morristown is recorded in the amount of \$28,858 and \$28,912 for 2010 and 2009, respectively.

3. Bonds Authorized But Not Issued

As of December 31, 2010 the Authority had no authorized but not issued bonds.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note V: Pension Plans

Description of Systems

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer defined benefit plan.

The Public Employees' Retirement System (PERS) was established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. These reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

Retirement Benefits

For PERS employees, the benefits will be 1/55 of the average of the three highest years compensation for each year of service. However, for PERS who are veterans of the U.S. armed forces, the benefits will be 1/55 of final compensation for each year of service.

Significant Legislation

P.L. 2010, c.1, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

This new legislation changed the membership eligibility criteria for new members of TPAF and PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of TPAF and PERS to 1/60 from 1/55, and it provided that new members of TPAF and PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF and PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for Social Security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the prosecutor's part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time five years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined as 1/7<sup>th</sup> of the required amount, beginning in Fiscal Year 2012.

P.L. 2010, c.3, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the TPAF and PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note V: Pension Plans Continued

Funding Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the aggregate funded ratio for the retirement systems (TPAF, PERS, PFRS, POPF, CPFPP, JRS, and SPRS) is 66.0 percent with an unfunded actuarial accrued liability of \$45.8 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 62.0 percent and \$30.7 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and PFRS is 72.1 percent and \$15.1 billion.

The required supplementary information regarding the funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared o past expectations and new estimates are made about the probability of future events.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey contingent upon the annual Appropriations Act. The pension funds provide for employee contributions based on 5.0 percent for PERS of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of living adjustments and noncontributory death benefits in the PERS.

During the year ended June 30, 2010, for PERS, which is a cost sharing multi-employer defined pension plan, the annual pension cost equals the annual required contribution.

Contributions-Actual

The Southeast Morris County Municipal Utilities Authority's total payroll for the year ended December 31, 2010 was \$3,389,061.51 and covered payroll was \$3,150,455.00 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		PERS	Percent of Covered Payroll
Employees	12/31/10	\$173,275.45	5.50%
	12/31/09	166,275.46	5.50%
	12/30/08	154,374.36	5.27%
Authority	12/31/10	\$259,678.00	8.24%
	12/31/09	232,439.00	7.69%
	12/31/08	173,500.80	5.92%

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note VI: Post Retirement Medical Benefits

The Southeast Morris County Municipal Utilities Authority provides its retirees with health benefits which are fully funded by the Authority. These benefits are negotiated for through each bargaining unit's contract. In order to receive fully paid health benefits, retirees must have been enrolled in the public Employees Retirement Fund for 25 years. Retirees receive the same type of healthy insurance coverage that they were receiving prior to retirement. There are twelve (12) retirees and seven (7) 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 estimates the annual cost at approximately \$167,302.68.

Note VII: Risk Management

The Southeast Morris County Municipal Utilities Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Southeast Morris County Municipal Utilities Authority continues to carry commercial insurance coverage for all other risks of loss, including health and accident insurance. There have been no significant reductions in insurance coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Note VIII: 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 vacation and sick leave in varying amounts under the Authority's personnel policies. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begins vesting upon permanent employment.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Note IX: Service Contract

On January 20, 1977, the Authority entered into a Service Contract with the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown. The agreement authorizes 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, (4) 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 (5) 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.

**ROSTER OF OFFICIALS AND INSURANCE COVERAGE**

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY  
MORRIS COUNTY, NEW JERSEY

**ROSTER OF OFFICIALS AND INSURANCE COVERAGE**  
DECEMBER 31, 2010

<u>AUTHORITY MEMBERS</u>	<u>POSITION</u>	<u>TERM EXPIRATION DATE</u>	<u>AMOUNT OF BOND</u>
Robert Carroll	Chairman	Feb. 1, 2015	
Dennis Baldassari	Vice Chairman	Feb. 1, 2016	
Adolf Schimpf, Ph.D.	Secretary	Feb. 1, 2012	
William Conradi	Member	Feb. 1, 2014	
Mary Dougherty	Member	Feb. 1, 2015	
Saverio C. Iannaccone	Member	Feb. 1, 2016	
Donald Kissil	Member	Feb. 1, 2014	
Edward A. Taratko, Jr., P.E.	Member	Feb. 1, 2013	
 <u>OTHER AUTHORITY OFFICIALS</u>			
William Hutchinson	Executive Director/Chief Engineer		
Ann M. Cucci	Treasurer		(1) \$175,000
Paul Kozakiewicz	Superintendent		

The Authority has Faithful Performance of Duty Coverage Blanket Position Bond with the American Zurich Insurance Company in the amount of \$250,000 for each employee.

(1)The Ohio Casualty Insurance Company

**REQUIRED SUPPLEMENTARY INFORMATION – PART II**

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

STATEMENT OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>2010 Actual</u>	<u>Excess/ (Deficit)</u>
Operating Revenues:			
Water Charges:			
Unmetered Sales	\$ 10,000.00	\$ 7,568.70	\$ (2,431.30)
Metered Sales	12,571,526.00	12,229,649.57	(341,876.43)
Bulk Service Invoices	65,000.00	75,783.24	10,783.24
Fire Protection	650,511.00	655,349.02	4,838.02
Connection Fees	150,000.00	100,320.12	(49,679.88)
Wet Cut Application Fees	5,300.00	2,361.00	(2,939.00)
Tap Application Fees	26,500.00	17,385.00	(9,115.00)
Main Extension Inspection Fees	3,180.00	2,416.00	(764.00)
Miscellaneous	40,000.00	51,719.61	11,719.61
Fines/Penalties	25,000.00	46,190.49	21,190.49
Contract Operations	346,169.00	332,425.56	(13,743.44)
Interest on Investments	65,101.00	34,280.15	(30,820.85)
Leases	<u>85,200.00</u>	<u>101,385.64</u>	<u>16,185.64</u>
Total Operating Fees	<u>14,043,487.00</u>	<u>13,656,834.10</u>	<u>(386,652.90)</u>
Non-Operating Revenues:			
Retained Earnings Appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 14,043,487.00</u>	<u>\$ 13,656,834.10</u>	<u>\$ (386,652.90)</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

STATEMENT OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

	Modified Budget	2010 Actual	Balance/ (Overexpended)
Expenses:			
Operating Appropriations:			
Administration Expenses:			
Salaries and Wages			
General Administration	315,866.48	317,964.80	(2,098.32)
Financial Operations	201,481.76	201,901.59	(419.83)
Customer Service and Collection Administration Division	472,652.11	467,997.16	4,654.95
	<u>356,790.30</u>	<u>356,952.15</u>	<u>(161.85)</u>
	<u>1,346,790.65</u>	<u>1,344,815.70</u>	<u>1,974.95</u>
Employee Benefits:			
Dental Benefits	19,005.25	18,669.01	336.23
Medical Benefits	301,468.14	294,662.53	6,805.61
Social Security Tax	103,161.88	99,044.31	4,117.57
Public Employees' Retirement System	97,500.00	101,274.42	(3,774.42)
Accumulated Sick Time	19,578.62	11,289.43	8,289.20
	<u>540,713.89</u>	<u>524,939.70</u>	<u>15,774.19</u>
Other Expenses:			
General Administration	263,587.50	224,499.11	39,088.39
Financial Operations	127,200.00	125,748.80	1,451.20
Customer Service and Collection	248,500.00	242,041.16	6,458.84
	<u>639,287.50</u>	<u>592,289.07</u>	<u>46,998.43</u>
Cost of Providing Services:			
Salaries and Wages			
Administration Division	164,833.49	129,358.46	35,475.03
Transmission and Distribution	763,539.05	679,930.20	83,608.85
Treatment and Pumping Division	494,135.34	513,163.34	(19,028.00)
Services and Meter Division	390,319.86	388,608.16	1,711.70
Field Support and Construction Division	307,926.99	297,548.68	10,378.31
	<u>2,120,754.73</u>	<u>2,008,608.84</u>	<u>112,145.89</u>
Employee Benefits:			
Dental Benefits	29,726.15	29,200.25	525.90
Medical Benefits	471,527.10	460,882.43	10,644.67
Social Security Tax	161,355.76	154,915.46	6,440.30
Public Employees' Retirement System	152,500.00	158,403.58	(5,903.58)
Accumulated Sick Time	30,622.98	17,657.83	12,965.15
	<u>845,731.99</u>	<u>821,059.55</u>	<u>24,672.44</u>
Other Expenses:			
Administration Division	2,785,908.00	2,443,854.57	342,053.43
Transmission and Distribution	435,225.00	323,917.42	111,307.58
Treatment and Pumping Division	621,500.00	518,033.25	103,466.75
Services and Meter Division	43,500.00	37,510.86	5,989.14
Field Support and Construction Division	17,000.00	15,793.80	1,206.20
Insurance and Taxes	695,555.69	647,702.61	47,853.08
	<u>4,598,688.69</u>	<u>3,986,812.51</u>	<u>611,876.18</u>
Total Operating Appropriations	<u>10,091,967.45</u>	<u>9,278,525.37</u>	<u>813,442.08</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

Schedule 1  
Sheet 3

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010  
(CONCLUDED)

	<u>Modified Budget</u>	<u>2010 Actual</u>	<u>Balance/ (Overexpended)</u>
Expenses: (Continued)			
Debt Service:			
Bond Principal	\$ 1,105,000.00	\$ 1,055,000.00	\$ 50,000.00
Loan Principal	1,141.40	1,141.40	-
Bond Interest	365,712.50	249,313.61	116,398.89
Loan Interest	28,858.60	28,858.60	-
Amortization Expense	51,256.88	51,256.88	-
Other Interest Charges	2,000.00	-	2,000.00
Total Debt Service Appropriations	<u>1,553,969.38</u>	<u>1,385,570.49</u>	<u>168,398.89</u>
Depreciation Expense	<u>2,010,000.00</u>	<u>1,978,093.88</u>	<u>31,906.12</u>
Capital Reserves	<u>387,550.17</u>	<u>-</u>	<u>387,550.17</u>
 Total Appropriations	 <u>\$ 14,043,487.00</u>	 <u>\$ 12,642,189.74</u>	 <u>\$ 1,401,297.26</u>

## **OTHER SUPPLEMENTARY INFORMATION**

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**

Schedule 2

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	Restricted			
	<u>Unrestricted</u>	<u>Operating Reserve</u>	<u>Debt Service</u>	<u>Totals 2010</u>
<b>Operating Revenues:</b>				
<b>Water Charges:</b>				
Unmetered Sales	\$ 7,568.70			\$ 7,568.70
Metered Sales	12,229,649.57			12,229,649.57
Bulk Service Invoices	75,783.24			75,783.24
Fire Protection	655,349.02			655,349.02
Connection Fees	100,320.12			100,320.12
Wet Cut Application Fees	2,361.00			2,361.00
Tap Application Fees	17,385.00			17,385.00
Main Extension Inspection Fees	2,416.00			2,416.00
Miscellaneous	51,719.61			51,719.61
Fines/Penalties	46,190.49			46,190.49
Contract Operations	332,425.56			332,425.56
Leases	101,385.64			101,385.64
	<u>13,622,553.95</u>			<u>13,622,553.95</u>
<b>Operating Expenses:</b>				
Operating Appropriations	9,278,525.37			9,278,525.37
Depreciation	1,978,093.88			1,978,093.88
<b>Total Operating Expenses</b>	<u>11,256,619.25</u>			<u>11,256,619.25</u>
Operating Income	<u>2,365,934.70</u>			<u>2,365,934.70</u>
<b>Non - Operating Revenues and (Expenses):</b>				
Interest Income	34,280.15			34,280.15
Amortization Expense				
Bond Issue Costs	(12,233.27)			(12,233.27)
Bond Premium - 2001 Issue	16,878.25			16,878.25
Deferred Amount on Refunding	(55,901.86)			(55,901.86)
Interest Expense - Bonds	(249,313.61)			(249,313.61)
Interest Expense - Loan	(28,858.60)			(28,858.60)
Interest Expense - Other	-			-
Accounts Payable Canceled	51,549.28			51,549.28
Additional Defeasance of 2001 Refunding Bonds	126,500.00			126,500.00
Additions to Capital Assets				
Paid From Budget	237,965.27			237,965.27
Disposal of Capital Assets, net of Accumulated Depreciation	(524,834.55)	-	-	(524,834.55)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(403,968.94)</u>	<u>-</u>	<u>-</u>	<u>(403,968.94)</u>
Net Income Before Transfers	1,961,965.76	-	-	1,961,965.76
<b>Transfers:</b>				
Other	1,585,932.75	(138,845.25)	(1,447,087.50)	-
Increase in Net Assets	3,547,898.51	(138,845.25)	(1,447,087.50)	1,961,965.76
Net Assets January 1, 2010	<u>55,379,374.66</u>	<u>3,510,871.75</u>	<u>1,447,087.50</u>	<u>60,337,333.91</u>
Net Assets December 31, 2010	<u>\$ 58,927,273.17</u>	<u>\$ 3,372,026.50</u>	<u>\$ -</u>	<u>\$ 62,299,299.67</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF ACCOUNTS RECEIVABLE

	Metered Sales	Facilities Charges	Private Fire	Lien & Bankruptcy	Connection Fees	Other	Interlocal Mapping	Morris County MUJA	State - Black Brook Wells	Total
Balance January 1, 2010	\$ 695,666.31	\$ 109,056.20	\$ 147,786.00	\$ 2,563.75	\$ -	\$ 63,990.10	\$ 6,499.00	\$ 55,985.47	\$ 29,680.54	\$ 1,111,227.37
Increased by:										
Billed in 2010	10,612,967.51	1,624,250.76	655,349.02	11,316.96	100,320.12	251,050.49	-	332,425.56	-	13,576,363.46
Transferred from Metered Sales	(11,316.96)	-	-	-	-	-	-	-	-	-
	<u>10,601,650.55</u>	<u>1,624,250.76</u>	<u>655,349.02</u>	<u>11,316.96</u>	<u>100,320.12</u>	<u>251,050.49</u>	<u>-</u>	<u>332,425.56</u>	<u>-</u>	<u>13,576,363.46</u>
	<u>11,297,316.86</u>	<u>1,733,306.96</u>	<u>803,135.02</u>	<u>13,880.71</u>	<u>100,320.12</u>	<u>315,040.59</u>	<u>6,499.00</u>	<u>388,411.03</u>	<u>29,680.54</u>	<u>14,687,590.83</u>
Decreased by:										
Received in 2010	10,483,714.97	1,608,609.73	643,428.15	-	100,320.12	263,877.67	-	343,805.00	-	13,443,755.64
Balance December 31, 2010	<u>\$ 813,601.89</u>	<u>\$ 124,697.23</u>	<u>\$ 159,706.87</u>	<u>\$ 13,880.71</u>	<u>\$ -</u>	<u>\$ 51,162.92</u>	<u>\$ 6,499.00</u>	<u>\$ 44,606.03</u>	<u>\$ 29,680.54</u>	<u>\$ 1,243,835.19</u>

## SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF PREPAID EXPENSES

Balance January 1, 2010	\$ 30,846.19
Increased by:	
Paid in 2010	<u>3,500.00</u>
Balance December 31, 2010	<u>\$ 34,346.19</u>
<u>Analysis of Balance December 31, 2010</u>	
NJDOT Deposit (Fund 1)	\$ 30,846.19
NJDOT Deposit (Fund 2)	<u>3,500.00</u>
	<u>\$ 34,346.19</u>

## SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF INVENTORY

Balance January 1, 2010	\$ 100,213.67
Increased by:	
Purchased in 2010	<u>52,573.08</u>
	152,786.75
Decreased by:	
Budget Charges in 2010 (Used)	<u>54,668.98</u>
Balance December 31, 2010	<u>\$ 98,117.77</u>

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF ACCOUNTS PAYABLE**

Balance January 1, 2010		\$ 498,834.79
Increased by:		
Capital Assets	\$ 38,536.00	
2009 Budget Charges	<u>335,562.52</u>	
		<u>374,098.52</u>
		872,933.31
Decreased by:		
Paid in 2010	447,285.51	
Canceled in 2010	<u>51,549.28</u>	
		<u>498,834.79</u>
Balance December 31, 2010		<u>\$ 374,098.52</u>
 <u>Analysis of Balance December 31, 2010</u>		
Capital Assets		\$ 38,536.00
Payroll and Payroll Deductions		69,592.14
2010 Budget Charges		<u>265,970.38</u>
		<u>\$ 374,098.52</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF RESERVE FOR UNEMPLOYMENT

Balance January 1, 2010	\$ 116,412.16
Decreased by:	
Paid in 2010	<u>7,586.60</u>
Balance December 31, 2010	<u>\$ 108,825.56</u>

## SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF DEFERRED REVENUE

Increased by:	
Received in 2010	<u>\$ 2,140.50</u>
Balance December 31, 2010	<u>\$ 2,140.50</u>
 <u>Analysis of Balance December 31, 2010</u>	
Metered Sales	<u>\$ 2,140.50</u>
	<u>\$ 2,140.50</u>

SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CUSTOMER REFUNDS AND DEPOSITS

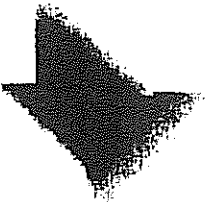
	Customer Deposits- Metered Sales	Customer Deposits- NJDOT	<u>Total</u>
Balance January 1, 2010	\$ 425.00	\$ 13,000.00	\$ 13,425.00
Increased by:			
Received in 2010	<u>3,878.00</u>	<u>2,951.30</u>	<u>6,829.30</u>
	<u>4,303.00</u>	<u>15,951.30</u>	<u>20,254.30</u>
Decreased by:			
Paid in 2010	<u>-</u>	<u>6,636.90</u>	<u>6,636.90</u>
	<u>-</u>	<u>6,636.90</u>	<u>6,636.90</u>
Balance December 31, 2010	<u>\$ 4,303.00</u>	<u>\$ 9,314.40</u>	<u>\$ 13,617.40</u>

**SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF AMOUNT DUE TO THE TOWN OF MORRISTOWN**

Balance January 1, 2010	\$ 577,171.90
Decreased by:	
Paid in 2010	<u>1,141.40</u>
Balance December 31, 2010	<u>\$ 576,030.50</u>



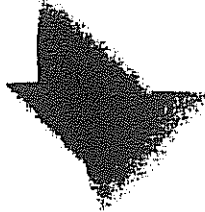
**REPORT PURSUANT TO GOVERNMENT AUDITING STANDARDS**



*T. M. Vrabel & Associates, LLC*  
*Accountants and Auditors*

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*Timothy M. Vrabel, RMA, PSA*  
*Chris C. Hwang, CPA*



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"

Honorable Chairman and Members  
The Southeast Morris County Municipal Utilities Authority  
Cedar Knolls, New Jersey 07927

We have audited the financial statements of The Southeast Morris County Municipal Utilities Authority as of and for the year ended December 31, 2010, and have issued our report thereon dated April 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and in compliance with audit requirements prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Southeast Morris County Municipal Utilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of The Southeast Morris County Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Southeast Morris County Municipal Utilities Authority's internal control over financial reporting.

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

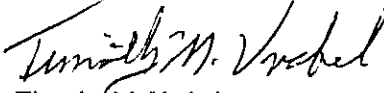
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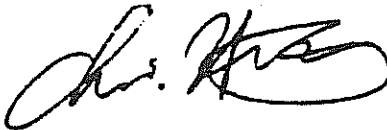
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Southeast Morris County Municipal Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 Governmental Auditing Standards.

This report is intended solely for the information and use of management, The Southeast Morris County Municipal Utilities Authority, the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Timothy M. Vrabel  
Registered Municipal Accountant  
License No. CR00339



Chris C. W. Hwang  
Certified Public Accountant  
License No. CC033704

April 20, 2011