

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011**

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**



# VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA  
Michael S. Zambito, CPA, RMA  
Antonia Russo, Associate

## INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members  
Town of Hackettstown Municipal Utilities Authority  
Hackettstown, New Jersey 07840

We have audited the accompanying basic financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of and for the year ended November 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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.

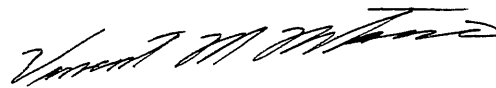
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of November 30, 2011, 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 3, 2012 on our consideration of the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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 the internal control over financial reporting or on compliance. 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 is not a required part of the basic financial statements but is 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 an opinion on the financial statements that collectively comprise the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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.



Vincent M. Montanino  
Registered Municipal Accountant  
License No. CR000375



Michael S. Zambito  
Certified Public Accountant  
License No. 20CC00789500

April 3, 2012

**REQUIRED SUPPLEMENTARY INFORMATION – PART I**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of The Town of Hackettstown Municipal Utilities Authority financial activities for the fiscal year ended November 30, 2011. Please read it in conjunction with the Authority's financial statements.

### FINANCIAL HIGHLIGHTS

- The Authority's net assets of its business-type activities increased \$707,257.93 or 1.32 percent as a result of this year's operations.
- Total cost of all of the Authority's programs was \$4,690,090.98 in 2010-2011 compared to \$6,135,827.21 in 2009-2010. During the year, the Authority had expenses for its business-type activities that were \$707,257.93 less than the \$5,397,348.91 generated in service fees and other program revenues.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances. For business-type activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operation in more detail than the government-wide statements by providing information about the Authority's most financially significant funds

#### Reporting the Authority as a Whole

##### The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net assets* and changes in them. You can think of the Authority's net assets, the difference between assets and liabilities, as one way to measure the Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Authority's net assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's user fee base, and the condition of the Authority's capital assets to assess the overall *health* of the Authority.

## **Reporting the Authority's Most Significant Funds**

### **Fund Financial Statements**

*Proprietary funds:* when the Authority charges customers for the full cost of the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Authority's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

### **The Authority as Trustee**

#### **Reporting the Authority's Fiduciary Responsibilities**

The Authority is the trustee, or *fiduciary*, for Developer's Escrow Fund. All of the Authority's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the Authority's other financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE AUTHORITY AS A WHOLE**

The Authority's *combined* net assets changed from a year ago, *increased* from \$53,731,929.06 to \$54,439,186.99. Looking at the net assets and net expenses of governmental and business-type activities separately, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Authority's business-type activities as of November 30.

**Table 1**  
**Net Assets**

	Business-type		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
Current and Other Assets	\$ 12,086,962.12	\$ 12,049,579.68	\$ 12,086,962.12	\$ 12,049,579.68
Capital Assets	45,426,467.01	45,362,663.28	45,426,467.01	45,362,663.28
Total Assets	57,513,429.13	57,412,242.96	57,513,429.13	57,412,242.96
Long-term Debt Outstanding	2,549,692.66	2,557,948.21	2,549,692.66	2,557,948.21
Other Liabilities	524,549.48	1,122,365.69	524,549.48	1,122,365.69
Total Liabilities	3,074,242.14	3,680,313.90	3,074,242.14	3,680,313.90
Net Assets:				
Invested in Capital Assets, Net				
of Debt	43,221,487.26	43,131,350.57	43,221,487.26	43,131,350.57
Restricted	5,508,975.38	5,739,819.19	5,508,975.38	5,739,819.19
Unrestricted	5,708,724.35	4,860,759.30	5,708,724.35	4,860,759.30
Total Net Assets	\$ 54,439,186.99	\$ 53,731,929.06	\$ 54,439,186.99	\$ 53,731,929.06

Net assets of the Authority's business-type activities *increased* 1.32 percent. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – *increased* \$847,965.05. Restricted net assets, those restricted mainly for capital projects *decreased* \$230,843.81. The investment in capital assets, net of debt category *increased* \$90,136.69.

**Table 2**  
**Changes in Net Assets**

	Business-type		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
<u>Revenues</u>				
Program Revenues:				
Charges for Services-Water	\$ 2,013,406.31	\$ 2,222,560.18	\$ 2,013,406.31	\$ 2,222,560.18
Charges for Services-Sewer	2,497,361.09	2,693,549.63	2,497,361.09	2,693,549.63
General Revenues:				
Prior Year Adjustment to Capital Assets	-	-	-	-
Interest and Investment Earnings	121,559.43	216,685.65	121,559.43	216,685.65
Other General Revenues	<u>765,022.08</u>	<u>553,364.19</u>	<u>765,022.08</u>	<u>553,364.19</u>
Total Revenues:	<u>5,397,348.91</u>	<u>5,686,159.65</u>	<u>5,397,348.91</u>	<u>5,686,159.65</u>
<u>Program expenses including indirect expenses</u>				
Business-type Activities:				
Water	2,152,756.42	2,668,403.86	2,152,756.42	2,668,403.86
Sewer	<u>2,537,334.56</u>	<u>3,467,423.35</u>	<u>2,537,334.56</u>	<u>3,467,423.35</u>
Total Expenses	<u>4,690,090.98</u>	<u>6,135,827.21</u>	<u>4,690,090.98</u>	<u>6,135,827.21</u>
Increase/(Decrease) in Net Assets	<u>\$ 707,257.93</u>	<u>\$ (449,667.56)</u>	<u>\$ 707,257.93</u>	<u>\$ (449,667.56)</u>

### Business-type Activities

The Authority has two major Enterprise Funds consisting of the Water and Sewer operations.

**Table 3**

	<u>Water</u>	<u>Sewer</u>
Total Assets	\$ 29,221,294.37	\$ 28,292,134.76
Net Assets	28,080,514.10	26,358,672.89
Change in Net Assets	(28,389.40)	735,547.33
Return on Ending Total Assets	-0.097%	2.600%
Return on Ending Net Assets	-0.101%	2.791%

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

**Table 4**

#### Capital Assets at Year-end (Net of Depreciation)

	<u>Business-type</u>		<u>Totals</u>	
	<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,221,400.00	\$ 1,221,400.00	\$ 1,221,400.00	\$ 1,221,400.00
Infrastructure	41,683,642.98	41,194,559.73	41,683,642.98	41,194,559.73
Buildings and Improvements	17,565,677.98	17,585,858.49	17,565,677.98	17,585,858.49
Vehicles	650,861.55	652,102.92	650,861.55	652,102.92
Machinery and Equipment	5,809,525.49	5,778,406.27	5,809,525.49	5,778,406.27
Construction-in-Progress	1,539,178.65	1,015,509.69	1,539,178.65	1,015,509.69
Subtotal	68,470,286.65	67,447,837.10	68,470,286.65	67,447,837.10
Accumulated Depreciation	(23,043,819.64)	(22,085,173.82)	(23,043,819.64)	(22,085,173.82)
Totals	<u>\$ 45,426,467.01</u>	<u>\$ 45,362,663.28</u>	<u>\$ 45,426,467.01</u>	<u>\$ 45,362,663.28</u>

This year's major additions in the Business-type Activities were for Improvements to the Administration Building, Water Pollution Control Plant Improvements and Water System Improvements.

The Authority's 2011-2012 capital budgets anticipate a spending level of \$2,300,000.00 for Water System capital projects and \$775,000.00 for Sewer System capital projects. More detailed information about the Authority's capital assets is presented in Note III.B. to the basic financial statements

**DEBT**

At year-end the Authority had total debt of \$2,549,692.66 outstanding versus \$2,557,948.21 last year—a decrease of .32 percent—as shown in Table 5.

**Outstanding Debt, at year –end  
Table 5**

	Business-Type	
	Activities	
	2011	2010
Loans	\$ 2,204,979.75	\$ 2,231,312.71
Compensated Absences	344,712.91	326,635.50
	<u>\$ 2,549,692.66</u>	<u>\$ 2,557,948.21</u>

An analysis of Authority Debt is presented in Note IV:B. to the basic financial statements.

**BUDGETS**

The significant variances between the originally adopted budget for the fiscal year 2010-2011 and the final budget were as follows:

**Water Operations:**

Electric and Gas                      \$(27,000.00)  
Distribution Maint./Supplies        11,000.00

**Sewer Operations:**

Electric and Gas                      \$(24,000.00)  
Treatment Maint./Supplies        12,000.00  
Treatment Sludge Disposal        36,000.00  
Administration Salaries            (42,000.00)

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bruce Smith, Executive Director, 424 Hurley Drive, Hackettstown, New Jersey 07840.

## **BASIC FINANCIAL STATEMENTS**

**FUND FINANCIAL STATEMENTS**



## **PROPRIETARY FUNDS**

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

	<b>Business-type Activities - Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 6,588,995.71	\$ 5,200,000.00	\$ 11,788,995.71
Cash Restricted-Escrow Deposits	77,283.10	77,283.10	154,566.20
Change Fund	50.00	50.00	100.00
Accounts Receivable	76,417.63	60,284.78	136,702.41
Prepaid Expenses	3,298.90	3,298.90	6,597.80
Total Current Assets	<u>6,746,045.34</u>	<u>5,340,916.78</u>	<u>12,086,962.12</u>
Noncurrent Assets:			
Capital Assets Not Being Depreciated:			
Land	823,600.00	397,800.00	1,221,400.00
Construction in Progress	-	1,539,178.65	1,539,178.65
Total Capital Assets Not Being Depreciated	<u>823,600.00</u>	<u>1,936,978.65</u>	<u>2,760,578.65</u>
Capital Assets Being Depreciated:			
Capital Assets	31,145,339.45	34,564,368.55	65,709,708.00
Less: Accumulated Depreciation	<u>(9,493,690.42)</u>	<u>(13,550,129.22)</u>	<u>(23,043,819.64)</u>
Total Capital Assets Being Depreciated	<u>21,651,649.03</u>	<u>21,014,239.33</u>	<u>42,665,888.36</u>
Total Capital Assets	<u>22,475,249.03</u>	<u>22,951,217.98</u>	<u>45,426,467.01</u>
Total Assets	<u>29,221,294.37</u>	<u>28,292,134.76</u>	<u>57,513,429.13</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	35,579.57	53,700.12	89,279.69
Contracts Payable	-	387,780.00	387,780.00
Accrued Interest on Debt	6,752.75	9,325.23	16,077.98
Retainage Payable	-	31,411.81	31,411.81
Total Current Liabilities	<u>42,332.32</u>	<u>482,217.16</u>	<u>524,549.48</u>
Noncurrent Liabilities:			
Compensated Absences Payable	172,356.45	172,356.46	344,712.91
Loans Payable	926,091.50	1,278,888.25	2,204,979.75
Total Noncurrent Liabilities	<u>1,098,447.95</u>	<u>1,451,244.71</u>	<u>2,549,692.66</u>
Total Liabilities	<u>1,140,780.27</u>	<u>1,933,461.87</u>	<u>3,074,242.14</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	21,549,157.53	21,672,329.73	43,221,487.26
Restricted for:			
Escrow Deposits	55,741.97	55,741.97	111,483.94
Post Employment Benefits Fund	227,749.59	227,749.60	455,499.19
Future Capital Projects	1,535,906.90	2,121,014.30	3,656,921.20
Bond Reserve-USDA	42,840.00	59,160.00	102,000.00
Renewal and Replacement	173,489.84	239,581.21	413,071.05
Rate Stabilization	375,000.00	375,000.00	750,000.00
Operating	10,000.00	10,000.00	20,000.00
Unrestricted	<u>4,110,628.27</u>	<u>1,598,096.08</u>	<u>5,708,724.35</u>
Total Net Assets	<u>\$ 28,080,514.10</u>	<u>\$ 26,358,672.89</u>	<u>\$ 54,439,186.99</u>

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

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

	<b>Business-type Activities - Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Service Charges	\$ 2,013,406.31	\$ 2,497,361.09	\$ 4,510,767.40
Connection Fees	36,907.34	55,482.04	92,389.38
Total Operating Revenues	<u>2,050,313.65</u>	<u>2,552,843.13</u>	<u>4,603,156.78</u>
<b>Operating Expenses:</b>			
Salaries and Wages	519,059.94	575,448.11	1,094,508.05
Fringe Benefits	300,211.03	300,210.68	600,421.71
Other Expenses	593,889.85	794,763.88	1,388,653.73
Depreciation	<u>388,752.26</u>	<u>651,125.93</u>	<u>1,039,878.19</u>
Total Operating Expenses	<u>1,801,913.08</u>	<u>2,321,548.60</u>	<u>4,123,461.68</u>
Operating Income	<u>248,400.57</u>	<u>231,294.53</u>	<u>479,695.10</u>
<b>Nonoperating Revenues (Expenses):</b>			
Miscellaneous Income	221.01	221.01	442.02
Miscellaneous Expenses	(3,781.73)	(3,781.72)	(7,563.45)
Non-Capitalized Expenditures	(251,094.77)	(80,292.19)	(331,386.96)
Adjustment to Capital Assets	(30,530.37)	(50,702.00)	(81,232.37)
Contracts Payable	-	645,854.67	645,854.67
Accrued Interest on Debt	80.64	111.37	192.01
Debt Service Interest	(40,880.72)	(56,454.32)	(97,335.04)
Compensated Absences	(9,038.71)	(9,038.70)	(18,077.41)
Escrow Deposits	13,072.00	13,072.00	26,144.00
Escrow Refunds and Disbursements	(15,517.04)	(15,517.03)	(31,034.07)
Interest on Investments	<u>60,779.72</u>	<u>60,779.71</u>	<u>121,559.43</u>
Total Nonoperating Revenues (Expenses)	<u>(276,689.97)</u>	<u>504,252.80</u>	<u>227,562.83</u>
Change in Net Assets	(28,289.40)	735,547.33	707,257.93
Total Net Assets—Beginning	<u>28,108,803.50</u>	<u>25,623,125.56</u>	<u>53,731,929.06</u>
Total Net Assets—Ending	<u>\$ 28,080,514.10</u>	<u>\$ 26,358,672.89</u>	<u>\$ 54,439,186.99</u>

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

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**( A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

	<b>Business-type Activities -</b>		
	<b>Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 2,048,617.35	\$ 2,600,250.73	\$ 4,648,868.08
Payments to Employees	(519,059.94)	(575,448.11)	(1,094,508.05)
Payments for Employee Benefits	(300,211.03)	(300,210.68)	(600,421.71)
Payments to Suppliers	<u>(595,731.34)</u>	<u>(806,200.75)</u>	<u>(1,401,932.09)</u>
Net Cash Provided by Operating Activities	<u>633,615.04</u>	<u>918,391.19</u>	<u>1,552,006.23</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Miscellaneous Deposits	221.18	221.18	442.36
Escrow Deposits	13,072.00	13,072.00	26,144.00
Escrow Refunds and Disbursements	(15,517.04)	(15,517.03)	(31,034.07)
Miscellaneous Expenses	<u>(3,781.73)</u>	<u>(3,781.72)</u>	<u>(7,563.45)</u>
Net Cash (Used for) Non-Capital Financing Activities	<u>(6,005.59)</u>	<u>(6,005.57)</u>	<u>(12,011.16)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Non-Capitalized Expenditures	(251,094.77)	(204,621.79)	(455,716.56)
Principal Paid on Capital Debt	(11,059.84)	(15,273.12)	(26,332.96)
Interest Paid on Capital Debt	(40,880.72)	(56,454.32)	(97,335.04)
Contracts and Retainage Payable	<u>(235,032.08)</u>	<u>(763,531.78)</u>	<u>(998,563.86)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(538,067.41)</u>	<u>(1,039,881.01)</u>	<u>(1,577,948.42)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and Dividends	<u>60,779.72</u>	<u>60,779.71</u>	<u>121,559.43</u>
Net Cash Provided by Investing Activities	<u>60,779.72</u>	<u>60,779.71</u>	<u>121,559.43</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	150,321.76	(66,715.68)	83,606.08
Balances—Beginning of Year	<u>6,516,007.05</u>	<u>5,344,048.78</u>	<u>11,860,055.83</u>
Balances—End of Year	<u>\$ 6,666,328.81</u>	<u>\$ 5,277,333.10</u>	<u>\$ 11,943,661.91</u>
<b>Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:</b>			
Operating Income	\$ 248,400.57	\$ 231,294.53	\$ 479,695.10
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	388,752.26	651,125.93	1,039,878.19
(Increase)/Decrease in Accounts Receivable, Net	(1,696.30)	47,407.60	45,711.30
(Increase)/Decrease in Prepaid Expenses	256.17	256.17	512.34
Increase/(Decrease) in Accounts Payable	<u>(2,097.66)</u>	<u>(11,693.04)</u>	<u>(13,790.70)</u>
Total Adjustments	<u>385,214.47</u>	<u>687,096.66</u>	<u>1,072,311.13</u>
Net Cash Provided by Operating Activities	<u>\$ 633,615.04</u>	<u>\$ 918,391.19</u>	<u>\$ 1,552,006.23</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of The Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) (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 2007, The Governmental Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 51 are not applicable for the Authority.

In June 2008, The Governmental Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 53 are not applicable for the Authority.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will become effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

These financial statements present the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown). As defined by GASB No. 14, component units are legally separate entities that are included in the Town's reporting entity because of the significance of their operating or financial relationships with the Town.

The Division of Local Government Services, Department of Community Affairs, State of New Jersey has not mandated that municipalities in the State of New Jersey implement GASB 34 therefore the Town's financial statements are not presented.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Pursuant to the Municipal Utilities Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 1957, of the State of New Jersey, approved August 22, 1957, as amended and supplemented, the Authority was created by virtue of an ordinance duly and finally adopted on February 15, 1965, by the Town Council of the Town of Hackettstown as the governing body thereof, and is a public body politic and corporate of the State of New Jersey organized and existing under said Law, constituting a political subdivision and established as an instrumentality exercising public and essential governmental functions to provide for the public health and welfare, with all necessary or proper powers to acquire, construct, maintain, operate or improve works for the accumulation, supply or distribution of water and works for the collection, treatment, purification or disposal of sewage or other wastes and to provide for utility services designed to provide or distribute an adequate supply of water for public and private uses and to relieve pollution of the water in, bordering or entering the Town from pollution or threatened pollution and for improvement of conditions affecting the public health and with all the powers, privileges and authority conferred by said law.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and either the primary government is able to impose its will on the organization's governing body and either the primary government is able to impose its will on the organization; or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

The Town of Hackettstown Municipal Utilities Authority is a component unit of the primary government of the Town of Hackettstown. The Commissioners of the Town of Hackettstown Municipal Utilities Authority are appointed by the Town Council of the Town of Hackettstown for staggered terms of five years.

The Authority acquired and placed into operation a water supply and distribution system for provision and distribution of water within a portion of the Town and a sanitary sewerage system for collection, treatment and disposal of certain sanitary sewage and other wastes arising in a portion of the Town, the Authority proceeded with plans and designs for a water supply and distribution system and a sanitary sewerage system and acquired and constructed said systems to provide for the distribution of water for the collection, treatment and disposal of sanitary sewerage and other wastes in the remaining portions of the Town.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

The Town and the Authority have each determined that it was economical and otherwise advantageous to each of them and to the residents and property owners of the Town for the Town and the Authority to enter into a single contract providing for and relating to the sale and supplying of water in the Town by means of said water system and the treatment and disposal of sewage and other wastes originating in the Town by means of said sewerage system and the cost and expense of such sale and supplying of water and of such treatment and disposal, which contract, among other things, obligated the Authority to proceed promptly with the design, acquisition and construction and placing in operation of said water system and said sewerage system and obligated the Town to pay to the Authority such sum or sums of money as may be necessary to provide for deficits (if any) resulting from failure or disability of the Authority to derive adequate revenues from the operation of said water system and said sewerage system, the Town and Authority have each duly authorized its proper officials to enter into and execute an agreement between the Town and the Authority, each binding itself and its successors.

The Authority services portions of the Townships of Washington and Mount Olive in Morris County, the Township of Mansfield and Independence in Warren County, and all of the Town of Hackettstown in Warren County.

The Authority bills and collects its revenue from users of the system and its rates are not regulated by the Board of Public Utilities.

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

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.



THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

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.

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:

Buildings	20-50 Years
Improvements	10-20 Years
Machinery and Equipment	5-10 Years
Light Trucks and Vehicle	5 Years
Heavy Trucks and Vehicle	6 Years
Infrastructure	10-50 Years

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

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

Proprietary Fund Type (Continued)

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Authority programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The Authority's fiduciary funds are presented in the fiduciary fund financial statements by type (Developer's Escrow Funds). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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 TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(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

The cost of consumable materials and supplies on hand are immaterial to the financial statements and the Authority has therefore chosen to report these items as expenditures/expenses at the time of purchase.

4. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees and interest earnings as their major receivables.

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:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Land Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

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, future and designated capital projects, renewal and replacement, rate stabilization, developer's deposits, and operating requirements.

7. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, notes and loans payable.

The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

8. Compensated Absences

The Authority's policies regarding compensated absences permit employees to accumulate earned but unused sick leave and vacation time. The proprietary fund reports the liability as it is incurred.

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.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

9. Equity Classifications (Continued)

Fund Statements (Continued)

- 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.

H. Revenues, Expenditures and Expenses

1. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for business-type activities.

In the fund financial statements, expenditures are classified as follows:

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, proprietary funds report expenses relating to use of economic resources.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(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.

A. Revenue Restrictions and Debt Covenants

In accordance with the 1967 bond resolution, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenues received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses and, as of the last day of each quarter, transfers to the various accounts described below.
Construction and construction grants-in-Aid.	Proceeds of debt issued and connection fees.	Construction costs of the Water and Sewer System.
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest.	Principal and interest on the debt.
Bond Reserve (Future Debt Service)	Amount needed to equal the reserve requirement.	Transfers to meet minimum levels required in the bond service account.
Improvement and Retirement	Amount needed to increase the balance to equal the requirements as defined by the resolution (Section 510)	Transfers to meet deficiencies in any fund or account, after which funds may be expended for any lawful corporate purpose of the Authority including payment of loans or redemption of bonds
Renewal and Replacement	Amount needed in the Renewal and Replacement Fund to equal the System Reserve Requirement Means an amount equal to \$50,000.00	Major repairs, renewals, replacements or maintenance items of a type not recurring annually.
General	To any extent.	Amount to increase the amount in the Bond Reserve Account to equal Bond Reserve Requirement.
Rate Stabilization	Until the aggregate amount thus deposited equals \$750,000	Supplement revenues should there be a deficiency in revenues in any year

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(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 November 30, 2011 the Town of Hackettstown Municipal Utilities Authority's cash and cash equivalents amounted to \$3,325,817.57. Of this amount, \$400,071.83 was covered by federal depository insurance (F.D.I.C.) and \$1,785,046.55 was covered by a collateral pool maintained by the banks as required by GUDPA. Although the individual developers' accounts are subject to F.D.I.C. coverage, it cannot be accurately determined whether the total amount of \$154,566.20 included in Developers' Escrow deposits is covered.

At November 30, 2011 the Town of Hackettstown Municipal Utilities Authority's participation in the State of New Jersey Cash Management Fund amounted to \$986,132.99.

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 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 November 30, 2011, \$1,140,699.19 of the Town of Hackettstown Municipal Utilities Authority's cash and cash equivalents of \$3,325,817.57 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 154,566.20
Uninsured and collateral held by public depository or by its' trust department not in the Authority's name	<u>986,132.99</u>
	<u>\$1,140,699.19</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(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 Town of Hackettstown 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 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 TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

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

A. Deposits and Investments (Continued)

Investments (Continued)

The Town of Hackettstown Municipal Utilities Authority had the following investments valued at cost, which approximates fair value, at November 30, 2011:

	<u>Fair Value</u>
Certificates of Deposit	\$ 6,597,095.60
Wells Fargo Securities	699,069.16
U.S. Government Bonds and Notes	645,649.57
Money Market Funds	<u>681,716.01</u>
 Total Investments	 <u>\$8,623,530.34</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). U.S. government debt is considered to have no credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the Town of Hackettstown 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. Since certificates of deposits are covered by F.D.I.C. and GUDPA and U. S. government debt is guaranteed, there is no custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in a single issuer.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

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

B. Capital Assets

Capital asset activity for the year ended November 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments &amp; Deletions</u>	<u>Ending Balance</u>
Business - Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,221,400.00	\$ -	\$ -	\$ 1,221,400.00
Construction in Progress	<u>1,015,509.69</u>	<u>523,668.96</u>	<u>-</u>	<u>1,539,178.65</u>
Total Capital Assets Not Being Depreciated	<u>2,236,909.69</u>	<u>523,668.96</u>	<u>-</u>	<u>2,760,578.65</u>
Infrastructure	41,194,559.73	489,083.25		41,683,642.98
Buildings and Improvements	17,585,858.49	2,319.49	(22,500.00)	17,565,677.98
Vehicles	652,102.92	51,991.00	(53,232.37)	650,861.55
Machinery and Equipment	<u>5,778,406.27</u>	<u>36,619.22</u>	<u>(5,500.00)</u>	<u>5,809,525.49</u>
Totals at historical cost	<u>65,210,927.41</u>	<u>580,012.96</u>	<u>(81,232.37)</u>	<u>65,709,708.00</u>
Less Accumulated Depreciation for:				
Infrastructure	(9,163,199.13)	(468,538.38)		(9,631,737.51)
Buildings and Improvements	(9,655,759.42)	(403,688.23)	22,500.00	(10,036,947.65)
Vehicles	(403,940.31)	(44,661.52)	53,232.37	(395,369.46)
Machinery and Equipment	<u>(2,862,274.96)</u>	<u>(122,990.06)</u>	<u>5,500.00</u>	<u>(2,979,765.02)</u>
Total Accumulated Depreciation	<u>(22,085,173.82)</u>	<u>(1,039,878.19)</u> (1)	<u>81,232.37</u>	<u>(23,043,819.64)</u>
Net Capital Assets Being Depreciated	<u>43,125,753.59</u>	<u>(459,865.23)</u>	<u>-</u>	<u>42,665,888.36</u>
Business - Type Activities Capital Assets, Net	<u>\$45,362,663.28</u>	<u>\$ 63,803.73</u>	<u>\$ -</u>	<u>\$45,426,467.01</u>

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

Water	\$ 388,752.26
Sewer	<u>651,125.93</u>
	<u>\$1,039,878.19</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
( A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The District has no commitments under operating leases.

B. Long - Term Liabilities

Long - Term liability activity for the year ended November 30, 2011 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:					
Loans	<u>\$2,231,312.71</u>	<u>\$ -</u>	<u>\$ (26,332.96)</u>	<u>\$2,204,979.75</u>	<u>\$ 27,497.64</u>
Total Debt Payable	<u>2,231,312.71</u>	<u>-</u>	<u>(26,332.96)</u>	<u>2,204,979.75</u>	<u>27,497.64</u>
Other Liabilities:					
Compensated Absences	<u>326,635.50</u>	<u>18,077.41</u>	<u>-</u>	<u>344,712.91</u>	<u>-</u>
Total Other Liabilities	<u>326,635.50</u>	<u>18,077.41</u>	<u>-</u>	<u>344,712.91</u>	<u>-</u>
Business-type Activities					
Long - Term Liabilities	<u>\$2,557,948.21</u>	<u>\$18,077.41</u>	<u>\$ (26,332.96)</u>	<u>\$2,549,692.66</u>	<u>\$ 27,497.64</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

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

B. Long – Term Liabilities (Continued)

2. Loans Payable

The Town of Hackettstown Municipal Utilities Authority has also entered into a loan agreement in the amount of \$2,315,000.00 with the United States Department of Agriculture, Rural Development, the loan proceeds were used to fund the Diamond Hill Project.

An analysis of loans payable at November 30, 2011 can be found on Schedule 6.

3. Bonds Authorized But Not Issued

As of November 30, 2011 the Authority had no authorized but not issued bonds.

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Assets

Enterprise Fund:

Restricted for:

Future Capital Projects	\$3,656,921.20
Post Employment Benefits Fund	455,499.19
Escrow Deposits	111,483.94
Bond Reserve – USDA	102,000.00
Renewal and Replacement	413,071.05
Rate Stabilization	750,000.00
Operations	20,000.00

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note VI: 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 State law all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system 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 the Public Employees Retirement System.. This report 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

Chapter 89, P.L. 2008, effective November 1, 2008, increased the PERS retirement age. If a person becomes a member on or after November 1, 2008 that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

Chapter 78, P.L. 2011, effective June 28, 2011 implements changes to the PERS. PERS employee pension contribution rates will increase from 5.5% to 6.5% of salary

The second phase of the contribution rate increase from 6.5% to 7.5% is to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

The increase in the PERS employee contribution rate will also increase the minimum repayment amount for pension loans or the cost for a purchase of service credit if certified after the employee's increased contribution becomes effective.

Under a provision of Chapter 78, P.L. 2011, Cost of Living Adjustments (COLA) are suspended for all current and future retirees of all retirement systems. There is no reduction to any COLA increases that were already added to retiree benefits prior to the effective date of the law.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note VI: Pension Plans

Contribution Requirements (Continued)

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. The PERS pension fund provides for employee contribution rates to increase from 5.50 percent of employees' annual compensation to 6.5%, effective with the first payroll amount to be paid on or after October 1, 2011. 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, 2011, for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Contribution Actual

The Town of Hackettstown Municipal Utilities Authority's total payroll for the year ended November 30, 2011 was \$1,097,805.80 and covered payroll was \$1,035,894.67 for PERS. Contributions to PERS for the last three fiscal years made by the employees and the Authority were as follows:

		<u>PERS</u>	Percent of Covered <u>Payroll</u>
Employees	11/30/09	53,403.86	5.50%
	11/30/10	56,100.56	5.50%
	11/30/11	58,707.37	5.67%
Authority	11/30/09	72,219.00	7.44%
	11/30/10	85,956.00	8.25%
	11/30/11	108,383.00	9.87%

Note VII: Post Retirement Medical Benefits

PERS employees do not receive post – retirement medical benefits from the State of New Jersey, however the Authority has recently been budgeting monies to pay post retirement medical benefits for 2 previously retired employees and is also reserving monies to pay for future post retirement medical benefits. The amount reserved as of November 30, 2011 was \$455,499.19.

Note VIII: Risk Management

The Town of Hackettstown 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 Town of Hackettstown 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.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2011  
(CONTINUED)

Note X: Related Parties

The Town of Hackettstown does not pay any water or sewer charges to the Town of Hackettstown Municipal Utilities Authority. The benefit to the Town in 2011 is approximately \$48,076.61. Likewise, the Town of Hackettstown Municipal Utilities Authority does not pay property taxes on any of the four properties owned in the Town. The benefit to the Authority is \$62,189.61.

In addition the Town of Hackettstown Public Library does not pay any water or sewer charges to the Town of Hackettstown Municipal Utilities Authority. The benefit to the Library is approximately \$327.60.

Note XI: Letters of Credit

The following irrevocable Letters of Credit are on file with the Authority as of November 30, 2011:

Jane Paftinos, LLC	\$ 349,674.00
Heath Village - Water	385,830.00
Heath Village – Sewer	824,580.00
Woodfield – Section IIIA	302,602.50
Woodfield – Section IIIB	<u>80,694.00</u>
	<u>\$1,943,380.50</u>

Note XII: Contingent Liabilities

The Authority is a defendant in a few lawsuits, none of which is unusual for an authority of its size. Additional liabilities, if not covered by insurance, should not be material in amount.

Note XIII Subsequent Events

The Authority's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of audit.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

ROSTER OF OFFICIALS

Authority Members

Position

Edward Kelly

Chairperson

Gerald Di Maio, Jr.

Vice Chairperson

Harry Brown

Board Member

John Di Maio

Board Member

William Harper

Board Member

Other Officials

Bruce Smith

Executive Director  
Secretary and Treasurer

John Perry

Deputy Director (From 6/27/11)

Deborah Palma

Qualified Purchasing Agent



**REQUIRED SUPPLEMENTARY INFORMATION – PART II**

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2010**

	<u>Modified Budget</u>	<u>2010-2011 Actual</u>	<u>2009-2010 Actual</u>
Operating Revenues:			
Water User Charges and Fees	\$ 2,019,000.00	\$ 2,013,406.31	\$ 2,080,778.83
Sewer User Charges and Fees	2,407,000.00	2,497,361.09	2,560,342.28
Connection Fees	<u>-</u>	<u>92,389.38</u>	<u>274,988.70</u>
Total Operating Fees	4,426,000.00	4,603,156.78	4,916,109.81
Non-Operating Revenues:			
Interest on Investments and Deposits	150,000.00	60,315.08	118,553.48
Retained Earnings Appropriated	<u>-</u>	<u>-</u>	<u>384,215.00</u>
 Total Revenues	 <u>\$ 4,576,000.00</u>	 <u>\$ 4,663,471.86</u>	 <u>\$ 5,418,878.29</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2010  
(CONTINUED)

	<u>Modified Budget</u>	<u>2010-2011 Actual</u>		<u>Balance</u>	<u>2009-2010 Actual</u>
		<u>Paid or Charged</u>	<u>Accounts Payable</u>		
Expenses:					
Operating Appropriations:					
Water:					
Salaries and Wages:					
Operations	\$ 389,807.00	\$ 382,447.36	\$ -	\$ 7,359.64	\$ 412,381.66
Administrative Personnel	137,215.00	136,612.58		602.42	134,281.76
Employee Benefits:					
Public Employees' Retirement System	54,200.00	54,191.50		8.50	42,978.00
Social Security Tax	43,000.00	40,831.03		2,168.97	38,960.24
Hospital and Surgical Plans	191,000.00	190,809.47		190.53	162,499.75
Dental Plan	16,000.00	14,101.17		1,898.83	12,762.93
Unemployment and Disability Insurance	350.00	277.86		72.14	267.31
Administration Expenses:					
Customer Refunds	528.00	166.50		361.50	65.56
Postage	9,500.00	8,081.83		1,418.17	10,137.20
Telephone and Lease Lines	4,800.00	3,997.00	394.19	408.81	3,628.70
Property and Liability Insurance	46,000.00	42,092.94		3,907.06	42,807.93
Administrative Supplies and Services	23,100.00	18,820.55	550.01	3,729.44	22,281.42
Professional Services	59,000.00	51,090.49	4,557.16	3,352.35	45,018.17
General Expenses	10,900.00	3,424.19	114.51	7,361.30	2,838.61
Property Taxes	52,000.00	43,905.12		8,094.88	50,735.02
Education and Training	8,600.00	6,174.36		2,425.64	3,274.33
NJPDES Dues	35,000.00	28,291.87		6,708.13	28,189.89
Operations and Maintenance Expenses:					
Reservoirs, Wells and Plant -					
Maintenance and Supplies	36,000.00	30,481.72	2,849.67	2,668.61	26,316.30
Filtration Plant - Chemicals	25,000.00	19,675.81	3,430.58	1,893.61	20,009.95
Filtration Plant - Electricity	308,000.00	229,646.36	19,741.81	58,611.83	283,953.94
Filtration Plant - Laboratory	24,000.00	11,319.89	3,159.14	9,520.97	10,563.76
Filtration Plant - Fuel Oil	9,000.00	7,477.56		1,522.44	
Distribution System - Maint. and Supplies	37,000.00	32,956.90	684.20	3,358.90	25,654.24
Distribution System - Gasoline	16,000.00	14,463.78		1,536.22	11,029.13
Distribution System - Vehicles and Equipment Maintenance	11,000.00	6,243.41	98.30	4,658.29	4,580.33
Total Water Expenses	<u>1,547,000.00</u>	<u>1,377,581.25</u>	<u>35,579.57</u>	<u>133,839.18</u>	<u>1,395,216.13</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES**  
**COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2010**  
**(CONCLUDED)**

	<u>Modified</u>	<u>2010-2011 Actual</u>		<u>Balance</u>	<u>2009-2010</u>
	<u>Budget</u>	<u>Paid or</u>	<u>Accounts</u>		<u>Actual</u>
		<u>Charged</u>	<u>Payable</u>		
Expenses: (Continued)					
Operating Appropriations: (Continued)					
Sewer:					
Salaries and Wages:					
Operations	\$ 443,749.00	\$ 438,835.01	\$ -	\$ 4,913.99	\$ 353,754.76
Administrative Personnel	137,215.00	136,613.10		601.90	134,282.02
Employee Benefits:					
Public Employees' Retirement System	54,200.00	54,191.50		8.50	42,978.00
Social Security Tax	43,000.00	40,830.90		2,169.10	38,959.69
Hospital and Surgical Plans	191,000.00	190,809.36		190.64	162,499.66
Dental Plan	16,000.00	14,101.08		1,898.92	12,762.92
Unemployment and Disability Insurance	350.00	277.84		72.16	267.29
Administration Expenses:					
Customer Refunds	386.00	-		386.00	56.00
Postage	7,500.00	6,012.94		1,487.06	6,097.99
Telephone and Lease Lines	4,800.00	3,996.90	394.17	408.93	3,628.57
Property and Liability Insurance	46,000.00	44,092.93		1,907.07	42,807.93
Administrative Supplies and Services	20,400.00	17,459.49	503.63	2,436.88	16,671.20
Professional Services	49,000.00	40,343.68	3,799.64	4,856.68	49,993.07
General Expenses	10,900.00	5,258.05	114.51	5,527.44	2,247.45
Property Taxes	9,500.00	7,689.57	140.00	1,670.43	7,640.13
Education and Training	10,000.00	5,385.64		4,614.36	5,644.60
NJPDES Dues	23,000.00	20,883.13		2,116.87	21,057.94
Operations and Maintenance Expenses:					
Pollution Control Plant - Maintenance and Supplies	61,000.00	54,833.31	1,145.90	5,020.79	35,549.09
Pollution Control Plant - Chemicals	129,000.00	105,414.76	6,444.92	17,140.32	104,475.42
Pollution Control Plant - Electricity	247,000.00	192,389.02	17,971.97	36,639.01	226,970.13
Pollution Control Plant - Laboratory	24,000.00	18,376.29	1,004.33	4,619.38	18,066.86
Pollution Control Plant - Fuel Oil	21,000.00	18,843.70		2,156.30	7,037.10
Pollution Control Plant - Sludge Disposal	196,000.00	160,319.04	21,928.50	13,752.46	124,618.45
Collection System - Maintenance and Supplies	19,000.00	18,287.49	90.00	622.51	17,241.56
Collection System - Gasoline	16,000.00	14,463.73		1,536.27	11,763.63
Collection System - Vehicles and Equipment Maint.	9,000.00	7,014.09	162.55	1,823.36	4,432.43
Total Sewer Expenses	<u>1,789,000.00</u>	<u>1,616,722.55</u>	<u>53,700.12</u>	<u>118,577.33</u>	<u>1,451,503.89</u>
Total Operating Appropriations	<u>3,336,000.00</u>	<u>2,994,303.80</u>	<u>89,279.69</u>	<u>252,416.51</u>	<u>2,846,720.02</u>
Debt Service:					
Loan Principal and Interest	<u>123,668.00</u>	<u>123,668.00</u>		-	<u>1,022,468.00</u>
Total Debt Service	<u>123,668.00</u>	<u>123,668.00</u>		-	<u>1,022,468.00</u>
Reserves:					
Renewal and Replacement	975,000.00	975,000.00		-	430,000.00
Reserve for Future Health Benefits	100,000.00	100,000.00		-	200,000.00
Debt Service Coverage	<u>41,332.00</u>	<u>41,332.00</u>	-	-	<u>102,247.00</u>
Total Reserves	<u>1,116,332.00</u>	<u>1,116,332.00</u>	-	-	<u>732,247.00</u>
Total Budget	<u>\$ 4,576,000.00</u>	<u>\$ 4,234,303.80</u>	<u>\$ 89,279.69</u>	<u>\$ 252,416.51</u>	<u>\$ 4,601,435.02</u>

**OTHER SUPPLEMENTARY INFORMATION**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS - RESTRICTED AND UNRESTRICTED

	Unrestricted	Restricted						Totals			
		Developer's Escrow	Post Employment Benefits Fund	Construction	Bond Service	Bond Reserve- USDA	Renewal and Replacement	Rate Stabilization	General	Operating	(Memorandum Only)
<b>Operating Revenues:</b>											
Water Charges and Fees	\$ 2,013,406.31										\$ 2,013,406.31
Sewer Charges and Fees	2,497,361.09										2,497,361.09
Connection Fees	-		92,389.38								92,389.38
	<u>4,510,767.40</u>		<u>92,389.38</u>								<u>4,603,156.78</u>
<b>Operating Expenses:</b>											
Water	1,413,160.82										1,413,160.82
Sewer	1,670,422.67										1,670,422.67
Depreciation	1,039,878.19										1,039,878.19
	<u>4,123,461.68</u>										<u>4,123,461.68</u>
Operating Income	387,305.72		92,389.38								479,695.10
<b>Non Operating Revenues and (Expenses):</b>											
Interest Income	953.85	70.12	5,637.41	460.94	5,969.69	52.35	20,472.98	32,457.62			121,559.43
Interest Expense - USDA	(97,335.04)										(97,335.04)
Accrued Interest on Debt	192.01										192.01
Adjustment to Capital Assets	(81,232.37)										(81,232.37)
Contracts/Retainage Payable	998,563.86										998,563.86
Compensated Absences	(18,077.41)										(18,077.41)
Non-Capitalized Expenditures				(105,454.90)							(105,454.90)
Escrow Deposits	26,144.00										26,144.00
Escrow Refunds and Disbursements	(31,034.07)										(31,034.07)
Miscellaneous	(278.47)										(278.47)
	<u>442.02</u>										<u>442.02</u>
	803,506.92		5,637.41	(49,970.43)	460.94	(1,315.29)	20,472.98	32,457.62			803,506.92
	<u>1,190,812.64</u>		<u>5,637.41</u>	<u>42,418.95</u>	<u>460.94</u>	<u>(1,315.29)</u>	<u>20,472.98</u>	<u>32,457.62</u>			<u>1,190,812.64</u>
<b>Net Income (Deficit) Before Transfers</b>											
Transfers:											
Other	(312,072.13)		100,000.00	(11,249.89)	(460.94)	7,284.98	(20,472.98)	(32,457.62)			(312,072.13)
Interest Income	59,361.23					(5,969.69)					59,361.23
Increase in Net Assets	938,101.74		105,637.41	31,169.06							1,074,908.21
Net Assets December 1	47,992,109.87		349,861.78	3,625,752.14		102,000.00	750,000.00		20,000.00		53,731,929.06
	<u>\$ 48,930,211.61</u>	<u>\$ 111,483.94</u>	<u>\$ 455,499.19</u>	<u>\$ 3,656,921.20</u>	<u>\$ -</u>	<u>\$ 102,000.00</u>	<u>\$ 750,000.00</u>	<u>\$ -</u>	<u>\$ 20,000.00</u>	<u>\$ -</u>	<u>\$ 54,439,186.99</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF ACCOUNTS RECEIVABLE - USER CHARGES AND FEES**

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Balance December 1, 2010	\$ 182,413.71	\$ 74,721.33	\$ 107,692.38
Increased by:			
User Charges Billed in 2010-2011	<u>4,510,767.40</u>	<u>2,013,406.31</u>	<u>2,497,361.09</u>
	<u>4,693,181.11</u>	<u>2,088,127.64</u>	<u>2,605,053.47</u>
Decreased by:			
Collections	<u>4,556,478.70</u>	<u>2,011,710.01</u>	<u>2,544,768.69</u>
Balance November 30, 2011	<u>\$ 136,702.41</u>	<u>\$ 76,417.63</u>	<u>\$ 60,284.78</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

**SCHEDULE OF CONSTRUCTION IN PROGRESS**

Balance December 1, 2010		\$ 1,015,509.69
Increased by:		
Contract Expenditures	\$ 929,633.50	
Change Orders Awarded in 2010-2011	<u>68,930.36</u>	
		<u>998,563.86</u>
		2,014,073.55
Decreased by:		
Transferred to Property, Plant & Equipment		<u>474,894.90</u>
Balance November 30, 2011		<u>\$ 1,539,178.65</u>
 <u>Analysis of Balance November 30, 2011</u>		
Spectraserv - Contract 37S		\$ 1,329,243.05
JDV Equipment Corp. - Contract 36S		134,524.60
Liberty Construction - Contract 39S		<u>75,411.00</u>
		<u>\$ 1,539,178.65</u>



**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF CONTRACTS PAYABLE**

Balance December 1, 2010		\$ 982,300.62
Increased by:		
Contracts Awarded in 2010-2011	\$ 345,800.00	
Change Orders Awarded in 2010-2011	68,930.36	
		414,730.36
		1,397,030.98
Decreased by:		
Paid in 2010-2011	\$ 991,028.27	
Transferred to Retainage Due to Contractors	18,222.71	
		1,009,250.98
Balance November 30, 2011		\$ 387,780.00
 <u>Analysis of Balance November 30, 2011</u>		
Spectraserv - Contract 37S		\$ 45,560.00
JDV Equipment Corp. - Contract 36S		73,370.00
Liberty Construction - Contract 39S		268,850.00
		\$ 387,780.00

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF RETAINAGE DUE TO CONTRACTORS**

Balance December 1, 2010	\$ 20,724.69
Increased by:	
Transferred from Contracts Payable	<u>18,222.71</u>
	38,947.40
Decreased by:	
Paid in 2010-2011	<u>7,535.59</u>
Balance November 30, 2011	<u>\$ 31,411.81</u>
 <u>Analysis of Balance November 30, 2011</u>	
Spectraserv - Contract 37S	\$ 27,127.41
JDV Equipment Corp. - Contract 36S	2,745.40
Liberty Construction - Contract 39S	<u>1,539.00</u>
	<u>\$ 31,411.81</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

Schedule 6

**SCHEDULE OF UNITED STATES DEPARTMENT OF AGRICULTURE  
LOAN PAYABLE**

Balance December 1, 2010	\$ 2,231,312.71
Decreased by:	
Paid in 2010-2011	26,332.96
 Balance November 30, 2011	 \$ 2,204,979.75

Analysis of Loan Payable November 30, 2011

<u>Year</u>	<u>April 1,</u>	<u>October 1,</u>	<u>Total</u>
2012	\$ 13,600.07	\$ 13,897.57	\$ 27,497.64
2013	14,201.58	14,512.24	28,713.82
2014	14,829.69	15,154.09	29,983.78
2015	15,485.59	15,824.33	31,309.92
2016	16,170.49	16,524.22	32,694.71
2017	16,885.69	17,255.06	34,140.75
2018	17,632.52	18,018.23	35,650.75
2019	18,412.38	18,815.15	37,227.53
2020	19,226.73	19,647.31	38,874.04
2021	20,077.10	20,516.29	40,593.39
2022	20,965.08	21,423.69	42,388.77
2023	21,892.23	22,371.23	44,263.46
2024	22,860.60	23,360.67	46,221.27
2025	23,871.69	24,393.88	48,265.57
2026	24,927.50	25,472.79	50,400.29
2027	26,030.01	26,599.41	52,629.42
2028	27,181.27	27,775.86	54,957.13
2029	28,383.46	29,004.35	57,387.81
2030	29,638.82	30,287.17	59,925.99
2031	30,949.70	31,626.72	62,576.42
2032	32,318.56	33,025.53	65,344.09
2033	33,747.96	34,486.20	68,234.16
2034	35,240.58	36,011.47	71,252.05
2035	36,799.22	37,604.21	74,403.43
2036	38,426.80	39,267.38	77,694.18
2037	40,126.36	41,004.12	81,130.48
2038	41,901.09	42,817.67	84,718.76
2039	43,754.31	44,711.44	88,465.75
2040	45,689.50	46,688.96	92,378.46
2041	47,710.28	48,753.94	96,464.22
2042	49,820.43	50,910.25	100,730.68
2043	52,023.92	53,161.94	105,185.86
2044	54,324.86	55,513.21	109,838.07
2045	56,727.56	57,968.48	114,696.04
2046	59,236.54	59,504.52	118,741.06
	\$ 1,091,070.17	\$ 1,113,909.58	\$ 2,204,979.75

**REPORTS PURSUANT TO GOVERNMENT AUDITING  
STANDARDS**



# VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA  
Michael S. Zambito, CPA, RMA  
Antonia Russo, Associate

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members  
The Town of Hackettstown Municipal Utilities Authority  
Hackettstown, NJ 07840

We have audited the financial statements of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of and for the year ended November 30, 2011, and have issued our report thereon dated April 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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 Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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.

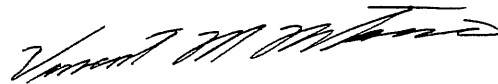
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant 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 Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) 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.

This report is intended solely for the information and use of management, the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown), 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.



Vincent M. Montanino  
Registered Municipal Accountant  
License No. CR000375



Michael S. Zambito  
Certified Public Accountant  
License No. 20CC00789500

April 3, 2012

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**GENERAL COMMENTS AND RECOMMENDATIONS  
YEAR ENDED NOVEMBER 30, 2011**

## GENERAL COMMENTS

### CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A. 40A:11-4

The following is presented for the information of the Members and Officials:

N.J.S.A. 40A:11-4 states "Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of the act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in the act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or the amount calculated by the Governor pursuant to, Section 3 of c. 198, P.L. (N.J.S.A. 40A:11-3) except by contract or agreement."

The governing body of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, professional opinion should be sought before a commitment is made.

Effective April 17, 2000 N.J.S.A. 40A:11-1 et seq. (Local Public Contracts Law) was revised by P.L. 1999, c.440 (originally known as Assembly bill No. 3519). The Division of Local Government Services in the Department of Community Affairs, after consultation with the Commissioner of Education, shall prescribe rules and procedures to implement the requirements of the law.

Effective July 1, 2010 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$26,000.00.

In accordance with N.J.S.A. 40A:11--3(a), The Authority has increased the bid threshold from \$26,000.00 to \$36,000.00

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings 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 disclosed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

It was noted that some change orders for Contracts 36S (JDV Equipment Corporation) and 37S (Spectraserv, Inc.) were not properly approved or recorded in the minutes.

### EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy, supporting documentation and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Authority and Authority Officials regarding expenditures.



RECOMMENDATION

That procedures be established to ensure that all changes orders are approved and recorded in the minutes of the Board.

Status of Prior Years' Audit Findings/Recommendations:

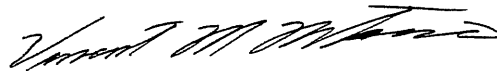
Not Applicable

\* \* \* \* \*

Should any questions arise as to our comments or recommendation, or should the Authority desire assistance in implementing our recommendation, please do not hesitate to call us.

APPRECIATION

We wish to express our appreciation of the assistance and courtesies rendered by the Authority Officials during the course of the audit.



Vincent M. Montanino  
Registered Municipal Accountant  
License No. CR000375



Michael S. Zambito  
Certified Public Accountant  
License No. 20CC00789500

April 3, 2012