

Financial Report

of

The Township of Hillsborough Municipal Utilities Authority

For the Years Ended November 30, 2013 and 2012

Prepared By

The Township of Hillsborough Municipal Utilities Authority

Finance Department

**THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY**

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FINANCIAL SECTION



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Hillsborough Municipal Utilities Authority, as of and for the years ended November 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Township of Hillsborough Municipal Utilities Authority, as of November 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hillsborough Municipal Utilities Authority's basic financial statements. The supplemental data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014 on our consideration of the Township of Hillsborough Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hillsborough Municipal Utilities Authority's internal control over financial reporting and compliance.

January 29, 2014





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

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

We have audited, in accordance with the 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, the financial statements of the Township of Hillsborough Municipal Utilities Authority as of and for the year ended November 30, 2013, and the related notes to the financial statements, which collectively comprise the Township of Hillsborough Municipal Utilities Authority's financial statements, and have issued our report thereon dated January 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Hillsborough Municipal Utilities Authority's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Township of Hillsborough Municipal Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Hillsborough Municipal Utilities Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Hillsborough Municipal Utilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

January 29, 2014

A handwritten signature in cursive script that reads "Suplee, Clooney & Company". The signature is written in black ink and is positioned to the right of the date.

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

In this section of the annual report, management of The Township of Hillsborough Municipal Utilities Authority (the "Authority") presents a narrative discussion and analysis of the Authority's financial activities for the years ended November 30, 2013 and 2012. This section of the report should be read in conjunction with the Authority's audited financial statements and supplementary information for the years ended November 30, 2013 and 2012. The Authority's audited financial statements are presented in conformity with U.S. generally accepted accounting principles.

Audit Assurance

The unqualified opinion of our independent auditors, Suplee Clooney & Company is included in this report.

Financial Highlights

Total assets at year-end totaled \$16.6 million largely comprised of investments and fixed assets. Liabilities total \$2.1 million largely comprised of bonds payable financing the investments and fixed assets. Working capital balances are adequate to meet the operational needs of the Authority.

Operating Revenues totaled \$5.9 million while Operating Expenses totaled \$5.3 million. Operating Expenses decreased \$660,326 or 12.5% from prior year expenses of \$5.9 million. Revenues are generated largely from sewer service charges and connection charges. Total operating revenues decreased \$276,336 from the prior year.

Cash and Investments of \$6.1 million increased \$598 thousand or 10.9% from prior year's total of \$5.5 million.

Bonds Payable of \$1.9 million decreased \$461 thousand with the principal payments scheduled during the year.

Overview of Annual Financial Report

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

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes to Net Position; a Statement of Cash Flows; and notes to the financial statements.

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

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes to Net Position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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

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

Summary of Organization and Business

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 166 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as key financial data and indicators for management, monitoring and planning.

Bonds Payable

The Authority issued bonds for the purpose of paying construction costs relating to the Authority's collection system. A summary of the Bonds Payable activity for the year is as follows:

Bonds Payable at November 30, 2012	\$2,401,218
Principal Payments on Bonds	<u>461,128</u>
Bonds Payable at November 30, 2013	<u>\$1,940,090</u>

Contacting the Authority's Management

Any questions about the Authority's report or if additional information is needed, please contact the Executive Director of The Township of Hillsborough Municipal Utilities Authority, 220 Triangle Road, Suite 234, Hillsborough, New Jersey 08844.

Condensed Financial Statements

Condensed Statement of Net Position

	November 30,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>			
Current Assets	\$ 6,497,410	\$ 5,931,878	\$ 5,777,935
Fixed Assets	10,146,881	10,600,498	11,010,858
Total Assets	<u>\$ 16,644,291</u>	<u>\$ 16,532,376</u>	<u>\$ 16,788,793</u>
<u>Liabilities</u>			
Current Liabilities	\$ 170,963	\$ 170,710	\$ 176,998
Bonds Payable	1,940,090	2,401,218	2,843,138
Total Liabilities	<u>\$ 2,111,053</u>	<u>\$ 2,571,928</u>	<u>\$ 3,020,136</u>
<u>Net Position</u>			
Net Investment in Capital Assets	\$ 8,207,929	\$ 8,202,648	\$ 8,168,464
Restricted	2,595,834	2,523,352	5,503,515
Unrestricted	3,729,475	3,234,448	96,678
Total Net Position	<u>\$ 14,533,238</u>	<u>\$ 13,960,448</u>	<u>\$ 13,768,657</u>
Total Liabilities and Net Position	<u>\$ 16,644,291</u>	<u>\$ 16,532,376</u>	<u>\$ 16,788,793</u>

Condensed Statement of Revenue, Expenses, and Changes in Net Position

	November 30,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues	\$ 5,953,722	\$ 6,230,058	\$ 5,759,898
Operating Expenses	5,280,030	5,940,356	5,730,649
Operating Income	<u>\$ 673,692</u>	<u>\$ 289,702</u>	<u>\$ 29,249</u>
Non Operating Revenues (Expenses)	<u>(100,902)</u>	<u>(97,911)</u>	<u>(118,176)</u>
Change in Net Position	\$ 572,790	\$ 191,791	\$ (88,927)
Net Position, Beginning of Year	<u>13,960,448</u>	<u>13,768,657</u>	<u>13,857,583</u>
Net Position, End of Year	<u>\$ 14,533,238</u>	<u>\$ 13,960,448</u>	<u>\$ 13,768,656</u>

FINANCIAL STATEMENTS

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Restricted Assets:		
Revenue Account:		
Cash	\$ 2,127,528.20	\$ 1,390,043.81
Investments	541,390.25	546,610.43
Accounts Receivable:		
Sewer Charges	316,136.93	312,003.53
Connection Charges	88,617.12	125,408.09
	<u>\$ 404,754.05</u>	<u>\$ 437,411.62</u>
Less: Allowance for Doubtful Accounts	5,000.00	5,000.00
	<u>\$ 399,754.05</u>	<u>\$ 432,411.62</u>
General Account:		
Cash	\$ 33,921.48	\$ 13,464.66
Investments	2,169,750.64	2,332,569.17
Construction Account:		
Cash	457.46	456.96
Investments	681.02	2,911.04
Bond Service Account:		
Investments	521,266.96	517,039.03
Bond Reserve Account:		
Investments	557,391.94	557,391.94
Renewal and Replacement Account:		
Investments	100,000.00	100,000.00
Inspection Trust Account:		
Cash	44,929.84	38,978.97
Accrued Interest Receivable	337.82	
	<u>\$ 6,497,409.66</u>	<u>\$ 5,931,877.63</u>
<u>TOTAL RESTRICTED ASSETS</u>		
Fixed Assets:		
Collection System	\$ 22,823,350.66	\$ 22,818,274.66
Facilities	1,468,652.27	1,468,652.27
Equipment	1,849,617.47	1,700,205.43
	<u>\$ 26,141,620.40</u>	<u>\$ 25,987,132.36</u>
Less: Accumulated Depreciation	15,994,738.92	15,386,634.18
	<u>\$ 10,146,881.48</u>	<u>\$ 10,600,498.18</u>
<u>NET FIXED ASSETS</u>		
<u>TOTAL ASSETS</u>	<u>\$ 16,644,291.14</u>	<u>\$ 16,532,375.81</u>

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

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	\$ 27,099.47	\$ 46,575.18
Payroll Deductions Payable	8,550.15	4,657.27
Overpayments-Service Charges	13,094.57	13,242.09
Miscellaneous Deposits	45,065.69	39,114.82
Accrued Vacation and Sick Pay	70,018.45	58,333.23
Accrued Interest Payable	7,134.60	8,787.28
Revenue Bonds Payable-Current Portion	<u>475,203.51</u>	<u>461,127.66</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>\$ 646,166.44</u>	<u>\$ 631,837.53</u>
Revenue Bonds Payable-Long Term Portion	<u>1,464,886.99</u>	<u>1,940,090.50</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 2,111,053.43</u>	<u>\$ 2,571,928.03</u>
Net Position :		
Net Investment in Capital Assets	\$ 8,207,929.46	\$ 8,202,648.02
Restricted:		
Operating Cost	1,417,175.00	1,348,921.25
Debt Service	1,078,658.90	1,074,430.97
Renewal and Replacement	100,000.00	100,000.00
Unrestricted:		
System Replacement	1,216,169.95	1,216,169.95
Capital Improvements	1,231,084.26	956,084.26
Rate Stabilization	1,133,740.00	919,338.37
Unrestricted	<u>148,480.14</u>	<u>142,854.96</u>
<u>TOTAL NET POSITION</u>	<u>\$ 14,533,237.71</u>	<u>\$ 13,960,447.78</u>
<u>TOTAL LIABILITIES AND NET POSITION</u>	<u>\$ 16,644,291.14</u>	<u>\$ 16,532,375.81</u>

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

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
NOVEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Sewer Service Charges	\$ 5,435,825.75	\$ 5,358,547.38
Connection Charges	412,458.00	787,606.00
Inspection Fees	38,550.00	29,660.00
Plan Review Fees		1,611.75
Other	14,111.81	2,895.32
Interest on Delinquent Accounts	52,776.63	49,737.77
<u>Total Operating Revenues</u>	<u>\$ 5,953,722.19</u>	<u>\$ 6,230,058.22</u>
Operating Expenses:		
Operating Costs	\$ 2,145,896.92	\$ 1,950,599.06
Sewerage Treatment	2,526,028.20	3,387,213.82
Depreciation Expense	608,104.74	602,543.38
<u>Total Operating Expenses</u>	<u>\$ 5,280,029.86</u>	<u>\$ 5,940,356.26</u>
<u>Operating Income</u>	<u>\$ 673,692.33</u>	<u>\$ 289,701.96</u>
Non-Operating Revenue (Expense):		
Interest Income	\$ 4,661.46	\$ 7,156.92
Interest Expense	(93,878.64)	(113,211.23)
Other	(11,685.22)	8,142.96
	<u>\$ (100,902.40)</u>	<u>\$ (97,911.35)</u>
<u>Change in Net Position</u>	<u>\$ 572,789.93</u>	<u>\$ 191,790.61</u>
Net Position, Beginning of Year	<u>13,960,447.78</u>	<u>13,768,657.17</u>
Net Position, End of Year	<u>\$ 14,533,237.71</u>	<u>\$ 13,960,447.78</u>

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Sewer Service Charges	\$ 5,418,928.01	\$ 5,365,893.18
Receipts from Connection Charges	449,248.97	715,834.60
Miscellaneous Receipts	105,438.47	85,022.43
Payments to Suppliers	(3,593,306.28)	(4,383,375.89)
Payments to Employees	(1,063,969.66)	(940,933.88)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 1,316,339.51</u>	<u>\$ 842,440.44</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets	\$ (154,488.04)	\$ (192,183.04)
Principal Payments on Long-Term Debt	(461,127.66)	(441,919.44)
Interest Paid on Bonds	(95,531.32)	(114,763.99)
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>\$ (711,147.02)</u>	<u>\$ (748,866.47)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	\$ 4,344.51	\$ 7,156.92
Sale/(Purchase) of Investments	166,040.80	317,436.15
Other Receipts	(11,685.22)	8,142.96
<u>Net Cash Provided(Used) by Investing Activities</u>	<u>\$ 158,700.09</u>	<u>\$ 332,736.03</u>
Net Increase(Decrease) in Cash and Cash Equivalents	\$ 763,892.58	\$ 426,310.00
Cash and Cash Equivalents, Beginning of Year	<u>1,442,944.40</u>	<u>1,016,634.40</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,206,836.98</u>	<u>\$ 1,442,944.40</u>
<u>Reconciliation of Operating Income to Net Cash Provided</u>		
<u>by Operating Activities:</u>		
Net Income (Loss) From Operations	\$ 673,692.33	\$ 289,701.96
Add Expenses Not Using Working Capital:		
Depreciation	608,104.74	602,543.38
Add (Deduct) Changes in Non-Cash Working Capital:		
Accounts Receivable	34,627.20	(51,658.24)
Accrued Interest Receivable	(337.82)	
Accounts Payable	(19,475.71)	12,891.67
Payroll Deductions Payable	3,892.88	769.86
Overpayments-Service Charges	(147.52)	317.09
Miscellaneous Deposits	5,950.87	(10,572.52)
Accrued Interest Payable	(1,652.68)	
Accrued Vacation and Sick Pay	11,685.22	(1,552.76)
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 1,316,339.51</u>	<u>\$ 842,440.44</u>

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(1) GENERAL

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 169 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

The service contract with the Township dated September 1, 1966 requires that service charges be sufficient to provide in each fiscal year all operating, maintenance, debt service and reserve requirements necessary to operate the system.

The service agreement further provides that the Authority will charge the Township and the Township will pay to the Authority annual charges sufficient to cover in each fiscal year any short-fall in meeting the expenses of the System (including operation and maintenance, debt service, deficits resulting from failure to receive sums due to the Authority from others, and such reserves or sinking funds as may be required or deemed desirable) out of the funds and revenues of the Authority (including service charges bond proceeds, insurance proceeds, investments proceeds, contributions and reserves on hand).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (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 most significant of the GASB's accounting policies are described below.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include the operations of the wastewater collection system for which the Board Members of the Authority exercise financial accountability. The Board members are appointed to five-year terms by the Township of Hillsborough. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

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

Cash Equivalents

Cash equivalents are stated at cost, which approximates market. Cash equivalents include cash in banks and certificates of deposit with original maturities of less than three months.

Investments

Investments are stated at fair value.

Accounts Receivable

The Authority has set up an allowance for doubtful accounts of \$5,000 for receivables that may be uncollectible. The Authority considers all other accounts receivable to be fully collectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

Fixed assets are stated at cost which includes direct construction costs and other expenditures related to construction. Depreciation is determined on a straight-line basis, for all plant and equipment. Depreciation is provided for over the following estimated useful lives:

Collection System	20-40 years
Facilities	30 years
Machinery and Equipment	10-20 years
Computer Equipment	3-5 years
Furniture and Fixtures	10 years
Vehicles	5 years

Details of fixed assets as of November 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Collection System	\$22,823,350.66	\$22,818,274.66
Facilities	1,468,652.27	1,468,652.27
Equipment	<u>1,849,617.47</u>	<u>1,700,205.43</u>
	\$26,141,620.40	\$25,987,132.36
Less: Accumulated Depreciation	<u>15,994,738.92</u>	<u>15,386,634.18</u>
Net Fixed Assets	<u>\$10,146,881.48</u>	<u>\$10,600,498.18</u>

Management has elected not to include depreciation expense in the service charge rate structure.

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation and Sick Leave

Authority employees are granted vacation in varying amounts and earn certain sick leave time. In the event of termination, an employee is reimbursed for accumulated vacation days. All employees are eligible for the reimbursement of accumulated sick leave which is capped. Accumulated unpaid vacation and sick leave is accrued when incurred.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

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

- 1) Invested in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond resolution), grantors, or laws or regulations of other governments or b) imposed by law.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "invested in capital assets."

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

In accordance with the General Bond Resolution adopted April 26, 1983, and as amended and supplemented, including supplemental resolutions for the purpose of bond issuance, the Authority has established various cash and investment accounts with the Trustee. In addition, the resolutions provide restrictions on the use of these accounts.

1. Revenue Account

The Revenue Account is established by the Bond resolution to receive all revenues due to the Authority. Periodic withdrawals are made from the Revenue Account to each of the related accounts to provide the financial resources necessary for the other accounts to carry out their required activities. The Revenue Account is under the direct control of the Trustee for the Bondholders.

2. General Account

The General Account is established to:

- A. Provide a source of cash that could be used to increase the amount in the Bond Reserve Account so that it equals the Bond Service Account requirement.
- B. Make up deficiencies in the Bond Reserve Account and Sinking Fund Account.
- C. To permit the Authority to transfer cash to the Revenue Account or withdraw cash for any other lawful purpose.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

3. Construction Account

The Construction Account has been established to receive and disburse cash for a construction project, or projects, undertaken by the Authority. The Trustee will credit the Construction Account with cash received from the Federal Government, State Grants, proceeds from sale of bonds, insurance proceeds and cash made available by the Authority. Cash may be withdrawn by a requisition certified by the consulting engineer's certificate as to the need, receipt or performance of the items indicated in the requisition. Upon completion of the construction project, any excesses shall be transferred to:

- A. Bond Reserve Account to the extent as shall not cause the amount in the Bond Reserve Account to exceed the Bond Reserve Requirements.
- B. Renewal and Replacement Account, to the extent if any, needed to increase the amount in the Renewal and Replacement Accounts so that is equals the System Reserve Requirement.
- C. The General Account to the extent of any remaining balance of such monies.

4. Bond Service Account

The Bond Service Account is established to pay the principal and interest to the bondholders as such obligations become due. The Bond Resolution requires that the Trustee withdraw from the Revenue Account and deposit into the Bond Service Account the principal and interest requirements for the current year.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

5. Bond Reserve Account

The Bond Reserve Account is established to provide additional security to the Bondholders. This account is required to have a balance of the sum equal to the maximum annual Debt Service. In the event that the amount of the Bond Reserve Account balance exceeds the required annual Debt Service and, if the amount in the Invested Sinking Fund Account equals or exceeds the aggregate amount of all Sinking Fund installments, the Trustee shall withdraw from the Bond Reserve Account the amount of any excess and at the option of the Authority, apply the excess to the redemption of bonds or transfer such excess to the Construction Account.

6. Revolving Account for Operating Expenses

The Trustee shall pay from the Revenue Account to the Authority, upon its requisitions thereof, at one time or from time to time, a sum or sums aggregating not more than \$125,000.00, exclusive of and in addition to reimbursements as hereinafter in this section authorized, such sums and such reimbursements to be used by the Authority as a revolving account for the payment, in accordance with the applicable Annual Budget of Operating Expenses. Such revolving account shall be reimbursed by the Trustee from time to time for such operating expense so paid, by payments from the Revenue Account upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and the particular purpose of each payment from such revolving account for which such reimbursement is requested and certifying that each such payment was necessary for the operation, maintenance or repair of the system and was for an item of operating expenses which was provided for within the Annual Budget then applicable. In making such reimbursements, the Trustee may rely upon such requisitions and accompanying certificates.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

7. Renewal and Replacement Account

This account shall be used for:

- a. Payments to the Bond Reserve Account if the amount in the account is less than the requirements.
- b. Major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

In addition to the above, the Authority has also established the following Dedicated Accounts:

1. Inspection Trust Account deposits received from customers to assure payment of fees relative to connection inspections.
2. System Replacement Account:
This account is reserved for improvements and replacements of the system.
3. Capital Improvement:
This account is reserved for capital improvement.
4. Rate Stabilization:
This account is established as a reserve to fund future rate changes.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(3) BUDGETARY PROCEDURES

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

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(4) CASH AND CASH EQUIVALENTS

As of November 30, 2013 and 2012, cash and cash equivalents of the Authority consisted of the following:

	<u>2013</u>	<u>2012</u>
Checking and Money Market Accounts	\$ <u>2,206,836.98</u>	\$ <u>1,442,944.40</u>

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 (SAIF), or by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. New Jersey statutes permit the deposit of public funds only in banks which meet the requirements of the Governmental Unit Deposit Protection Act or the State of New Jersey Cash Management Fund. This Act, commonly referred to as "GUDPA", requires that banks which accept public funds to be a public depository. The statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits.

The Authority does not have a policy for either credit risk or custodial credit risk. However, it is the Authority's policy only to invest with banks that are approved by the board.

The Authority does not have a policy to limit interest rate risk. Investments consist of U.S. government agency obligations.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(5) INVESTMENTS

The Authority's investments include restricted and unrestricted investments which are held by a bank or bank trust department in the Authority's name. Restricted and Unrestricted investments are summarized as follows:

<u>RESTRICTED INVESTMENTS</u>	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>
November 30, 2013:		
Federated Money Market Treasury Obligations	<u>\$3,890,480.81</u>	<u>\$3,890,480.81</u>
November 30, 2012:		
Federated Money Market Treasury Obligations	<u>\$4,056,521.61</u>	<u>\$4,056,521.61</u>

Cost of Investments approximates Fair Value due to the short-term nature of the investments.

(6) CHANGES IN FIXED ASSETS

The following is a summary of the changes in fixed assets for the period ending November 30, 2013:

	<u>BALANCE NOVEMBER 30, 2012</u>	<u>ADDITIONS</u>	<u>BALANCE NOVEMBER 30, 2013</u>
Collection System	\$22,818,274.66	\$5,076.00	\$22,823,350.66
Facilities	1,468,652.27		1,468,652.27
Equipment	<u>1,700,205.43</u>	<u>149,412.04</u>	<u>1,849,617.47</u>
	<u>\$25,987,132.36</u>	<u>\$154,488.04</u>	<u>\$26,141,620.40</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(7) BONDS PAYABLE

The indebtedness of the Authority and its operations are pursuant to the general bond resolution adopted April 26, 1983, as amended and supplemented, including supplemental resolutions.

For the purpose of paying construction costs relating to the Authority's collection system, the Authority has issued the following bonds:

1. 1983 Revenue Bonds - Series A, \$5,000,000.00
As of November 30, 2011, none of these bonds were outstanding.
2. Revenue Bonds - Series 1986, \$4,000,000.00
As of November 30, 2011, none of these bonds were outstanding.
3. Revenue Bonds - Series 1995, \$3,000,000.00
As of November 30, 2011, none of these bonds were outstanding.

For the purpose of reducing interest expense, the Authority on March 24, 1987 advance refunded \$3,835,000.00 of the 1983 Revenue Bonds - Series A by issuing \$4,665,000.00 of Revenue Bonds - Series 1987. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an Irrevocable Escrow Fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the 1983 Revenue Bonds - Series A.

Since the 1983 Revenue Bonds - Series A are fully secured by the escrowed securities, they are not regarded as direct obligations of the Authority.

For the purpose of reducing interest expense, the Authority on February 10, 1993, advance refunded \$540,000.00 1983 Revenue Bonds, Series A, and \$3,490,000.00 Revenue Bonds, Series 1986 by issuing \$4,465,000.00 Revenue Refunding Bonds, Series 1993. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an Irrevocable Escrow Fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on \$540,000.00 1983 Revenue Bonds, Series A and \$3,490,000.00 Revenue Bonds, Series 1986.

Since said bonds are fully secured by the escrowed securities, they are not regarded as direct obligations of the Authority.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(7) BONDS PAYABLE (CONTINUED)

For the purpose of reducing interest expense, the Authority on July 10, 1997 advanced refunded \$4,185,000.00 of the Revenue Bonds-Series 1987 by issuing \$4,300,000.00 of Revenue Refunding Bonds - Series 1997. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an Irrevocable Escrow Fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the Revenue Bonds - Series 1987.

Since the Revenue Bonds - Series 1987 are fully secured by the escrowed securities, they are not regarded as direct obligations of the Authority.

As of November 30, 2013, none of the Revenue Refunding Bonds - Series 1997 was outstanding.

For the purpose of reducing interest expense, the Authority on April 17, 2002, advance refunded \$3,120,000.00 Revenue Refunding Bonds - Series 1993, by issuing \$3,300,000.00 Revenue Refunding Bonds - Series 2003. The proceeds of the new issue were used to pay issuance cost and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an irrevocable escrow fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the Revenue Refund Bonds - Series 1993.

Since the Revenue Refunding Bonds - Series 1993 are fully secured by the escrowed securities, they are not regarded as direct obligations of the Authority.

As of November 30, 2013, \$645,000.00 of the Revenue Refunding Bonds - Series 2002 was outstanding.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(7) BONDS PAYABLE (CONTINUED)

For the purpose of reducing interest expense, the Authority on October 4, 2006 advance refunded \$2,115,000.00 Revenue Refunding Bonds – Series 1995 by issuing \$2,147,175.98 Revenue Refunding Bonds – Series 2006. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an irrevocable escrow fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the Revenue Refund Bonds – Series 1995.

Since the Revenue Refunding Bonds – Series 1995 are fully secured by the escrowed securities; they are not regarded as direct obligations of the Authority.

As of November 30, 2013, \$1,295,090.50 of the Revenue Refunding Bonds – Series 2006 was outstanding.

The following schedule sets forth the principal payment requirement for the next four years:

2014	\$ 475,203.51
2015	499,189.97
2016	178,034.33
2017	186,730.34
2018 - 2020	<u>600,932.35</u>
	<u>\$1,940,090.50</u>

(8) ACCRUED VACATION AND SICK LEAVE

Certain employees are permitted to accrue unused vacation and sick leave. The Authority estimates its liability for such accrued time at November 30, 2013 and 2012 to be as follows:

	<u>2013</u>	<u>2012</u>
Vacation Pay	\$18,995.17	\$ 8,069.64
Sick Pay	<u>51,023.28</u>	<u>50,263.59</u>
	<u>\$70,018.45</u>	<u>\$58,333.23</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(9) PENSION AND RETIREMENT PLAN

All employees participate in the Public Employees' Retirement System (PERS). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the Authority annually for its respective contributions. The plan does not maintain separate records for each Authority in the State and, therefore, the actuarial data for the Authority is not available.

The plans provide retirement and disability benefits and death benefits to plan members and beneficiaries. The plans are cost sharing multiple-employer defined benefit plans and as such do not maintain separate records for each Authority in the state and, therefore, the actual data for the Authority is not available. The division of pensions issues publicly available financial reports for each of the plans that include financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions.

Covered employees are required by State Statute to contribute a certain percentage of their salary to the plan. In addition, the PERS may bill the Authority annually at an actuarially determinable rate for its required contribution. The current employee rate is 6.78% of base salary.

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. The Authority was required to contribute \$103,752.00 to the plan for the year ended November 30, 2013 and \$110,990.00 for the year ended November 30, 2012.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(10) POST-RETIREMENT HEALTH BENEFITS

The Authority provides post-retirement health benefits to all employees who retire with 25 years or more of service. There are currently six (6) retirees who meet this requirement and are receiving benefits. In addition, there are four (4) employees who are eligible upon their retirement.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's contributions to SHBP for the years ended November 30, 2013 and 2012 were \$71,730 and \$40,978, respectively, which equaled the required contributions for each year.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(11) INSURANCE

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (JIF).

The Fund was created on September 15, 1991, in accordance with P.L. 1983, C. 372, entitled "An act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of "Title 40A of the New Jersey statues." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

The following coverage's are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability other than Motor Vehicles
- c. Property Damage other than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability
- f. Public Officials
- g. Employment Practices Liability

The Joint Insurance Fund is also a member of The Municipal Excess Liability Joint Insurance Fund which provides excess coverage.

A participating utility authority must remain in the Fund for the full term of membership unless earlier terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for non-payment of assessments or continued non-compliance after written notice to comply with the by-laws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's by-laws.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2013 AND 2012

(12) DEVELOPERS' DEPOSITS

The balances for deposits received from developers for tie-in charges, application review costs, performance guarantees and inspection fees at November 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Revenue Fund:		
Application Review Costs	\$ 135.85	\$ 1,031.60
Inspection Trust Account	<u>44,929.84</u>	<u>38,978.97</u>
	<u>\$45,065.69</u>	<u>\$39,114.82</u>

(13) SUBSEQUENT EVENTS

The Township of Hillsborough Municipal Utilities Authority has evaluated subsequent events occurring after the financial statement date through January 29, 2014, which is the date the financial statements were available to be issued. Based on this evaluation, the Township of Hillsborough Municipal Utilities Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

(14) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

The Authority attorney's letter to the auditor did not indicate any matters of substantial liability to the Authority connected with any legal suits or contractual obligation litigation in which the Authority is a defendant.

SUPPLEMENTARY INFORMATION

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 NOVEMBER 30, 2013

	UNRESTRICTED	SYSTEM REPLACEMENT	OPERATING COST	DEBT SERVICE	RENEWAL AND REPLACEMENT	CAPITAL IMPROVEMENTS	RATE STABILIZATION	TOTAL
Operating Revenues:								
Sewer Service Charges	\$ 5,435,825.75	\$	\$	\$	\$	\$	\$	\$ 5,435,825.75
Connection Charges	412,458.00							412,458.00
Inspection Fees	38,550.00							38,550.00
Plan Review Fees	14,111.81							14,111.81
Other								
Interest on Delinquent Accounts	52,776.63							52,776.63
Total Operating Revenues	\$ 5,953,722.19							\$ 5,953,722.19
Operating Expenses:								
Operating Costs	\$ 2,145,896.92							\$ 2,145,896.92
Sewerage Treatment	2,526,028.20							2,526,028.20
Depreciation Expense	608,104.74							608,104.74
Total Operating Expenses	\$ 5,280,029.86							\$ 5,280,029.86
Operating Income	\$ 673,692.33							\$ 673,692.33
Non-Operating Revenue (Expense):								
Interest Income	\$ 4,557.07			93.54	10.85			\$ 4,661.46
Interest Expense	(93,878.64)							(93,878.64)
Other	(11,685.22)							(11,685.22)
Net Income (Loss) Before Transfers	\$ (101,006.79)		\$ 93.54	\$ 93.54	\$ 10.85			\$ (100,902.40)
Transfers:								
Interest Income	66.23			(55.38)	(10.85)			
Interfunds	(561,845.15)		68,253.75	4,189.77		275,000.00	214,401.63	
Increase (Decrease) in Net Position	\$ 10,906.62	\$ -	\$ 68,253.75	\$ 4,227.93	\$ -	\$ 275,000.00	\$ 214,401.63	\$ 572,789.93
Net Position, Beginning of Year	8,345,502.98	1,216,169.95	1,348,921.25	1,074,430.97	100,000.00	956,084.26	919,338.37	13,960,447.78
Net Position, End of Year	\$ 8,356,409.60	\$ 1,216,169.95	\$ 1,417,175.00	\$ 1,078,658.90	\$ 100,000.00	\$ 1,231,084.26	\$ 1,133,740.00	\$ 14,533,237.71

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2013

	TOTAL	REVENUE ACCOUNT	GENERAL ACCOUNT	CONSTRUCTION ACCOUNT	BOND SERVICE ACCOUNT	BOND RESERVE ACCOUNT	RENEWAL AND REPLACEMENT ACCOUNT	INSPECTION TRUST ACCOUNT
Balance, December 1, 2012	\$ 5,499,466.01	\$ 1,936,654.24	\$ 2,346,033.83	\$ 3,368.00	\$ 517,039.03	\$ 557,391.94	\$ 100,000.00	\$ 38,978.97
Increased by:								
Sewer Service Charges	\$ 5,418,928.01	\$ 5,418,928.01	\$	\$	\$	\$	\$	\$
Sewer Connection Charges	449,248.97	449,248.97						
Interest on Investments	4,344.51	1,012.88	3,205.87					
Interest on Delinquent Accounts	52,793.57	52,793.57		0.50	38.16	55.38	10.85	20.87
Service Charges Overpaid	13,094.57	13,094.57						
Inspection Fees	38,550.00	38,550.00						
Developers Deposits	44,480.00							
Miscellaneous	14,111.81	14,111.81						
Interfunds	567,539.19		6,635.06	55.38	560,848.75			44,480.00
	<u>\$ 6,603,090.63</u>	<u>\$ 5,987,739.81</u>	<u>\$ 9,840.93</u>	<u>\$ 55.88</u>	<u>\$ 560,886.91</u>	<u>\$ 55.38</u>	<u>\$ 10.85</u>	<u>\$ 44,500.87</u>
Total	\$ 12,102,556.64	\$ 7,924,394.05	\$ 2,355,874.76	\$ 3,423.88	\$ 1,077,925.94	\$ 557,447.32	\$ 100,010.85	\$ 83,479.84
Decreased by:								
Accounts Payable	\$ 46,575.18	\$ 46,575.18	\$	\$	\$	\$	\$	\$
Operating Expenses	4,641,427.46	4,641,427.46						
Interest on Bonds	95,531.32				95,531.32			
Sewerage System Costs	154,488.04		152,202.64	2,285.40	461,127.66			
Bonds Redeemed	461,127.66							
Inspection Costs	38,550.50							
Interfunds	567,539.19	567,472.96				55.38	10.85	38,550.50
Total	<u>\$ 6,005,239.35</u>	<u>\$ 5,255,475.60</u>	<u>\$ 152,202.64</u>	<u>\$ 2,285.40</u>	<u>\$ 556,658.98</u>	<u>\$ 55.38</u>	<u>\$ 10.85</u>	<u>\$ 38,550.50</u>
Balance, November 30, 2013	\$ 6,097,317.29	\$ 2,668,918.45	\$ 2,203,672.12	\$ 1,138.48	\$ 521,266.96	\$ 557,391.94	\$ 100,000.00	\$ 44,929.34
Cash	\$ 2,206,836.48	\$ 2,127,528.20	\$ 33,921.48	\$ 457.46	\$	\$	\$	\$ 44,929.34
Investments	3,890,480.81	541,390.25	2,169,750.64	681.02	521,266.96	557,391.94	100,000.00	
	<u>\$ 6,097,317.29</u>	<u>\$ 2,668,918.45</u>	<u>\$ 2,203,672.12</u>	<u>\$ 1,138.48</u>	<u>\$ 521,266.96</u>	<u>\$ 557,391.94</u>	<u>\$ 100,000.00</u>	<u>\$ 44,929.34</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2013

	2013 ADOPTED BUDGET	2013 ACTUAL	2012 ACTUAL
<u>REVENUE</u>			
Sewer Service Charges	\$ 5,418,120.00	\$ 5,435,825.75	\$ 5,358,547.38
Connection Charges	212,025.00	412,458.00	787,606.00
Interest Income	5,000.00	1,012.88	1,455.31
Inspection Fees	30,000.00	38,550.00	29,660.00
Plan Review Fees	5,000.00		1,611.75
Miscellaneous	3,500.00	14,111.81	2,895.32
Interest on Delinquent Accounts	50,000.00	52,776.63	49,737.77
Rate Stabilization	228,700.00	-	-
	<u>5,952,345.00</u>	<u>5,954,735.07</u>	<u>6,231,513.53</u>
<u>TOTAL REVENUE</u>			
<u>OPERATING EXPENSES</u>			
Administrative:			
Salaries and Wages	\$ 381,000.00	\$ 368,315.15	\$ 322,575.65
Office Rent and Overhead	65,200.00	63,456.96	63,130.72
Equipment Service and Maintenance	25,000.00	22,343.94	22,469.23
Postage	16,000.00	14,868.90	14,757.51
Printing and Stationery Supplies	11,500.00	11,810.56	9,959.25
Dues, Subscriptions, Tuition and Seminars	22,000.00	22,467.35	15,039.35
Trustee Fees and Expenses	12,000.00	6,000.00	6,000.00
Miscellaneous	6,500.00	3,279.72	4,806.98
System Operating Expense:			
Salaries and Wages	703,000.00	695,654.51	618,358.23
Utilities	150,000.00	144,297.25	131,489.65
Service, Repairs and Replacements	42,000.00	38,939.72	47,454.58
Vehicle Operation and Maintenance	45,000.00	46,851.99	44,088.86
Tools, Materials and Supplies	27,000.00	21,578.80	17,385.61
State Mandated Programs-Permits	5,000.00	3,541.30	2,985.00
Bioxide	50,000.00	49,914.80	47,713.66
Professional Services:			
Legal	10,000.00	6,000.00	6,000.00
Financial	14,000.00	14,000.00	13,200.00
Engineering	15,000.00	6,000.00	6,624.75
Insurance and Bonding:			
Group Insurance Plan for Employees	390,000.00	356,764.94	315,804.73
Other Insurance and Bond Premiums	60,000.00	59,784.06	57,024.42
Statutory Expenditures:			
Social Security	78,000.00	78,975.64	69,039.66
Disability/Unemployment Insurance	4,500.00	4,221.14	3,701.22
Public Employees' Retirement System	112,985.00	106,830.19	110,990.00
	<u>2,245,685.00</u>	<u>2,145,896.92</u>	<u>1,950,599.06</u>
<u>TOTAL</u>	<u>\$ 2,245,685.00</u>	<u>\$ 2,145,896.92</u>	<u>\$ 1,950,599.06</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
 FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2013

	2013 ADOPTED <u>BUDGET</u>	<u>2013 ACTUAL</u>	<u>2012 ACTUAL</u>
Sewerage Treatment - Somerset-Raritan Valley Sewerage Authority	\$ 3,150,000.00	\$ 2,526,028.20	\$ 3,387,213.82
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 5,395,685.00</u>	<u>\$ 4,671,925.12</u>	<u>\$ 5,337,812.88</u>
<u>OTHER COSTS</u>			
Principal on Bonds	\$ 461,128.00	\$ 461,127.66	\$ 441,919.44
Interest Expense	95,532.00	95,531.32	114,763.99
	<u>\$ 556,660.00</u>	<u>\$ 556,658.98</u>	<u>\$ 556,683.43</u>
<u>TOTAL COSTS FUNDED BY OPERATING REVENUES</u>	<u>\$ 5,952,345.00</u>	<u>\$ 5,228,584.10</u>	<u>\$ 5,894,496.31</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE
NOVEMBER 30, 2013

YEAR	TOTAL	INTEREST RATE	REVENUE REFUNDING BONDS SERIES 2002	INTEREST RATE	REVENUE REFUNDING BONDS SERIES 2006
2014	\$ 475,203.51 (1)	4.500%	\$ 315,000.00 (1)	4.40%	\$ 160,203.51 (1)
2015	499,189.97	4.500%	330,000.00	4.40%	169,189.97
2016	178,034.33			4.40%	178,034.33
2017	186,730.34			4.40%	186,730.34
2018	190,271.47			4.40%	190,271.47
2019	198,699.68			4.40%	198,699.68
2020	211,961.20			4.40%	211,961.20
	<u>\$ 1,940,090.50</u>		<u>\$ 645,000.00</u>		<u>\$ 1,295,090.50</u>

(1) Current Portion

SCHEDULE 5

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF SEWER CHARGES RECEIVABLE
NOVEMBER 30, 2013

Balance, December 1, 2012		\$	312,003.53
Increased by:			
2013 Charges			<u>5,436,303.50</u>
		\$	<u>5,748,307.03</u>
Decreased by:			
Collected	\$	5,418,928.01	
Overpayments Applied		<u>13,242.09</u>	
			<u>5,432,170.10</u>
Balance, November 30, 2013		\$	<u><u>316,136.93</u></u>

SCHEDULE 6

SCHEDULE OF SEWER CONNECTION CHARGES RECEIVABLE
NOVEMBER 30, 2013

Balance, December 1, 2012		\$	125,408.09
Increased by:			
2013 Charges			<u>412,458.00</u>
		\$	<u>537,866.09</u>
Decreased by:			
Collected			<u>449,248.97</u>
Balance, November 30, 2013		\$	<u><u>88,617.12</u></u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOVEMBER 30, 2013

GENERAL COMMENTS AND RECOMMENDATIONS

NONE