

MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

FINANCIAL STATEMENTS AND SCHEDULES

DECEMBER 31, 2013 AND 2012

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibits</u>
1	Independent Auditor's Report	
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>		
4	Management Discussion and Analysis	
 <u>FINANCIAL STATEMENTS</u>		
10	Statement of Net Position	A
12	Statement of Revenues, Expenses and Changes in Net Position	B
13	Statement of Cash Flows	C
14	Notes to Financial Statements	
 <u>REQUIRED SUPPLEMENTARY SCHEDULES</u>		
		<u>Schedules</u>
34	Schedule of Revenues, Expenses and Changes in Net Position - Restricted and Unrestricted	1
35	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted and Restricted Accounts	2
37	Supplementary Schedule of Operating Revenues and Appropriations Budget vs. Actual - Year Ended December 31, 2013 with Comparative Actual Amounts in December 31, 2012	3
39	Schedule of Bonds and Loans Payable	4
47	Roster of Officials	5

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

TABLE OF CONTENTS, CONTINUED

Page

48	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	
50	Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and N.J. OMB Circular 04-04	
53	Schedule of Expenditures of Federal Awards	6
54	Schedule of Expenditures of State Financial Assistance	7
55	Notes to the Schedules of Expenditures of Federal and State Awards	
56	Schedule of Findings and Questioned Costs	
58	Summary Schedule of Prior Audit Findings	
59	Comments and Recommendations	
62	Status of Prior Year Audit Findings/Recommendations	
62	Appreciation	

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

Report on the Financial Statements

We have audited the accompanying statements of net position of the Manchester Utilities Authority (a Component Unit of the Borough of Haledon), as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



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

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

Opinion

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

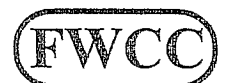
Changes in Accounting Principle

As discussed in Note 19 to the financial statements, in 2012 the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



Honorable Chairperson and Members of the
Manchester Utilities Authority
Page 3.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Manchester Utilities Authority's financial statements. The supplemental schedules and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are the responsibility of management and were derived from and relates 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 supplemental schedules, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 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 June 4, 2014 on our consideration of the Manchester 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 Manchester Utilities Authority's internal control over financial reporting and compliance.

Very truly yours,



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

June 4, 2014



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Required Supplementary Information

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**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

As management of the Manchester Utilities Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2013 and 2012. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$12,574,482 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$12,498,496.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$11,764,346 include plant and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$79,762 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$730,374 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$2,007,235 to \$8,206,671 during the fiscal year primarily due to an increase in loans payable.

Overview of the Financial Statements

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Position* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the authority.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(CONTINUED)**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the results of the Authority operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this year's activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(CONTINUED)**

Net Position

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net position at fiscal year-end is \$12,574,482. This is a \$75,986 increase over last year's net position of \$12,498,496. A summary of the Authority's statement of net position is presented in the following table:

Condensed Statement of Net Position

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Restated FY 2011</u>
Current and Other Assets	3,440,580	2,371,745	1,068,835	45.07%	2,891,915
Capital Assets	17,442,266	16,407,639	1,034,627	6.31%	16,632,779
Total Assets	<u>20,882,846</u>	<u>18,779,384</u>	<u>2,103,462</u>		<u>19,524,694</u>
Current Liabilities	1,040,920	1,010,469	30,451	3.01%	1,342,973
Non-Current Liabilities	7,165,751	5,188,967	1,976,784	38.10%	5,348,898
Total Liabilities	<u>8,206,671</u>	<u>6,199,436</u>	<u>2,007,235</u>		<u>6,691,871</u>
Deferred Inflows of Resources	<u>101,693</u>	<u>81,452</u>	<u>20,241</u>	24.85%	<u>86,244</u>
Invested in Capital Assets, Net of Related Debt	11,764,346	11,666,194	98,152	0.84%	11,773,308
Restricted	79,762	87,099	(7,337)	(8.42)%	111,281
Unrestricted	<u>730,374</u>	<u>745,203</u>	<u>(14,829)</u>	(1.99)%	<u>861,990</u>
	<u>12,574,482</u>	<u>12,498,496</u>	<u>75,986</u>	0.61%	<u>12,746,579</u>

While the *Statement of Net Position* shows the change in financial position of nets assets, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$75,986.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(CONTINUED)

Net Position (Continued)

Condensed Statement of Net Position

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Restated FY 2011</u>
Operating Revenues	2,468,088	2,460,411	7,677	0.31%	2,474,561
Non-Operating Revenues	<u>33,293</u>	<u>91,320</u>	<u>(58,027)</u>	<u>(63.54)%</u>	<u>33,948</u>
Total Revenues	<u>2,501,381</u>	<u>2,551,731</u>	<u>(50,350)</u>		<u>2,508,509</u>
Depreciation and Amortization	336,037	336,078	(41)	(0.01)%	329,051
Other Operating Expenses	1,861,181	2,027,784	(166,603)	(8.22)%	1,923,562
Other Non-Operating Expense	<u>482,943</u>	<u>468,069</u>	<u>14,874</u>	<u>3.18%</u>	<u>415,856</u>
Total Expenses	<u>2,680,161</u>	<u>2,831,931</u>	<u>(151,770)</u>		<u>2,668,469</u>
Contributions	<u>254,766</u>	<u>32,117</u>	<u>222,649</u>	693.24%	<u>171,420</u>
Change in Net Position	75,986	(248,083)	324,069		11,460
Beginning Net Position	12,498,496	12,746,579	(248,083)	(1.95)%	12,795,561
Cumulative Effect of GASB No. 63	_____	_____	_____		<u>(60,442)</u>
Ending Net Position	<u>12,574,482</u>	<u>12,498,496</u>	<u>75,986</u>	<u>0.61%</u>	<u>12,746,579</u>

Budgetary Highlights

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

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(CONTINUED)

The following table provides a 2013 budget comparison:

Budget vs. Actual			
FY 2013			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Net Assets Appropriated	75,000	75,000	0
Operating	2,648,500	2,480,267	(168,233)
Non-operating	<u>39,631</u>	<u>1,172</u>	<u>(38,459)</u>
	<u>2,763,131</u>	<u>2,556,439</u>	<u>(206,692)</u>
Expenses:			
Operating	2,247,719	1,843,153	404,566
Non-operating	<u>515,412</u>	<u>861,908</u>	<u>(346,496)</u>
	<u>2,763,131</u>	<u>2,705,061</u>	<u>58,070</u>
 Income Before Depreciation and Contributions	 <u>0</u>	 <u>(148,622)</u>	 <u>(148,622)</u>

Capital Assets

At the end of 2013, the Authority had invested \$23,484,011 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$17,442,266. This is a \$1,034,627 increase over last year's net plant, property and equipment of \$16,407,639. A summary of the Authority's capital assets is presented in the following table:

Capital Assets				
	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>FY 2011</u>
Structures and Improvements	1,217,852	1,217,852	0	1,217,852
Water Supply and Distribution System	20,159,427	20,047,646	111,781	19,495,013
Equipment	<u>866,261</u>	<u>803,266</u>	<u>62,995</u>	<u>803,266</u>
Total Capital Assets	22,243,540	22,068,764	174,776	21,516,131
 Less:				
Accumulated Depreciation	<u>(6,041,745)</u>	<u>(5,699,600)</u>	<u>(342,145)</u>	<u>(5,358,731)</u>
	16,201,795	16,369,164	(167,369)	16,157,400
 Construction in Progress	 <u>1,240,471</u>	 <u>38,475</u>	 <u>1,201,996</u>	 <u>475,379</u>
	<u>17,442,266</u>	<u>16,407,639</u>	<u>1,034,627</u>	<u>16,632,779</u>

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(CONTINUED)**

The Authority's ongoing capital plan is reviewed each year by the Authority's consulting engineer.

Debt Administration

At December 31, 2013, the Authority had outstanding U.S.D.A. Rural Development Loans of \$2,858,472, outstanding New Jersey Environmental Infrastructure Trust loans of \$4,493,984 and outstanding project notes of \$250,000. The Borough of Haledon Water Utility has a bond, payable in 2022, outstanding as of December 31, 2013. The principal and interest on this bond is payable by the users of the Manchester Utilities Authority.

Economic Factors, Future Years Budgets and Rates

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Manchester Utilities Authority, 510 Belmont Avenue, Haledon, New Jersey 07508.

Financial Statements

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Net Position
December 31, 2013

	2013	2012
ASSETS:		
Current Assets:		
Unrestricted :		
Cash and Cash Equivalents	\$ 733,903	\$ 454,332
Consumer Accounts Receivable	538,371	620,653
Prepaid Expenses	42,201	
Total Unrestricted Assets	1,314,475	1,074,985
Restricted:		
Debt Service Fund:		
Cash and Cash Equivalents	35,616	35,598
Revenue Fund		
Cash and Cash Equivalents	64,260	72,257
Money Market Account		
Cash and Cash Equivalents		152,921
Construction Fund:		
Cash and Cash Equivalents		19,762
Cost of Issuance Fund:		
Cash and Cash Equivalents		6,378
Series 2008 Ref. Fund:		
Cash and Cash Equivalents		5,580
Series 2008 Water Main Improvement Account:		
Cash and Cash Equivalents	101,431	100,173
Series 2011 Water System Imp. Account:		
Cash and Cash Equivalents	525	
Non-Current Assets:		
Restricted:		
Due From New Jersey Environmental Infrastructure Trust	1,924,273	904,091
Total Restricted Assets	2,126,105	1,296,760
Capital Assets:		
Structures and Improvements	1,217,852	1,217,852
Water Supply and Distribution System	20,159,427	20,047,646
Equipment	866,261	803,266
Less: Accumulated Depreciation	(6,041,745)	(5,699,600)
Construction in Progress	1,240,471	38,475
Capital Assets (Net)	17,442,266	16,407,639
TOTAL ASSETS	\$ 20,882,846	\$ 18,779,384

See accompanying Notes to Financial Statements.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Net Position
December 31, 2013

	<u>2013</u>	<u>2012</u>
LIABILITIES:		
Current Liabilities Payable from		
Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 254,842	\$ 247,032
Security Deposits Payable	7,022	4,632
Due To Borough of Haledon	<u>322,237</u>	<u>78,118</u>
	<u>584,101</u>	<u>329,782</u>
Current Liabilities Payable from		
Restricted Assets:		
Accrued Interest Payable	20,114	20,756
Notes Payable	250,000	500,000
Current Portion of Bonds and Loans Payable	<u>186,705</u>	<u>159,931</u>
	<u>456,819</u>	<u>680,687</u>
Non-Current Liabilities:		
Bonds Payable - NJEIT	4,348,644	2,330,495
Loan Payable - USDA	<u>2,817,107</u>	<u>2,858,472</u>
	<u>7,165,751</u>	<u>5,188,967</u>
TOTAL LIABILITIES	<u>8,206,671</u>	<u>6,199,436</u>
DEFERRED INFLOWS OF RESOURCES:		
Unamortized Bond Premiums	<u>101,693</u>	<u>81,452</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>101,693</u>	<u>81,452</u>
NET POSITION:		
Invested in Capital Assets, net of Related Debt	11,764,346	11,666,194
Restricted:		
Debt Service	79,762	87,099
Unrestricted	<u>730,374</u>	<u>745,203</u>
TOTAL NET POSITION	<u>\$ 12,574,482</u>	<u>\$ 12,498,496</u>

See accompanying Notes to Financial Statements.

THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended December 31,

	2013	2012
Operating Revenues:		
Rents	\$ 2,302,567	\$ 2,298,982
Fire Hydrant Service	140,173	137,597
Sprinklers	25,348	23,832
Total Operating Revenue	2,468,088	2,460,411
Operating Expenses:		
Administration	178,903	217,875
Costs of Providing Services	1,682,278	1,809,909
Depreciation	342,146	340,869
Total Operating Expenses	2,203,327	2,368,653
Operating Income (Loss)	264,761	91,758
Non-Operating Revenues/(Expenses):		
Interest on Investments	1,172	1,520
Other Non Operating Revenue	12,179	67,890
Build America Bonds Reimbursement	19,942	21,910
Debt Service	(433,947)	(468,069)
Debt Issuance Costs	(12,516)	
Refund of Prior Year Connection Fees	(36,480)	
Amortization of Premiums	6,109	4,791
Total Non-Operating Revenues/(Expenses)	(443,541)	(371,958)
Income Before Contributions	(178,780)	(280,200)
Contributions:		
NJEIT Principal Forgiveness	143,061	
USDA Grant	111,705	32,117
Change In Net Position	75,986	(248,083)
Net Position - January 1,	12,498,496	12,746,579
Net Position - December 31,	\$ 12,574,482	\$ 12,498,496

See accompanying Notes to Financial Statements.

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Statement of Cash Flows
Year Ended December 31,

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,562,549	\$ 2,419,314
Interest Received	1,172	1,520
Other Receipts	2,390	1,632
Cash Paid to Vendors/Employees	(1,651,453)	(1,774,446)
Other Cash Payments	(36,480)	
Net cash provided (used) by operating activities	<u>878,178</u>	<u>648,020</u>
Cash Flows from Investing Activities:		
Purchase of Property, Plant and Equipment	(1,376,772)	(115,729)
Net cash provided (used) by investing activities	<u>(1,376,772)</u>	<u>(115,729)</u>
Cash Flows from Financing Activities:		
Note Principal Paid	(250,000)	(500,000)
Bond Principal Paid	(195,000)	(195,000)
USDA Loan Principal Paid	(39,902)	(38,493)
NJEIT Loan Principal Paid	(120,031)	(120,030)
Interest Paid	(239,589)	(262,070)
Build America Bonds Reimbursement	19,942	21,910
USDA Loans/Grants Received	111,705	32,117
Received from NJEIT	1,300,203	63,926
Net cash provided (used) by non-capital financing activities	<u>587,328</u>	<u>(997,640)</u>
Net increase / (decrease) in cash and cash equivalents	88,734	(465,349)
Cash and cash equivalents, Beginning of Year	<u>847,001</u>	<u>1,312,350</u>
Cash and cash equivalents, End of Year	<u>\$ 935,735</u>	<u>\$ 847,001</u>
Reconciliation of Change in Net Position to Net Cash Provided/(Used) by Operating Activities:		
Change In Net Position	\$ 75,986	\$ (248,083)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	342,146	340,869
Amortization	(6,109)	(4,791)
Contributions	(254,766)	(32,117)
Build America Bonds Reimbursement	(19,942)	(21,910)
Bond Issuance Costs	12,516	
Debt Service	433,947	468,069
(Increase)/Decrease in:		
Consumer Accounts Receivable	82,282	(108,987)
Due from Borough of Haledon		99,882
Prepaid Expenses	(42,201)	
Increase/(Decrease) in:		
Accounts Payable and accrued liabilities	7,810	75,338
Security deposits payable	2,390	1,632
Due to Borough of Haledon	244,119	78,118
Net cash provided (used) by operating activities	<u>\$ 878,178</u>	<u>\$ 648,020</u>

See accompanying Notes to Financial Statements.

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Notes to Financial Statements

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. GENERAL

The Manchester Utilities Authority (the Authority) is a public body politic and corporate created by Ordinance #2-18-2004A adopted March 17, 2004 by the Borough of Haledon under the Municipal and County Utilities Authorities Laws of the State of New Jersey (P.L. 1957, Chapter 183 as amended and supplemented.

The Authority is responsible for the acquisition, construction, maintenance, operation and improvement of the works for among other things, the accumulation, supply and distribution of water for the residents of the Borough of Haledon, County of Passaic, New Jersey.

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

The Authority shall consist of five (5) commissioners who shall be appointed in accordance with the procedures set forth and for the terms of office provided in N.J.S.A. 40:14B-4.

The Authority's fiscal year is the twelve-month period ending December 31, on any year, or such other twelve-month period, which the Authority may establish by Resolution.

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

GASB has issued Statement No. 14, amended by Statement No. 39, that requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's board, and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. GENERAL, (continued)

entitled to or can otherwise access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority has no component units, however the Manchester Utilities Authority is a component unit of the Borough of Haledon.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The accounts of the Authority are organized into one fund with self-balancing accounting records that comprise its assets, liabilities, fund equity, revenues and expenses. The fund type and fund category is as follows:

Proprietary Fund Types

Enterprise Funds - The Enterprise Fund is used to account for governmental operations which are financed and operated in a manner similar to private enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its users on a continuing basis be financed or recovered primarily through user charges. The Authority maintains an enterprise fund to account for its Water System Operations.

The Authority's financial statements are reported using the economic resources measurements focus and the accrual basis of accounting. All assets and all liabilities associated with the enterprise fund operations are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION, (continued)

The Manchester Utilities Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

B. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION

Cash and Cash Equivalents

Cash and cash equivalents include money market funds and short-term investments including certificates of deposit, with a maturity of three months or less carried at cost, which approximates market.

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15. Statutes authorize the Authority to invest in certificates of deposit, repurchase agreements, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds and a maturity date not greater than 12 months from the date of purchase. In addition, the Authority can invest in direct debt securities of the United States or obligations guaranteed by the United States, bonds and other obligations of the local municipality or bonds or obligations of school districts of which the Authority is a part or within which the Authority is located unless such investments are expressly prohibited by law.

Investments

Investments consist of Certificates of Deposit and direct obligations of the U.S. Government, U.S. Government Agencies, repurchase agreements and investments in money market funds and are valued at cost, which approximates market (see Note 7).

Inventories

Inventories of materials and supplies are considered expenditures when purchased.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION, (continued)

Accounts Receivable

All receivables are reported at their gross values.

Allowance for Doubtful Accounts

The Authority does not provide an allowance for doubtful accounts because of the Authority's ability to compel payments through the lien or shut off process.

Property, Plant and Equipment

Property, plant and equipment are stated at estimated original cost as provided in a fixed asset appraisal performed by the Authority's engineer.

Depreciation is determined on a straight-line basis for all plant and equipment using the following estimated useful lives:

Structures and Improvements	12-75 years
Water Supply and Distribution System	75 years
Equipment	5-20 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify for reporting in this category for the year ending December 31, 2013.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Deferred Outflows/Inflows of Resources, (continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, and are displayed in the following three components:

Net Investment in Capital Assets

The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent unrelated debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted Component of Net Position

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted Component of Net Position

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

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C. REVENUES AND EXPENSES

Operating Fund Budget

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. 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.

E. RECENT ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. RECENT ACCOUNTING PRONOUNCEMENTS, (continued)

replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term "government combinations" includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

In April of 2013, the Government Accounting Standards Board issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for reporting periods beginning after June 15, 2013. The Authority is currently reviewing what effect, if any, this Statement will have on future financial statements.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3. FINANCIAL REPORTING ENTITY

The Governmental Accounting Standards Board requires that disclosure be made in the financial statements regarding the financial reporting entity of governmental units.

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; or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

The Manchester Utilities Authority is a component unit of the primary government of the Borough of Haledon. The commissioners of the Manchester Utilities Authority are appointed by the Council of the Borough of Haledon, and under the deficiency agreement entered into by the Authority and the Borough of Haledon, the Borough is obligated to make up any deficiency in service charges.

NOTE 4. INTRALOCAL SERVICE AGREEMENT

The Authority has entered into an intralocal service agreement with the Borough of Haledon dated December 16, 2010. Under the terms of this agreement, the Borough will provide certain agreed upon services including daily labor services; emergency labor services; street closing services; administrative services; computer maintenance; general maintenance of Authority property; insurance; purchasing services; administrative space and equipment sharing; and vehicle parking and equipment storage. In consideration for the provision of these "Agreed Upon Services", the Authority will pay a fixed "Agreed Upon Services Payment" in monthly installments on the last business day of each month. The monthly installments will be calculated by dividing the Agreed Upon Services payment in twelve equal installments. All increases to the amount of the Agreed Upon Services Payment may be negotiated on an annual basis.

In addition, the Authority shall be billed annually by the Borough for the debt service on bonds, payable in 2022, that the Borough has outstanding for improvements to the Authority's water system.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. INTRALOCAL SERVICE AGREEMENT, (continued)

The term of this intralocal agreement is for a three-year period. The Authority may terminate this Agreement by notifying the Borough of its intent to terminate the arrangement six months prior to the intended termination date. If the Agreement is neither terminated nor expressly extended by written Agreement, then this agreement will be automatically extended for additional one year periods until such time as it is terminated or superseded by any other written agreement renegotiated between the parties.

NOTE 5. WATER DEFICIENCY AGREEMENT

The Authority has entered into an agreement with the Borough of Haledon for a Water Deficiency Agreement. Said agreement states:

“Section 301. Service Charges. (1) With respect to all water supplied by the Authority and for all use and services of the Water System, the Authority will charge Service charges in accordance with the Act. Said Service Charges shall be established at rates estimated to be sufficient to provide for the receipt by the Authority in each Fiscal Year of a sum of money at least equal to the sum of all the amounts necessary in such Fiscal Year (A) to pay or provide for the expenses of operation and maintenance of the Water System and the principal of and interest on any and all Bonds as the same become due, and (B) to maintain such reserves or sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolution, or as may be deemed necessary or desirable by the Authority, and (C) to comply in all respects with the terms and provisions of any Bond Resolution and with the Act, but nothing contained in this Section 301 or this Agreement shall prevent the Authority from charging Service Charges which shall be less than sufficient to comply with the foregoing requirement, provided that the Borough shall have given their written consent to such lesser Service Charges in the manner herein provided.

Section 302. Annual Charge. (1) In any year in which the Authority shall have a deficiency whereby its Service Charges are not sufficient to provide for the items listed in Section 301(1)(A) through (C), the Borough shall pay an Annual Charge. The Annual Charge made and to be charged by the Authority to and payable by the Borough for or with respect to any Fiscal Year shall be the sum of money equal to the excess (if any) of:

(A) The sum of all of the amounts necessary or expended in the Fiscal Year of the Authority during such year (i) to pay or provide for the expenses of construction, acquisition, operation and maintenance of the Water System, including, without limitation, administrative and other expenses of the Authority, insurance, renewals, replacements, extensions, enlargements, alterations and betterments and the principal or redemption price of and interest on all other Bonds as the same

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 5. WATER DEFICIENCY AGREEMENT, (continued)

become due; (ii) to maintain such reserves or sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolution, or as may be deemed necessary by the Authority; and (iii) to comply in all respects with the terms of any Bond Resolution and with the Act; from which is subtracted.

(B) The sum of the following amounts to the extent available to be used to pay or provide for the amounts described in Section 302(1)(A): (i) Service Charges; (ii) the proceeds of Bonds; (iii) the proceeds of insurance awards received by or for account of the Authority with respect to the Water System; (iv) contributions received by or for account of the Authority with respect to the Water System and not under any circumstances repayable by the Authority until after the payment in full of all other obligations of the Authority including its Bonds, original or refunding or both; or (v) any other funds on hand and available therefor at the beginning of the Fiscal Year.”

The deficiency for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Income/(Loss) Before Contributions	(\$178,780)	(\$280,200)
Add Back Depreciation	<u>342,146</u>	<u>340,869</u>
	<u>\$163,366</u>	<u>\$60,669</u>

There is no deficit under the Water Agreement for the years ending December 31, 2013 and 2012.

NOTE 6. CASH AND CASH EQUIVALENTS

General Authorization

The Manchester Utilities Authority’s deposit and investment practices are governed by New Jersey State Statute 40A:5-15.

GASB Statement No. 3, amended by GASB Statement No. 40, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6. CASH AND CASH EQUIVALENTS, (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units. These requirements are disclosed in detail in Note 2.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC) or New Jersey's Governmental Unity Deposit Protection Act (GUDPA). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. Operating cash, in the form of various checking and savings accounts, are held in the Authority's name by commercial banking institutions. At December 31, 2013, the carrying amount of the Authority's deposits was \$935,735 and the bank balance was \$1,014,926. Of the bank balance, \$554,847 was insured with Federal Deposit Insurance and \$460,079 was covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are uncollateralized (securities not pledged by the depositor), collateralized with securities held by the pledging institution or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2013, all of the Authority's deposits were insured with Federal Deposit Insurance or under the provisions of the Governmental Unit Deposit Protection Act (GUDPA) and not exposed to custodial credit risk.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 7. INVESTMENTS

Interest Rate Risk

Investment rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The types of allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States; obligations of federal agencies not exceeding 397 days; bonds or other obligations of the local unit or school districts of which the local unit is a part; government money market mutual funds; local government investment pools; the State of New Jersey Cash Management Fund or agreements to repurchase fully collateralized securities as described in the Statutes.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

As of December 31, 2013, the Authority had no investments.

NOTE 8. PLANT, PROPERTY AND EQUIPMENT

The Authority's plant, property and equipment is valued at estimated acquisition cost based upon an appraisal performed by the Authority's engineer during fiscal year 2008. Subsequent to fiscal year 2008, property, plant and equipment additions are valued at acquisition costs.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed into operation.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8. PLANT, PROPERTY AND EQUIPMENT, (continued)

A description of the changes in the plant, property and equipment accounts of the Authority for the year ended December 31, 2013 is as follows:

	<u>Balance</u> <u>Dec.31,2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>Dec.31,2013</u>
Capital Assets, Not Being Depreciated:				
Construction in Progress	<u>\$38,475</u>	<u>\$1,313,777</u>	<u>\$111,781</u>	<u>\$1,240,471</u>
Total Capital Assets, Not Being Depreciated	<u>38,475</u>	<u>1,313,777</u>	<u>111,781</u>	<u>1,240,471</u>
Capital Assets, Being Depreciated:				
Structures and Improvements	1,217,852			1,217,852
Water Supply and Distribution System	20,047,646	111,781		20,159,427
Equipment	<u>803,266</u>	<u>62,995</u>	<u> </u>	<u>866,261</u>
Total Capital Assets, Being Depreciated	<u>22,068,764</u>	<u>174,776</u>	<u> </u>	<u>22,243,540</u>
Less: Accumulated Depreciation:				
Structures and Improvements	(787,990)	(38,086)		(826,076)
Water Supply and Distribution System	(4,686,557)	(263,895)		(4,950,452)
Equipment	<u>(225,053)</u>	<u>(40,164)</u>	<u> </u>	<u>(265,217)</u>
Total Accumulated Depreciation	<u>(5,699,600)</u>	<u>(342,145)</u>	<u> </u>	<u>(6,041,745)</u>
Total Capital Assets Being Depreciated, Net	<u>16,369,164</u>	<u>(167,369)</u>	<u> </u>	<u>16,201,795</u>
Capital Assets, Net	<u>\$16,407,639</u>	<u>\$1,146,408</u>	<u>\$111,781</u>	<u>\$17,442,266</u>

NOTE 9. LONG-TERM DEBT

U.S.D.A. Grant/Loan Program

On May 21, 2007, the Authority entered into a loan agreement with the United States Department of Agriculture in order to repay bond anticipation notes outstanding in the Borough of Haledon Water Utility Fund. Under this agreement, the Authority was awarded a grant of \$500,000 and was issued a loan in the amount of \$1,500,000 under the U.S.D.A. Rural Development Program. The loan has an interest rate of 3.25% and a term of 40 years. Payments of principal and interest are due twice annually on May 20 and November 20 of each year to maturity with a final maturity in 2046.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 9. LONG-TERM DEBT, (continued)

U.S.D.A. Grant/Loan Program, (continued)

In April of 2010, the Authority entered into a loan agreement with the United States Department of Agriculture in order to fund outstanding Project Notes, Series 2008 issued to provide funds for various projects relating to the improvement of its water supply and distribution system. Under this agreement, the Authority was awarded a grant of \$450,000 and was issued a loan in the amount of \$1,550,000 under the U.S.D.A. Rural Development Program. This loan has an interest rate of 4.125% and a term of 40 years. Payments of principal and interest are due twice annually in March and September of each year to maturity with a final maturity in 2050.

A summary of the Authority's activity under the U.S.D.A. Rural Development Loan Program for the year ended December 31, 2013 is as follows:

<u>Loan</u>	<u>Original Amount of Loan</u>	<u>Balance Dec.31,2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Dec.31,2013</u>
LN01	\$1,500,000	\$1,389,329	\$	\$22,317	\$1,367,012
LN03	<u>1,550,000</u>	<u>1,509,044</u>	<u> </u>	<u>17,585</u>	<u>1,491,459</u>
	<u>\$3,050,000</u>	<u>\$2,898,373</u>	<u> \$0</u>	<u>\$39,902</u>	<u>\$2,858,471</u>
Current Portion		\$39,903			\$41,364
Non-Current Portion		<u>2,858,470</u>			<u>2,817,107</u>
		<u>\$2,898,373</u>			<u>\$2,858,471</u>

New Jersey Environmental Infrastructure Trust Program

Series 2010A

On March 10, 2011, the Authority issued bonds through the New Jersey Environmental Infrastructure Trust Program in order to finance the costs of various improvements to its water supply and distribution system. The \$5,166,375 bonds were issued to evidence loans from the New Jersey Environmental Infrastructure Trust and 0% loans from the State of New Jersey. The Authority is eligible for principal "forgiveness" of \$2,521,109 on the 0% loan under the New Jersey Environmental Infrastructure Trust's ARRA financing program.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 9. LONG-TERM DEBT, (continued)

New Jersey Environmental Infrastructure Trust Program, (continued)

Series 2013A

On May 22, 2013, the Authority issued bonds through the New Jersey Environmental Infrastructure Trust Program in order to finance various improvements to its water supply and distribution system. The bonds were issued to evidence a loan from the New Jersey Environmental Infrastructure Trust of \$286,121 with interest rates ranging from 3.00% to 5.00%, and a 0% loan from the State of New Jersey in the amount of \$429,182. The Authority is eligible for "principal forgiveness" on the State of New Jersey loan in the amount of \$143,061.

Series 2014

During 2013, the Authority received interim financing through the State of New Jersey Environmental Infrastructure Trust Program for improvements to the water supply and distribution system in the amount of \$1,727,942. The final allowable costs and repayment schedule may change and will be determined upon closing of the final loan agreements.

A summary of the activity under the New Jersey Environmental Infrastructure Trust Program for the year ended December 31, 2013 is as follows:

NJEIT Loans Payable

	<u>Balance</u> <u>Dec.31.2012</u>	<u>Issued</u>	<u>Deobligated/ Retired</u>	<u>Balance</u> <u>Dec.31.2013</u>
	<u>\$2,450,525</u>	<u>\$2,294,063</u>	<u>\$250,603</u>	<u>\$4,493,985</u>
Current Portion	\$120,030			\$145,341
Non-Current Portion	<u>2,330,495</u>			<u>4,348,644</u>
	<u>\$2,450,525</u>			<u>\$4,493,985</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 9. LONG-TERM DEBT, (continued)

The Authority's schedule of principal and interest for long-term debt issued and outstanding as of December 31, 2013 is as follows:

Period Ending December 31,	U.S.D.A. Rural Development Loans		NJ Environmental Infrastructure Loans		Total
	Principal	Interest	Principal	Interest	
2014	\$41,364	\$105,410	\$145,341	\$60,800	\$352,915
2015	42,881	103,893	150,497	57,750	355,021
2016	44,453	102,321	155,497	54,600	356,871
2017	46,084	100,690	155,497	51,200	353,471
2018	47,776	98,998	160,497	47,800	355,071
2019-2050	<u>2,635,913</u>	<u>1,768,579</u>	<u>3,726,655</u>	<u>285,750</u>	<u>8,416,897</u>
	<u>\$2,858,471</u>	<u>\$2,279,891</u>	<u>\$4,493,984</u>	<u>\$557,900</u>	<u>\$10,190,246</u>

NOTE 10. DUE FROM NJ ENVIRONMENTAL INFRASTRUCTURE TRUSTS

As described above, the Authority had loans with the New Jersey Environmental Infrastructure Trust to finance the cost of various improvements to its water supply and distribution system as follows:

Balance Dec.31,2012	Loans Approved	Deobligations/ Reimbursements Received	Balance Dec.31,2013
<u>\$904,091</u>	<u>\$2,450,959</u>	<u>\$1,430,777</u>	<u>\$1,924,273</u>

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 11. UNAMORTIZED BOND PREMIUM

In connection with its New Jersey Environmental Infrastructure Trust financings, the Authority has received premiums of \$122,176. These premiums are being amortized using the straight-line method over the life of the NJEIT loans. The activity and unamortized balance in this account at December 31, 2013 is as follows:

Unamortized Balance <u>Dec.31.2012</u>	Premium Received <u> </u>	<u>Amortization</u>	Unamortized Balance <u>Dec.31.2013</u>
<u>\$81,453</u>	<u>\$26,349</u>	<u>\$6,109</u>	<u>\$101,693</u>

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to general liability, damage and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has obtained insurance coverage to guard against these events which will provide minimum exposure to the Authority should they occur.

NOTE 13. DUE TO THE BOROUGH OF HALEDON

At December 31, 2013, the Authority had \$322,237 due to the Borough of Haledon. This amount represents amounts paid by the Borough of Haledon Water Utility fund on behalf of the Manchester Utilities Authority. This amount is reported as follows:

Payable from Unrestricted Assets	<u>\$322,237</u>
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NOTE 14. NOTES PAYABLE

On January 31, 2013, the Manchester Utilities Authority issued \$250,000 Temporary Funding Notes, Series 2013, in order to provide funds for various projects relating to the improvement of its water supply and distribution system. The notes bear interest at a rate of 2.550% and mature January 30, 2014.

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 15. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

The Manchester Utilities Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The 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. 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 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. In 2009, the Manchester Utilities Authority authorized participation in the SHBP's post-retirement benefit program through resolution number 2009-53. Under the resolution adopted by the Authority, members enrolled in the New Jersey State Health Benefits Program who retire from the Manchester Utilities Authority with 25 years or more of service in the State of New Jersey pension system or retire on an approved disability retirement are eligible to participate in the SHBP's post-retirement benefit program, which includes surviving spouses and 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/gasb-43-sept2008.pdf>.

Funding Policy

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

Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Manchester Utilities Authority on a monthly basis. Currently, the Manchester Utilities Authority has no eligible retirees.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 16. COMMITMENTS AND CONTINGENCIES

As of December 31, 2013 and the date of this report, Authority counsel advises that the Authority is involved in unsettled or pending litigation, judgments or claims as described below:

- A. During this timeframe, litigation was pending in the matter of APS Contractors, Inc. v. Manchester Utilities Authority and Metra Industries, Inc., Docket No. L-3705-11 was filed on August 5, 2011. The Plaintiff alleged that it is owed certain sums of monies in connection with a capital improvement Contract, which has been completed but final payment was not tendered due to Plaintiff's dispute with the sums and Plaintiff's bond company directing that no payment be made due to Plaintiff's dispute with its subcontractor (co-Defendant, Metra Industries). APS Contractors, Inc. was asserting claims against the MUA in excess of \$200,000.00 and after beginning the trial, the parties agreed to settle the matter for the lump sum payment of \$40,000.00 to APS Contractors, Inc. from the MUA. There is no insurance coverage for this claim; however, this payment was made through the MUA's construction financing for this project.

- B. In 2012, litigation was settled in the matter of Volpe v. Manchester Utilities Authority, et al., Docket No. L-5281-09, filed on December 10, 2009. The Borough of Haledon and MUA's insurance carrier has assigned its Counsel to defend the MUA and without the consent of the MUA settled the matter for a lump sum payment of \$325,000.00. To date, the insurance carrier has not formally sought any contribution from the MUA for this payment. However, on June 28, 2013, the insurance company sent a Retention & Coinsurance Reimbursement Invoice requesting the sum of \$100,000.00 to the Borough of Haledon Clerk. The MUA disputes that any monies are due and owing from the MUA to the insurance carrier and as such, has not paid any portion of this reimbursement request.

NOTE 17. SUBSEQUENT EVENTS

On January 31, 2013, the Authority issued a \$250,000 Temporary Funding Note due January 31, 2014 at 2.55%. This note has matured and was paid off in 2014.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 17. SUBSEQUENT EVENTS, (continued)

The Authority is planning to improve various portions of its water supply system including the rehabilitation of the Central Avenue standpipe and storage tank, the rehabilitation of the High Service Reservoir, and the demolition of building and inoperable structures and security and SCADA improvements of the filter plant. The Authority is financing the cost of these projects with a "market" interest rate loan from the New Jersey Environmental Infrastructure Trust (the "NJEIT"), and a 0% loan from the State of New Jersey. The Authority expects to close on this financing in May of 2014.

In addition, the Authority has evaluated subsequent events through June 4, 2014, the date which the financial statements were available to be issued and no other items were noted for disclosure.

Required Supplementary Schedules

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Revenue, Expenses and Changes in Net Position
Restricted and Unrestricted
For The Year Ended December 31,

	Totals (Memo)		
	Unrestricted	Restricted Invested in Capital Assets	Current Debt Service
	2013	2013	2012
Operating Revenues:			
Rents	2,302,567		2,298,982
Fire Hydrant Service	140,173		137,597
Sprinklers	25,348		23,832
Total Operating Revenue	2,468,088	-	2,460,411
Operating Expenses:			
Cost of Providing Services	1,682,278		1,824,909
Administrative and Executive	178,903		202,875
Depreciation	342,146		340,869
Total Operating Expenses	2,203,327	-	2,368,653
Operating Income	264,761	-	91,758
Non-Operating Revenue/(Expenses):			
Interest Income	1,172		1,520
Other Non-operating Revenue	12,179		12,179
Build America Bonds Reimbursement	19,942		21,910
Debt Service	(433,947)		(433,947)
Debt Issuance Costs	(12,516)		(12,516)
Refund of Prior Year Connection Fees	(36,480)		(36,480)
Amortization of Debt Premium	6,109		6,109
Total Non-Operating Revenue/(Expenses)	(443,541)	-	(371,958)
Net Income / (Loss) Before Transfers and Contributions	(178,780)	-	(280,200)
Transfers:			
Other	(90,815)	98,152	(7,337)
Contributions:			
NJEIT Principal Forgiveness	143,061		143,061
USDA Grant	111,705		111,705
Increase / (Decrease) in Net Position	(14,829)	98,152	75,986
Net Position - January 1,	745,203	11,666,194	12,498,496
Net Position - December 31,	730,374	11,764,346	12,498,496

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THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Cash Receipts, Cash Disbursements and
Changes in Cash and Cash Equivalents -
Unrestricted and Restricted Accounts
Year Ended December 31, 2013

	Operating Account	Series 2007 Revenue	Series 2007 Debt Service	Series 2008 Construction	Series 2008 COI Fund
Cash and Cash Equivalents - January 1, 2013	\$ 487,834	\$ 34,123	\$ 35,598	\$ 19,762	\$ 6,378
Cash Receipts:					
Interest on Investments and Deposits	921	16	18	6	2
Water Rents	2,384,849				
Fire Hydrant Service	140,173				
Sprinklers	25,348				
Connection Fees	11,070				
NJEIT Funds					
USDA Funds		111,705			
Other	29,142				
Transfers	157,450				
	<u>2,748,953</u>	<u>111,721</u>	<u>18</u>	<u>6</u>	<u>2</u>
Cash Disbursements:					
Operations	1,898,979				
Construction Expenses	114,659				
Debt Service	448,820				
Investment Expenses	2,827			3	1
Escrow Expenses					
Transfers	14,500	111,705		19,765	6,379
	<u>2,479,785</u>	<u>111,705</u>	<u>-</u>	<u>19,768</u>	<u>6,380</u>
Cash and Cash Equivalents - December 31, 2013	<u>\$ 757,002</u>	<u>\$ 34,139</u>	<u>\$ 35,616</u>	<u>\$ -</u>	<u>\$ -</u>
ANALYSIS OF BALANCE:					
Unrestricted	\$ 726,881	\$ -	\$ -	\$ -	\$ -
Restricted	<u>30,121</u>	<u>34,139</u>	<u>35,616</u>	<u>-</u>	<u>-</u>
	<u>\$ 757,002</u>	<u>\$ 34,139</u>	<u>\$ 35,616</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Cash Equivalents	\$ 757,002	\$ 34,139	\$ 35,616	\$ -	\$ -
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 757,002</u>	<u>\$ 34,139</u>	<u>\$ 35,616</u>	<u>\$ -</u>	<u>\$ -</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Cash Receipts, Cash Disbursements and
Changes in Cash and Cash Equivalents -
Unrestricted and Restricted Accounts
Year Ended December 31, 2013

	Money Market	Series 2008 Ref. Account	Water Main Imp. Account	2011 Water System NJEIT	Escrow Account	Total
Cash and Cash Equivalents - January 1, 2013	\$ 152,921	\$ 5,580	\$ 100,173	\$ -	4,632	847,001
Cash Receipts:						
Interest on Investments and Deposits	20	2	103	84	17	1,189
Water Rents						2,384,849
Fire Hydrant Service						140,173
Sprinklers						25,348
Connection Fees						11,070
NJEIT Funds			61,317	1,236,150		1,297,467
USDA Funds						111,705
Other					4,500	33,642
Transfers				500		157,950
	<u>20</u>	<u>2</u>	<u>61,420</u>	<u>1,236,734</u>	<u>4,517</u>	<u>4,163,393</u>
Cash Disbursements:						
Operations		1				1,898,980
Construction Expenses			60,117	1,236,209		1,410,985
Debt Service	152,896					601,716
Investment Expenses	25		45			2,901
Escrow Expenses					2,127	2,127
Transfers	20	5,581				157,950
	<u>152,941</u>	<u>5,582</u>	<u>60,162</u>	<u>1,236,209</u>	<u>2,127</u>	<u>4,074,659</u>
Cash and Cash Equivalents - December 31, 2013	\$ -	\$ -	\$ 101,431	\$ 525	7,022	935,735
ANALYSIS OF BALANCE:						
Unrestricted	-	-	-	-	7,022	733,903
Restricted	-	-	101,431	525	-	201,832
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,431</u>	<u>\$ 525</u>	<u>7,022</u>	<u>\$ 935,735</u>
Cash and Cash Equivalents	-	-	101,431	525	7,022	935,735
Investments	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,431</u>	<u>\$ 525</u>	<u>7,022</u>	<u>\$ 935,735</u>

THE MANCHESTER UTILITIES AUTHORITY

(A Component Unit of the Borough of Haledon)

Supplementary Schedule of Operating Revenues and Appropriations -

Budget vs. Actual

Year Ended December 31, 2013

With Comparative Actual Amounts

in December 31, 2012

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
Revenues:			
Retained Earnings Appropriated	75,000	75,000	
Service Fees	2,505,000	2,302,567	2,298,982
Fire Hydrant Service	124,000	140,173	137,597
Sprinklers	19,500	25,348	23,832
Miscellaneous	33,631	12,179	67,890
Interest on Investments and Deposits	6,000	1,172	1,520
Total Operating Revenues	<u>2,763,131</u>	<u>2,556,439</u>	<u>2,529,821</u>
Expenses:			
Administration:			
Salaries and Wages	9,000	9,000	9,000
Social Security		689	689
Administrative Fees	17,000	20,814	15,000
Attorney Fees	76,000	55,147	94,756
Engineering Fees	41,000	50,855	57,854
Auditor Fees	41,000	33,180	32,898
Bank Fees	2,200	3,218	2,734
Bookkeeper	7,000	6,000	4,944
Subtotal Administration	<u>193,200</u>	<u>178,903</u>	<u>217,875</u>
Cost of Providing Services:			
Borough Contract	360,000	360,000	360,000
Chemicals	75,900	21,557	65,438
Office Supplies	2,500	1,963	1,395
Postage	6,100	6,490	6,482
Telephone	16,000	16,462	16,601
Lab Testing	13,000	20,716	15,466
Legal Advertisements	3,000	3,376	3,630
Licensed Operator	14,900	14,898	11,753
Maintenance to Buildings	2,500	2,270	5,296
Meter Purchases & Replacement	1,500	143	37,353
Passaic Valley Water Commission	997,500	897,736	936,857
Pump Maintenance	10,000	1,717	9,137
Emergency Repairs	75,000	103,538	102,712
Repairs		22,448	23,677
Utilities	140,000	125,481	124,048
Hydrant Repairs	60,000	36,143	55,598
Computer Maintenance/Software	4,000	5,573	4,196
Other Insurance	1,000	520	520
Road Openings	500	1,095	2,050
Service Contracts	6,000	3,443	8,289
State Taxes and Fees	5,000	5,940	6,491
Subscriptions/Dues	1,000	823	819
Miscellaneous	15,000	11,918	12,101
Subtotal Cost of Providing Services	<u>1,810,400</u>	<u>1,664,250</u>	<u>1,809,909</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Supplementary Schedule of Operating Revenues and Appropriations -
Budget vs. Actual
Year Ended December 31, 2013
With Comparative Actual Amounts
in December 31, 2012

	<u>2013</u> <u>Budget</u>	<u>2013</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>
Capital Outlay:			
Various Improvements	<u>65,000</u>	<u>18,028</u>	<u> </u>
Debt Service:			
Bond Principal	195,000	195,000	195,000
USDA Loan #1	67,290	67,260	67,261
USDA Loan #2	79,484	79,393	79,398
Note Principal	100,000	250,000	
Interest on Bonds	49,119	49,119	55,144
Interest on Notes	13,722	13,712	37,894
NJEIT Loans	<u>189,916</u>	<u>189,396</u>	<u>191,895</u>
Subtotal Debt Service	<u>694,531</u>	<u>843,880</u>	<u>626,592</u>
Total Costs Funded by Operating Revenues	<u>2,763,131</u>	<u>2,705,061</u>	<u>2,654,376</u>
Excess/(Deficit) of Total Revenues Over/(Under) Total Expenses	<u> -</u>	<u>(148,622)</u>	<u>(124,555)</u>
Reconciliation of Budgetary Basis To Change in Net Position:			
Depreciation		(342,146)	(340,869)
Amortization		6,109	4,791
USDA Loan Principal		39,902	38,493
NJEIT Principal		120,031	120,030
Note Principal		250,000	
Contributions		254,766	32,117
Build America Bonds Reimbursement		19,942	21,910
Retained Earnings Appropriated		(75,000)	
Bond Issuance Costs		(12,516)	
Refund of Prior Year Connection Fees		<u>(36,480)</u>	<u> </u>
Change in Net Position		<u>75,986</u>	<u>(248,083)</u>

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Maturities		Balance 01/01/13	Issued	Redeemed or Retired	Balance 12/31/13
			Date	Amount				
03/10/10	1,310,000	5.000%	08/01/2014	55,000				
		5.000%	08/01/2015	55,000				
		5.000%	08/01/2016	60,000				
		5.000%	08/01/2017	60,000				
		5.000%	08/01/2018	65,000				
		4.000%	08/01/2019	70,000				
		5.000%	08/01/2020	70,000				
		3.000%	08/01/2021	75,000				
		4.000%	08/01/2022	75,000				
		4.000%	08/01/2023	80,000				
		4.000%	08/01/2024	85,000				
		4.000%	08/01/2025	85,000				
		3.500%	08/01/2026	90,000				
		4.000%	08/01/2027	90,000				
		4.000%	08/01/2028	95,000				
		4.000%	08/01/2029	100,000				
					1,260,000		50,000	1,210,000

New Jersey Environmental
Infrastructure Trust - Trust
Loan Series 2010A

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Maturities Date	Amount	Balance		Redeemed or Retired	Balance 12/31/13
					01/01/13	Issued		
				23,343				
		0.000%	02/01/2014	46,687				
		0.000%	08/01/2014	23,344				
		0.000%	02/01/2015	46,687				
		0.000%	08/01/2015	23,344				
		0.000%	02/01/2016	46,687				
		0.000%	08/01/2016	23,344				
		0.000%	02/01/2017	46,687				
		0.000%	08/01/2017	23,344				
		0.000%	02/01/2018	46,687				
		0.000%	08/01/2018	23,344				
		0.000%	02/01/2019	46,687				
		0.000%	08/01/2019	23,344				
		0.000%	02/01/2020	46,687				
		0.000%	08/01/2020	23,344				
		0.000%	02/01/2021	46,687				
		0.000%	08/01/2021	23,344				
		0.000%	02/01/2022	46,687				
		0.000%	08/01/2022	23,344				
		0.000%	02/01/2023	46,687				
		0.000%	08/01/2023	23,344				
		0.000%	02/01/2024	46,687				
		0.000%	08/01/2024	23,344				
		0.000%	02/01/2025	46,687				
		0.000%	08/01/2025	23,344				
		0.000%	02/01/2026	46,687				
		0.000%	08/01/2026	23,344				
		0.000%	02/01/2027	46,687				
		0.000%	08/01/2027	23,344				
		0.000%	02/01/2028	9,488				
					1,190,525		200,604	989,921

New Jersey Environmental
Infrastructure Trust - Fund
Loan Series 2010

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Maturities		Balance 01/01/13	Issued	Redeemed or Retired	Balance 12/31/13
			Date	Amount				
05/22/13	280,000	3.000%	08/01/2014	10,000.00				
		4.000%	08/01/2015	10,000.00				
		4.000%	08/01/2016	10,000.00				
		4.000%	08/01/2017	10,000.00				
		4.000%	08/01/2018	10,000.00				
		4.000%	08/01/2019	10,000.00				
		4.000%	08/01/2020	15,000.00				
		4.000%	08/01/2021	15,000.00				
		4.000%	08/01/2022	15,000.00				
		5.000%	08/01/2023	15,000.00				
		5.000%	08/01/2024	15,000.00				
		3.000%	08/01/2025	15,000.00				
		3.000%	08/01/2026	15,000.00				
		3.000%	08/01/2027	15,000.00				
		3.000%	08/01/2028	20,000.00				
		3.000%	08/01/2029	20,000.00				
		3.000%	08/01/2030	20,000.00				
		3.000%	08/01/2031	20,000.00				
		3.000%	08/01/2032	20,000.00				
					280,000			280,000

New Jersey Environmental
Infrastructure Trust - Trust
Loan Series 2013A

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Maturities		Balance 01/01/13	Issued	Redeemed or Retired	Balance 12/31/13
			Date	Amount				
05/22/13	286,121	0.000%	08/01/2014	10,311				
			02/01/2015	5,155				
			08/01/2015	10,311				
			02/01/2016	5,155				
			08/01/2016	10,311				
			02/01/2017	5,155				
			08/01/2017	10,311				
			02/01/2018	5,155				
			08/01/2018	10,311				
			02/01/2019	5,155				
			08/01/2019	10,311				
			02/01/2020	5,155				
			08/01/2020	10,311				
			02/01/2021	5,155				
			08/01/2021	10,311				
			02/01/2022	5,155				
			08/01/2022	10,311				
			02/01/2023	5,155				
			08/01/2023	10,311				
			02/01/2024	5,155				
			08/01/2024	10,311				
			02/01/2025	5,155				
			08/01/2025	10,311				
			02/01/2026	5,155				
			08/01/2026	10,311				
			02/01/2027	5,155				
			08/01/2027	10,311				
			02/01/2028	5,155				
			08/01/2028	10,311				
			02/01/2029	5,155				
			08/01/2029	10,311				
			02/01/2030	5,155				
			08/01/2030	10,311				
			02/01/2031	5,155				
			08/01/2031	10,311				
			02/01/2032	5,155				
			08/01/2032	7,733				
						286,121		286,121
								1,727,942

New Jersey Environmental
Infrastructure Trust - Fund
Loan Series 2013A

New Jersey Environmental
Infrastructure Trust - Interim
Financing Series 2014

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Date	Maturities Amount	Balance		Redeemed or Retired	Balance 12/31/13
					01/01/13	Issued		
05/21/07	1,500,000	3.250%	05/21/2014	11,431				
			11/20/2014	11,617				
			05/21/2015	11,806				
			11/20/2015	11,997				
			05/21/2016	12,182				
			11/20/2016	12,391				
			05/21/2017	12,592				
			11/20/2017	12,796				
			05/21/2018	13,004				
			11/20/2018	13,216				
			05/21/2019	13,430				
			11/20/2019	13,649				
			05/21/2020	13,871				
			11/20/2020	14,096				
			05/21/2021	14,325				
			11/20/2021	14,558				
			05/21/2022	14,794				
			11/20/2022	15,035				
			05/21/2023	15,279				
			11/20/2023	15,527				
			05/21/2024	15,780				
			11/20/2024	16,036				
			05/21/2025	16,297				
			11/20/2025	16,561				
			05/21/2026	16,831				
			11/20/2026	17,104				
			05/21/2027	17,382				
			11/20/2027	17,665				
			05/21/2028	17,952				
			11/20/2028	18,243				
			05/21/2029	18,540				
			11/20/2029	18,841				
			05/21/2030	19,147				
			11/20/2030	19,458				

United States Department
of Agriculture Rural
Development Loan (LN-01)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original		Interest Rate	Maturities		Balance 01/01/13	Issued	Redeemed or Retired	Balance 12/31/13
	Date	Amount		Date	Amount				
05/21/07		1,500,000	3.250%	05/21/2031	19,775				
				11/20/2031	20,096				
				05/21/2032	20,422				
				11/20/2032	20,754				
				05/21/2033	21,092				
				11/20/2033	21,434				
				05/21/2034	21,783				
				11/20/2034	22,137				
				05/21/2035	22,496				
				11/20/2035	22,862				
				05/21/2036	23,233				
				11/20/2036	23,611				
				05/21/2037	23,995				
				11/20/2037	24,384				
				05/21/2038	24,781				
				11/20/2038	25,183				
				05/21/2039	25,593				
				11/20/2039	26,009				
				05/21/2040	26,431				
				11/20/2040	26,861				
				05/21/2041	27,297				
				11/20/2041	27,741				
				05/21/2042	28,192				
				11/20/2042	28,650				
				05/21/2043	29,115				
				11/20/2043	29,588				
				05/21/2044	30,069				
				11/20/2044	30,558				
				05/21/2045	31,054				
				11/20/2045	31,559				
				05/21/2046	32,072				
				11/20/2046	32,593				
				05/21/2047	33,130				
						1,389,329		27,316	1,367,013

United States Department
of Agriculture Rural
Development Loan (LN-01)
(Cont'd.)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Date	Maturities Amount	Balance		Redeemed or Retired	Balance 12/31/13
					01/01/13	Issued		
03/29/10	1,550,000	4.125%	03/29/2014	9,065				
			09/29/2014	9,251				
			03/29/2015	9,442				
			09/29/2015	9,636				
			03/29/2016	9,834				
			09/29/2016	10,036				
			03/29/2017	10,243				
			09/29/2017	10,453				
			03/29/2018	10,668				
			09/29/2018	10,888				
			03/29/2019	11,112				
			09/29/2019	11,340				
			03/29/2020	11,574				
			09/29/2020	11,812				
			03/29/2021	12,055				
			09/29/2021	12,303				
			03/29/2022	12,556				
			09/29/2022	12,814				
			03/29/2023	13,077				
			09/29/2023	13,346				
			03/29/2024	13,621				
			09/29/2024	13,901				
			03/29/2025	14,187				
			09/29/2025	14,479				
			03/29/2026	14,777				
			09/29/2026	15,081				
			03/29/2027	15,391				
			09/29/2027	15,707				
			03/29/2028	16,030				
			09/29/2028	16,360				
			03/29/2029	16,697				
			09/29/2029	17,040				
			03/29/2030	17,391				
			09/29/2030	17,748				

United States Department
of Agriculture Rural
Development Loan (LN-03)

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Schedule of Bonds and Loans Payable
December 31, 2013

Date	Original Amount	Interest Rate	Date	Maturities Amount	Balance 01/01/13	Issued	Redeemed or Retired	Balance 12/31/13
03/29/10	1,550,000	4.125%	03/29/2031	18,113				
			09/29/2031	18,486				
			03/29/2032	18,866				
			09/29/2032	19,254				
			03/29/2033	19,650				
			09/29/2033	20,054				
			03/29/2034	20,467				
			09/29/2034	20,888				
			03/29/2035	21,317				
			09/29/2035	21,756				
			03/29/2036	22,203				
			09/29/2036	22,660				
			03/29/2037	23,126				
			09/29/2037	23,602				
			03/29/2038	24,087				
			09/29/2038	24,583				
			03/29/2039	25,088				
			09/29/2039	25,604				
			03/29/2040	26,131				
			09/29/2040	26,669				
			03/29/2041	27,217				
			09/29/2041	27,777				
			03/29/2042	28,348				
			09/29/2042	28,931				
			03/29/2043	29,526				
			09/29/2043	30,134				
			03/29/2044	30,753				
			09/29/2044	31,386				
			03/29/2045	32,032				
			09/29/2045	32,690				
			03/29/2046	33,363				
			09/29/2046	34,049				
			03/29/2047	34,749				
			09/29/2047	35,464				
			03/29/2048	36,193				
			09/29/2048	36,938				
			03/29/2049	37,698				
			09/29/2049	38,473				
			03/29/2050	39,266				
					1,509,044		17,585	1,491,459
					5,348,398	2,294,063	290,505	7,352,456
					159,931			186,705
					5,188,967			7,165,751
					5,348,898			7,352,456

Grand Totals
Current Portion
Non-Current Portion

THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)
Roster of Officials
December 31, 2013

Commissioners

Victor D'Ambrosio

Muhammed Malgosh

James Van Sickle

Dewan Chowdhury

Phil Zofrea (Alternate)

Authority Consultant

ARCADIS

General Counsel

Fronzuto Law Group

Bond Counsel

John Hudak, Esq.

Authority Auditor

Ferraioli, Wielkotz, Cerullo & Cuva

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Single Audit Section

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

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Steven D. Wielkocz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Manchester Utilities Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 4, 2014.

Internal Control Over Financial Reporting

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



Honorable Chairman and Members of the
Manchester Utilities Authority
Page 2.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. Finding 2013-1.

Compliance and Other Matters

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

Purpose of this Report

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



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

June 4, 2014



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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND N.J. OMB CIRCULAR 04-04

Honorable Chairman and Commissioners
of the Manchester Utilities Authority
Haledon, NJ 07508

Report on Compliance for Each Major Federal and State Program

We have audited the Manchester Utilities Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplements* and the New Jersey State Aid/Grant Compliance Supplement that could have a direct and material effect on each of the Manchester Utilities Authority's major federal and state programs for the year ended December 31, 2013. The Manchester Utilities Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Manchester Utilities Authority's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133 and N.J. OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred



to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Manchester Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Manchester Utilities Authority's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Manchester Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Manchester Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Manchester Utilities Authority's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and N.J. OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Manchester Utilities Authority's internal control over compliance.

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

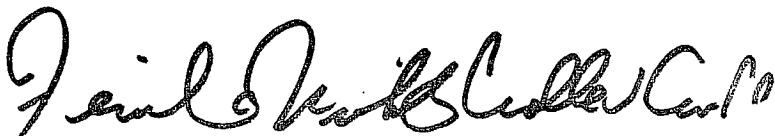
Honorable Chairman and Members of the
Manchester Utilities Authority
Page 3.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and N.J. OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133

We have audited the financial statements of the Manchester Utilities Authority as of and for the year ended December 31, 2013, and have issued our report there dated June 4, 2014 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and N.J. OMB Circular 04-04 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal and state awards is fairly stated in all material respects in relation to the financial statements as a whole.



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

June 4, 2014



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THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Schedule of Expenditures of Federal Awards
 Fiscal Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
				From	To	Prior Years	Current Year	Prior Years	Current Year	
U.S. Department of Agriculture: Rural Development Program: Water Project Grant	10.760	GN-04	\$ 450,000	n/a	n/a	338,295	111,705	390,145	59,855	450,000
Subtotal						338,295	111,705	390,145	59,855	450,000
U.S. Department of Environmental Protection: Pass Through New Jersey Department of Environmental Protection:										
Capitalization Grants for Drinking Water State Revolving Funds: ARRA - NJDEP Loan	66.468	1603001-002	\$ 1,097,594	n/a	n/a	1,096,541	1,053	1,096,541	1,053	1,097,594
ARRA - NJDEP Loan	66.468	1603001-010	\$ 32,386	n/a	n/a	32,239	147	32,239	147	32,386
NJDEP Loan	66.468	1603001-011	\$ 286,121	n/a	n/a		222,562		222,562	222,562
NJDEP Loan - Principal Forgiveness	66.468	1603001-011	\$ 143,061	n/a	n/a		111,280		111,280	111,280
Subtotal						1,128,780	335,042	1,128,780	335,042	1,463,822
Total Federal Financial Assistance						1,467,075	446,747	1,518,925	394,897	1,913,822

NOTE: THIS SCHEDULE WAS NOT SUBJECT TO AN AUDIT IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133.

See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

THE MANCHESTER UTILITIES AUTHORITY
 (A Component Unit of the Borough of Haledon)
 Schedule of Expenditures of State Financial Assistance
 Fiscal Year Ended December 31, 2013

State Grantor/Pass-Through Grantor/Program	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
			From	To	Prior Years	Current Year	Prior Years	Current Year	
New Jersey Department of Environmental Protection: NJ Environmental Infrastructure Trust Program	163001-002	\$ 1,101,165	n/a	n/a	361,268	27,697	361,268	27,697	388,965
	163001-010	\$ 159,390	n/a	n/a	126,970	32,420	126,970	32,420	159,390
	163001-011	\$ 286,121	n/a	n/a		222,562		222,562	222,562
	163001-006	\$ 1,051,245	n/a	n/a		469,012		469,012	469,012
	163001-012	\$ 240,700	n/a	n/a		63,402		63,402	63,402
	163001-013	\$ 436,000	n/a	n/a		147,332		147,332	147,332
Total State Financial Assistance					488,238	962,425	488,238	962,425	1,450,663

See accompanying notes to schedules of expenditures of federal awards and state financial assistance.

MANCHESTER UTILITIES AUTHORITY

NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2013

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance present the activity of all federal and state award programs of the Manchester Utilities Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Federal Awards and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented on the accrual basis of accounting. This basis of accounting is described in Note 2(A) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance revenues are reported in the Authority's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Enterprise Fund	<u>\$394,897</u>	<u>\$962,425</u>	<u>\$1,357,322</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

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**MANCHESTER UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

Section I--Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:		<u>Unmodified</u>
Internal control over financial reporting:		
1) Material weakness(es) identified?	_____ yes	_____ <u>X</u> _____ no
2) Significant deficiency(ies) identified that are not considered to be material weaknesses reported?	_____ <u>X</u> _____ yes	_____ none
Noncompliance material to general-purpose financial statements noted?	_____ yes	_____ <u>X</u> _____ no

Federal Awards

Not Applicable

State Awards

Dollar threshold used to distinguish between type A and type B programs:		\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	_____ yes	_____ <u>X</u> _____ no
Type of auditor's report issued on compliance for major programs:		<u>unqualified</u>
Internal Control over major programs:		
1) Material weakness(es) identified?	_____ yes	_____ <u>X</u> _____ no
2) Significant deficiencies identified that are not considered to be material weaknesses reported?	_____ yes	_____ <u>X</u> _____ none
Any audit findings disclosed that are required to be reported in accordance with NJ OMB Circular Letter 04-04?	_____ yes	_____ <u>X</u> _____ no

Identification of major programs:

<u>GMIS Number(s)</u>	<u>Name of State Program</u>
N/A	NJ Environmental Infrastructure Trust Fund

MANCHESTER UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

Section II--Financial Statement Findings

2013-1

Condition: Authority personnel are not updating fixed asset and depreciation records on a timely basis

Criteria: N.J.A.C. 5:30-5.6 requires that all local units have and maintain a fixed assets accounting and reporting system.

Effect: The Authority is not in compliance with N.J.A.C. 5:30-5.6 requiring an updated fixed assets inventory.

Cause: Authority personnel did not update the fixed assets records.

Recommendation: That the Authority implement procedures to have its fixed asset and depreciation records updated on a timely basis.

Views of Responsible Officials/Corrective Actions: The authority will designate personnel to have the responsibility of maintaining the fixed asset and depreciation records.

Section III--Federal Awards and State Financial Assistance Findings and Questioned Costs

No matters were reported.

MANCHESTER UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2013

Status of Prior Year Findings

A review was performed on all prior year's audit findings and corrective action was taken on all items.

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**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

N.J.S.A. 40A:11-4 states "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law."

Effective July 1, 2005 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$21,000.

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations." If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**COMMENTS AND RECOMMENDATIONS
(CONTINUED)**

Effective July 1, 2010, the bid threshold, in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$26,000 and with a qualified purchasing agent the threshold may be up to \$36,000.

Effective January 1, 2011, P.L., 2009, c.166 eliminated the previous lower non-qualified purchasing agent threshold of \$26,000. Thus a contracting unit without a qualified purchasing agent now has a maximum bid threshold of \$17,500.

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any 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.

Our examination of expenditures did not reveal any individual payments, contracts or agreements "for the performance of any work or the furnishing or hiring of any materials or supplies" in excess of the statutory thresholds other than those where bids had been previously sought by public advertisement or where a resolution had previously been adopted under the provisions of N.J.S.A. 40A:11-6.

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

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

**COMMENTS AND RECOMMENDATIONS
(CONTINUED)**

COMMENTS

The Authority did not maintain an updated schedule of fixed assets and the related depreciation.

RECOMMENDATIONS

That the Authority maintain and update, on a timely basis, its schedule of fixed assets and the related depreciation.

**THE MANCHESTER UTILITIES AUTHORITY
(A Component Unit of the Borough of Haledon)**

STATUS OF PRIOR YEAR AUDIT FINDINGS/RECOMMENDATIONS

A review was performed on prior year recommendations and corrective action was taken on all items.

APPRECIATION

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