

REPORT OF AUDIT
INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COUNTY OF WARREN
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2013

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	PART I	
	Roster of Officials	2
	Independent Auditor's Report	3-5
	Management's Discussion and Analysis	7
	PART II	
	<u>Financial Statements</u>	
A	Comparative Statement of Net Position	10-11
B	Comparative Statement of Revenues, Expenses and Changes in Net Position	12
C	Comparative Statement of Cash Flows	13-14
	Notes to Financial Statements	16-23
	<u>Supplementary Schedules</u>	
<u>Schedule</u>		
1	Schedule of Changes in Restricted Accounts	25
2	Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget Years Ended February 28, 2013 and February 29, 2012	26
3	Schedule of Insurance	27
	PART III	
	Independent Auditors Report-Report on Internal Control Over Financial Reporting and Other Matters	29-30
	Comments and Recommendations	31-32

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
PART I
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
 ROSTER OF OFFICIALS
 YEAR ENDED FEBRUARY 28, 2013

<u>Members of the Authority</u>	<u>Title</u>
Benjamin Dyer	Chairman
Angelo Bolcato	Vice Chairman
Kim Best	
Neil Stern	
Janice Swack (To 04/25/12)	
Jay Woodruff (From 11/28/12)	

* * * * *

<u>Administration</u>	<u>Title</u>	<u>Amount of Bond</u>	<u>Name of Surety Company</u>
Bernice Billings	Secretary/Treasurer	\$ 13,000	Western Surety Co
Judith Kopen	General Counsel		

Certified Public Accountant
Public School Accountant
Registered Municipal Accountant

100 Route 31 North
Washington, NJ 07882 - 1530
Fax # (908) 689-8388
(908) 689-5002

Independent Auditor's Report

June 14, 2013

Honorable Chairman and Members
of the Independence
Municipal Utilities Authority
Township of Independence, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Independence Municipal Utilities a component unit of the Township of Independence (the Authority), as of and for the years ended February 28, 2013 and February 29, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Auditor's Responsibility (Cont'd)

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Authority, as of February 28, 2013 and February 29, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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


Other Matters (Cont'd)**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Net Position-Restricted, the Schedule of Operating Revenues Compared to Budget, the Schedule of Expenditures Funded by Operating Revenues Compared to Budget and the Schedule of Insurance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Changes in Net Position-Restricted, the Schedule of Operating Revenues Compared to Budget, the Schedule of Expenditures Funded by Operating Revenues Compared to Budget and the Schedule of Insurance is the responsibility of management and was 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 Schedule of Changes in Net Position-Restricted, the Schedule of Operating Revenues Compared to Budget, the Schedule of Expenditures Funded by Operating Revenues Compared to Budget and the Schedule of Insurance 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 14, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.



William M. Colantano, Jr.
Registered Municipal Accountant
No. 68

REQUIRED SUPPLEMENTARY INFORMATION

**INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
P.O. BOX 131
GREAT MEADOWS, NJ 07838**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)**

This section of the Independence Municipal Utilities Authority's annual financial report presents our discussion and analysis of the IMUA's financial performance during the fiscal year ending February 28, 2013. Please read it in conjunction with the IMUA's financial statements (Exhibits A), which follow this section.

FINANCIAL HIGHLIGHTS

1. The IMUA's total net position increased 9.31% over the course of this year's operations.
2. During the year, the IMUA'S operating revenues increased 36.12%. This is due to a water usage rate increase implemented in fiscal year 2013.
3. Operating expenses increased by 1.20% due to the following:
 - a. Decrease in energy costs
 - b. Increase in testing
 - c. Increase in repairs and maintenance
 - d. Decrease in salaries and wages

OVERVIEW OF ANNUAL FINANCIAL REPORT

The financial statements report information about the IMUA using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements.

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

The statement of revenues, expenses and changes in net position presents the results of the IMUA's activities over the course of the fiscal year and information as to how the net position changed during the year.

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

The notes to the financial statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

The system requires constant maintenance and inspection. As the water system ages more repair work is involved.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
(Continued)

FINANCIAL ANALYSIS

The attached comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

AVAILABILITY OF FINANCIAL REPORT

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request at the IMUA office located at 286-B Route 46, Great Meadows, NJ 07838.

Independence Municipal Utilities Authority

CONDENSED FINANCIAL STATEMENTS

Condensed Statement of Net Position

	February		
	2013	2012	2011
Current Assets	\$ 38,662	\$ 25,225	\$ 37,690
Restricted Assets	111,866	120,767	115,787
Capital Assets, Net	187,467	174,987	174,987
Total Assets	<u>\$ 337,995</u>	<u>\$ 320,979</u>	<u>\$ 328,464</u>
Current Liabilities:			
Unrestricted	\$ 9,277	\$ 5,199	\$ 7,404
Restricted	68,738	68,410	67,990
Total Current Liabilities	<u>78,015</u>	<u>73,609</u>	<u>75,394</u>
Long Term Liabilities:			
Unrestricted	57,740	62,348	66,744
Total Liabilities	<u>\$ 135,755</u>	<u>\$ 135,957</u>	<u>\$ 142,138</u>
Net Position:			
Invested in Capital Assets	\$ 125,119	\$ 108,243	\$ 104,057
Restricted	43,128	52,357	47,797
Unrestricted	33,993	24,422	34,472
Total Net Position	<u>\$ 202,240</u>	<u>\$ 185,022</u>	<u>\$ 186,326</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

	February		
	2013	2012	2011
Operating Revenues	\$ 71,228	\$ 52,326	\$ 58,607
Operating Expenses	<u>51,025</u>	<u>50,421</u>	<u>51,237</u>
Operating Income (Loss)	20,203	1,905	7,370
Non-Operating Revenues (Expenses) and Other Financing Sources (Uses)	<u>(2,985)</u>	<u>(3,209)</u>	<u>(3,340)</u>
Increase (Decrease) in Net Position	17,218	(1,304)	4,030
Net Position @ Beginning of Year	<u>185,022</u>	<u>186,326</u>	<u>182,296</u>
Net Position @ End of Year	<u>\$ 202,240</u>	<u>\$ 185,022</u>	<u>\$ 186,326</u>

CONDENSED FINANCIAL STATEMENTS

Condensed Statement of Capital Assets

	February		
	2013	2012	2011
Capital Assets not Being Depreciated:			
Construction in Progress	\$ 33,561	\$ 15,780	\$ 10,480
Capital Assets Being Depreciated:			
Buildings and Building Improvements	162,828	162,828	162,828
Office Equipment	1,614	1,614	1,614
Operating Equipment	57,411	57,411	57,411
Total	221,853	221,853	221,853
Accumulated Depreciation:			
Buildings and Building Improvements	15,633	12,318	9,003
Office Equipment	1,607	1,607	1,607
Operating Equipment	50,707	48,721	46,736
Total	67,947	62,646	57,346
Total Capital Asset Being Depreciated, Net	153,906	159,207	164,507
Total Capital Assets	\$ 187,467	\$ 174,987	\$ 174,987

Condensed Statement of Long Term Debt

	February		
	2013	2012	2011
2008 Mortgage Note	\$ 62,348	\$ 66,744	\$ 70,930

**INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)**

PART II

FINANCIAL STATEMENTS

AND SUPPLEMENTARY DATA

FOR THE FISCAL YEARS ENDED

FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COMPARATIVE STATEMENT OF NET POSITION

	Balance Feb 28, 2013	Balance Feb 29, 2012
ASSETS		
Unrestricted Assets:		
Cash and Investments	\$ 31,149	\$ 18,227
Accounts Receivable	7,513	3,454
Prepaid Expenses	3,544	3,544
Total Unrestricted Assets	<u>38,662</u>	<u>25,225</u>
Restricted Assets:		
Customer Deposits:		
Cash	68,738	68,410
Trust Fund:		
Cash	1,046	994
Other:		
Cash	42,082	51,363
Total Restricted Assets	<u>111,866</u>	<u>120,767</u>
Capital Assets:		
Capital Assets not Being Depreciated	33,561	15,780
Capital Assets Being Depreciated	221,853	221,853
Less: Accumulated Depreciation	67,947	62,646
Net Capital Assets	<u>187,467</u>	<u>174,987</u>
TOTAL ASSETS	<u>\$ 337,995</u>	<u>\$ 320,979</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COMPARATIVE STATEMENT OF NET POSITION
(Continued)

	Balance Feb 28, 2013	Balance Feb 29, 2012
LIABILITIES AND NET POSITION		
Current Liabilities (Payable from Unrestricted Assets):		
Accounts Payable	\$ 4,188	
Payroll Deductions Payable	481	\$ 803
Current Portion of Mortgage Note Payable	4,608	4,396
	<u>9,277</u>	<u>5,199</u>
Current Liabilities (Payable from Restricted Assets):		
Customer Deposits:		
Reserve for Improvements	68,738	68,410
Total Current Liabilities	<u>78,015</u>	<u>73,609</u>
Long Term Liabilities:		
Long Term Portion of Mortgage Note Payable	57,740	62,348
Total Liabilities	<u>135,755</u>	<u>135,957</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	125,119	108,243
Restricted	43,128	52,357
Unrestricted	33,993	24,422
Total Net Position	<u>202,240</u>	<u>185,022</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 337,995</u>	<u>\$ 320,979</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

	Year Ended	
	Feb 28, 2013	Feb 29, 2012
Operating Revenues:		
Water Charges	\$ 70,509	\$ 51,607
Interest on Delinquent Accounts	587	508
Miscellaneous	132	211
Total Operating Revenues	<u>71,228</u>	<u>52,326</u>
Operating Expenses:		
Salaries and Wages	15,844	19,486
Electricity	6,395	6,588
Repairs and Maintenance	5,569	3,868
Operating Supplies	956	956
Water Testing	4,605	1,992
Payroll Taxes	1,216	1,499
Worker's Compensation Insurance	1,475	1,341
General Insurance	2,887	2,741
Office Expense	1,518	1,180
Miscellaneous	1,159	1,470
Professional Fees	4,100	4,000
Depreciation	5,301	5,300
Total Operating Expenses	<u>51,025</u>	<u>50,421</u>
Operating Income (Loss)	<u>20,203</u>	<u>1,905</u>
Nonoperating Revenues (Expenses):		
Interest Income	68	55
Interest Expense	(3,053)	(3,264)
Total Nonoperating Revenues (Expenses)	<u>(2,985)</u>	<u>(3,209)</u>
Increase (Decrease) in Net Position	17,218	(1,304)
Net Position at Beginning of Year	<u>185,022</u>	<u>186,326</u>
Net Position at End of Year	<u>\$ 202,240</u>	<u>\$ 185,022</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COMPARATIVE STATEMENT OF CASH FLOWS

	Year Ended	
	Feb 28, 2013	Feb 29, 2012
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 67,117	\$ 57,139
Other Operating Cash Receipts	52	90
Cash Payments to Suppliers for Goods or Services	(25,349)	(31,836)
Cash Payments to Employees for Services	(12,965)	(15,984)
Net Cash Provided (Used) by Operating Activities	28,855	9,409
Cash Flows from Investing Activities:		
Interest on Cash and Investments	68	55
Reserve for Improvement Interest Received	328	420
Net Cash Provided (Used) by Investing Activities	396	475
Cash Flow from Capital and Related Financing Activities:		
Payment of Debt Principal	(4,396)	(4,186)
Payment of Debt Interest	(3,053)	(3,264)
Purchase of Capital Assets	(17,781)	(5,300)
Net Cash Provided (Used) by Capital & Related Financing Activities	(25,230)	(12,750)
Net Increase (Decrease) in Cash and Investments	4,021	(2,866)
Cash and Cash Equivalents at Beginning of Year	138,994	141,860
Cash and Cash Equivalents at End of Year	\$ 143,015	\$ 138,994

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
COMPARATIVE STATEMENT OF CASH FLOWS
(Continued)

	Year Ended	
	Feb 28, 2013	Feb 29, 2012
Reconciliation of Income from Operations to Net Cash Provided (Used) by Operating Activities:		
Income (Loss) from Operations	\$ 20,203	\$ 1,905
Adjustments to Reconcile Income from Operations to Net Cash Provided (Used) by Operating Activities:		
Depreciation	5,301	5,300
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(4,059)	4,903
Increase (Decrease) in Prepaid Expenses	3,544	(284)
Increase (Decrease) in Accounts Payable	4,188	(2,365)
Increase (Decrease) in Payroll Deductions Payable	(322)	(50)
Net Cash Provided (Used) in Operating Activities	<u>\$ 28,855</u>	<u>\$ 9,409</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Independence Municipal Utilities Authority (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority (a component unit of the Township of Independence) was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chapter 183) by ordinance of the Township of Independence in 1975 to acquire, construct, maintain, operate and improve facilities for the collection, treatment, purification and disposal of sewage and other waste, and for the accumulation, supply and distribution of water and to exercise such other power as may heretofore and hereafter be granted to the municipal authority under the laws of the State of New Jersey.

The Authority consists of five appointed officials and is responsible for the fiscal control of the operations of the utilities system. Since the Authority issues its own financial statements its financial activity is not included in the financial statements of the Township of Independence.

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

B. Basis of Presentation - Fund Accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

C. Basis of Accounting

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority has adopted GASB statement 34 and subsequent Statements and Interpretations required certain changes in terminology format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into "invested in capital assets", "restricted" and "unrestricted" components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results may differ from those estimates.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Basis of Accounting (cont'd)

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned and expenses are recorded as incurred.

D. Property, Plant and Equipment

Property, plant and equipment is stated at cost, which includes direct construction costs and other expenditures related to construction.

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

Building and Improvements	40 Years
Water Mains and Interceptors	40 Years
Other Equipment	15 Years
Vehicles	5 Years
Office Equipment	5 Years

Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital.

E. Donated Facilities

On April 12, 1979, the Authority had entered into an agreement with Highland Properties, Inc. whereby, Highland Properties, Inc. were to construct a water supply system, consisting of wells, storage facilities, mains, laterals and other appurtenant facilities (the "Water System") for the supply of potable water to the homes in the Highland Development on Russling Road in Independence Township.

Highland Properties, Inc. conveyed the water system upon its completion, to the Authority who agreed to operate and maintain the water system in accordance with the provisions of the ordinance creating the Authority.

In 1977, the Authority entered into a similar agreement with First Morris Construction Company to acquire the Rockefeller Estates Water Supply System.

A valuation on the donated facilities has not been determined and the assets are therefore not reflected in these statements.

F. Restricted Accounts

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

Account	Use for Which Restricted
Customer's Deposits	Monies required by the Authority to assure payment or performance.
Trust Fund	Required employee and employer contribution to State Unemployment Insurance Fund-Reimbursement Method.
Other	Renewals and replacements funded by budget appropriations.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

G. Budgets and Budgetary Control

The Authority follows the following procedures in establishing the budgetary data as reflected in these financial statements.

At least 60 days prior to the Authority's year end (February 28), the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

NOTE 2: AUTHORITY REVENUES

Water charges are charged on a rate as approved annually by the governing body. Bills are payable in quarterly installments and delinquent accounts may be included as part of the Township of Independence's annual tax sale.

NOTE 3: CASH AND INVESTMENTS

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. US Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at amortized cost. All other investments are stated at fair value.

New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statutes provide a list of permissible investments that may be purchased by New Jersey authorities.

Additionally, the Authority has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

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

Cash and cash equivalents includes amounts in deposits, and short-term investments with original maturities of three months or less. The carrying (statement of net position) amounts were \$143,015 and \$138,994 for February 28, 2013 and February 29, 2012, respectively. The bank balances were \$148,283 and \$141,925 for February 28, 2013 and February 29, 2012, respectively.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 3: CASH AND INVESTMENTS (Cont'd)

Deposit and Investment Risk

GASB Statement No. 40 "Deposit and Investment Risk Disclosures" requires state and local governments to communicate key information about deposit and investment risks. Required disclosures are as follows:

1. Custodial credit risk disclosures are required for:
 - a. Deposits that are uninsured and either (a) uncollateralized or (b) collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the government's name.
 - b. Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

As the authority has no such investments, this disclosure is not applicable.

2. Credit quality ratings for investments in debt securities, external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities. As the authority has no such investments, this disclosure is not applicable.
3. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments. This requirement does not apply to investments issued or explicitly guaranteed by the US government and investments in mutual funds or pools. This disclosure is reported below under Concentration of Credit Risk.
4. Interest rate risk disclosures are required for all debt investments and non-money market like pools. As the authority has no such investments, this disclosure is not applicable.
5. Investments that are exposed to foreign currency risk should be disclosed. As the authority has no such investments this disclosure is not applicable.

Concentration of Credit Risk

The State of New Jersey does not place any limit on the amount that the authority may invest with any one issuer. As of February 28, 2013, the Authority had no investments.

NOTE 4: PENSION PLAN

Employees, who are eligible for a pension plan, are enrolled in the Public Employees' Retirement System, which is administered by the Division of Pensions, Treasury Department of the State of New Jersey. The plan is considered a cost sharing multiple-employer plan.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 4: PENSION

The Public Employees' Retirement System was established in January, 1955 under the provisions of NJSA 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service and 25 years for health care coverage. Members are eligible for retirement at age 55 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 55 with 25 or more years of credited service. Anyone who retires early and is under age 55 receives retirement benefits as calculated in the above mentioned formula but at a reduced rate (one quarter of one percent for each month the member lacks of attaining age 55).

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statement and required supplementary information for PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295 or visiting their website at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Significant legislation which became effective July 1, 2012 under Chapter 78, PL 2011 will gradually increase the employee contribution rate for PERS members from 5.5% to 7.5% of annual compensation by July 2018. Effective July 1, 2012, the rate will increase to 6.64%. After that, the rate will increase each July 1st over the seven year phase in until 7.5% effective July 1, 2018. Funding by the authority is determined by the annual actuarial valuation. For the years ended February 28, 2013 and February 29, 2012, the Authority has elected not to participate in the retirement system.

NOTE 5: CAPITAL ASSETS

Capital asset activity during the year was as follows:

	Balance Feb 29, 2012	Additions	Disposals	Balance Feb 28, 2013
Capital Assets not Being				
Depreciated:				
Construction in Progress \$	15,780	\$ 17,781		\$ 33,561
Capital Assets Being				
Depreciated:				
Bldg & Bldg Improvements	162,828			162,828
Office Equipment	1,614			1,614
Operating Equipment	57,411			57,411
Total Capital Assets	237,633	17,781	\$ -0-	255,414
Less: Accum Depreciation	62,646	5,301		67,947
Net Capital Assets	<u>\$ 174,987</u>	<u>\$ 12,480</u>	<u>\$ -0-</u>	<u>\$ 187,467</u>

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 6: MORTGAGE NOTE PAYABLE

A mortgage note dated October 31, 2008 was issued to the Authority for a total amount of \$80,000. Proceeds from the mortgage note were used for rehabilitation of a water storage tank belonging to the Authority.

Total debt service requirements for the mortgage note payable as of February 28, 2013 are as follows:

Year Ending	Principal	Interest	Total
2014	\$ 4,608	\$ 2,842	\$ 7,450
2015	4,830	2,620	7,450
2016	5,056	2,394	7,450
2017	5,306	2,144	7,450
2018	5,562	1,888	7,450
2019-2023	32,093	5,155	37,248
2024	4,893	87	4,980
	<u>\$ 62,348</u>	<u>\$ 17,130</u>	<u>\$ 79,478</u>

NOTE 7: COMPENSATED ABSENCES

The Authority does not have a policy which allows employees to accrue unused vacation and sick pay.

NOTE 8: CONTINGENT LIABILITIES

In the opinion of the Authority's management there are no matters pending that will have a material adverse effect on the financial position of the Authority.

NOTE 9: RISK MANAGEMENT

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

Property and Liability Insurance - The Authority maintains commercial insurance coverage for property, liability and surety bonds. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or prior three years.

New Jersey Unemployment Compensation Insurance - The Authority has elected to fund its NJ Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Authority is required to reimburse the NJ Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, and interest earnings, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's unemployment trust fund for the current and previous two years:

Fiscal Year	Authority Contrib	Interest Earnings	Employee Contrib	Amount Reimbursed	Ending Balance
2013	\$ -0-	\$ -0-	\$ 52	\$ -0-	\$ 1,046
2012	-0-	1	59	-0-	994
2011	-0-	1	53	-0-	934

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 10: SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through June 14, 2013, which is the date the financial statements were available to be issued and no additional items were noted for disclosure.

NOTE 11: RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

The following is a list of recent accounting pronouncements which are not yet effective as of the year end date of this report:

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The purpose of the statement is to amend the criteria for reporting and including component units with the primary government. This statement, which is effective for fiscal periods beginning after June 15, 2012, is not anticipated to have any effect on the Authority's financial reporting. In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65 "Items Previously Reported as Assets and Liabilities". This statement, which clarifies the reporting requirements related to deferred assets and liabilities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the Authority's financial reporting.

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 66 "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62". This statement, which resolves conflicts between Statements No. 10 and No. 54 provides more flexibility in fund classifications for risk based activities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the Authority's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67 "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25". This statement, which is effective for fiscal periods beginning after June 15, 2013, will not have any effect on the Authority's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, will not have any effect on the Authority's financial reporting.

In January 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 69 "Government Combinations and Disposals of Government Operations". This statement, which is effective for fiscal periods beginning after December 15, 2013, will not have any effect on the Authority's financial reporting.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Continued)

NOTE 12: PROJECT FINANCING APPROVAL FOR WELL PUMP STATION IMPROVEMENTS

The Authority has received approval for financing a well house reconstruction project through the New Jersey Environmental Infrastructure Trust Fund Loan Program totaling \$325,000. The loan was awarded by resolution of the Local Finance Board on July 11, 2012. The Authority intends to use the proceeds of the loan for renovations and upgrades to the Autumn Lane well pump station. There has been no debt as of the date of this report. The Authority has incurred costs totaling \$33,561 consisting of professional fees.

SUPPLEMENTARY SCHEDULES

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
SCHEDULE OF CHANGES IN RESTRICTED ACCOUNTS
YEAR ENDED FEBRUARY 28, 2013

	Reserve for Improvements			Net Position		
	Highlands Improve	Pump Station	Forest Ridge	State Unemploy- ment Ins	Renewals & Replacements	Total Net Position
Balance at Beginning of Year	\$ 15,600	\$ 45,204	\$ 7,606	\$ 994	\$ 51,363	\$ 52,357
Additions:						
Deposits Received				52	8,500	8,552
Interest Income		305	23			328
Total Additions	-	305	23	52	8,500	8,552
Deductions:						
Disbursements		-	-	-	17,781	17,781
Balance at End of Year	\$ 15,600	\$ 45,509	\$ 7,629	\$ 1,046	\$ 42,082	\$ 43,128
						\$ 111,866

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEARS ENDING FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

	2013		2012	
	Budget	Actual	Budget	Actual
Revenues:				
Retained Earnings Appropriated			\$ 4,230	\$ 4,230
User Charges & Fees	\$ 64,100	\$ 70,509	56,000	51,607
Delinquent Penalties	100	587	200	508
Interest on Investments & Deposits	400	68	900	55
Miscellaneous		132		211
	<u>\$ 64,600</u>	<u>\$ 71,296</u>	<u>\$ 61,330</u>	<u>\$ 56,611</u>
Expenses:				
Personnel:				
Salaries & Wages	\$ 21,700	\$ 15,844	\$ 21,000	\$ 19,486
Employee Benefits	1,700	2,691	1,680	2,840
Administration & General Expenses:				
Office Expenses	1,350	1,518	1,800	1,180
Miscellaneous	500	1,159	600	1,470
Insurance	4,400	2,887	3,900	2,741
Professional Fees	4,500	4,100	4,300	4,000
Operating & Maintenance Costs:				
Utilities	6,600	6,395	7,000	6,588
Water Testing	2,200	4,605	2,000	1,992
Repairs and Maintenance	4,500	5,569	4,500	3,868
Operating Supplies	1,200	956	2,600	956
Debt Service:				
Principal on Mortgage Notes Payable	4,396	4,396	4,186	4,186
Interest on Mortgage Notes Payable	3,054	3,053	3,264	3,264
Capital:				
Renewals & Replacements	8,500	8,500	4,500	4,500
	<u>\$ 64,600</u>	<u>\$ 61,673</u>	<u>\$ 61,330</u>	<u>\$ 57,071</u>

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
 (A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
 SCHEDULE OF INSURANCE
 YEAR ENDED FEBRUARY 28, 2013

	<u>Coverage</u>	<u>Deductible</u>
Authority Package Policy-Selective Insurance:		
Commercial Property Coverage:		
Buildings Policy Limit	\$ 511,604	\$ 500
Commercial Liability-General Aggregate Limit	2,000,000	
Business Automobile Limit	500,000	
Public Officials Liability Insurance	1,000,000	2,500
Workers Compensation Policy-Selective Insurance:		
Injury from Accident	500,000	
Injury from Disease	500,000	
Disease Policy Limit	500,000	
Public Employees Faithful Performance-Western:		
Surety Company:		
Treasurers Bond	13,000	

Adequacy of Insurance Coverage is the Responsibility of the Authority

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)

PART III

REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
GENERAL COMMENTS AND RECOMMENDATIONS
FOR THE FISCAL YEARS ENDED
FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

Certified Public Accountant
Public School Accountant
Registered Municipal Accountant

100 Route 31 North
Washington, NJ 07882 - 1530
Fax # (908) 689-8388
(908) 689-5002

INDEPENDENT AUDITOR'S REPORT

June 14, 2013

Honorable Chairman and
Members of the Independence
Municipal Utilities Authority
Independence Township, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements as of and for the years ended February 28, 2013 and February 29, 2012, and the related notes to the financial statements, which collectively comprise the Independence Municipal Utilities Authority's a component unit of Township of Independence (the Authority's) basic financial statements, and have issued our report thereon dated June 14, 2013.

Report on Internal Control over Financial Reporting

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

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

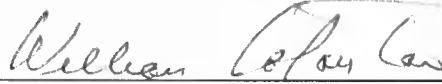
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



William M. Colantano, Jr.
Registered Municipal Accountant
No.68

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)
GENERAL COMMENTS

CONTROL DEFICIENCIES

Segregation of Duties-The Authority does not maintain an adequate segregation of duties with respect to the recording and treasury functions. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to perpetuate errors and prevent detection within a reasonable period of time. This is due to the limited number of personnel of the Authority. Accordingly, management of the Authority should be aware of this situation and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control. We do not believe that the significant deficiencies described above are to be considered material weaknesses.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF INDEPENDENCE)

RECOMMENDATIONS

No recommendations have developed as a result of this audit.

The foregoing conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the financial statements and this report of such conditions does not modify our report dated June 14, 2013.

We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.



William M. Colantano, Jr.
Registered Municipal Accountant
No. 68