

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

COUNTY OF WARREN

February 28, 2017

**BEDARD, KUROWICKI & CO, CPA'S, PC
CERTIFIED PUBLIC ACCOUNTANTS**

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

For the Years Ended February 28, 2017 and February 29, 2016

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INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Roster of Officials
Year Ended February 28, 2017

| <u>Members of the Authority</u> | <u>Title</u> |
|---------------------------------|---------------|
| Jay Woodruff | Chairman |
| Bernard Re | Vice Chairman |
| Angelo Bolcato | Member |

| <u>Administration of the Authority</u> | <u>Title</u> |
|--|---------------------|
| Deborah Hrebenak | Secretary/Treasurer |

See independent auditors' report.



Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

Honorable Chairman and Members of
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 of the Independence Municipal Utilities Authority (the Authority), a component unit of the Township of Independence, as of and for the years ended February 28, 2017 and February 29, 2016, 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.

Auditors' Responsibility

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

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

estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of February 28, 2017 and February 29, 2016, and the respective changes in financial position and its 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, Schedule of Budgetary Comparison Information, and Roster of Officials 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 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Net Position - Restricted is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Changes in Net Position - Restricted is 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 August 8, 2017 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.

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & Co, CPA'S, PC

August 8, 2017
Flemington, New Jersey

**Independence Municipal
Utilities Authority
P.O. Box 164, 286B Route 46
Great Meadows, NJ 07838
(908) 637-4133
Fax (908)637-8844
Email:dhrebenak@independencenj.com**

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

Our discussion and analysis of the financial performance of Independence Municipal Utilities Authority (the Authority) provides an overview of the Authority's financial activities for the year ended February 28, 2017. Please review it in conjunction with the Authority's basic financial statements.

Financial Highlights

Total assets decreased 1.69% over the course of this year's operations. This was a result of an increase in accumulated depreciation.

Liabilities decreased by 4.14%. This was due to repayment of debt.

During the year, the Authority's operating revenues decreased 5.09%. This is attributable to decreased water usage in the fiscal year ended 2017.

Operating expenses increased \$8,350 or 14.14% from 2016. This is mainly due to an increase in repairs and maintenance, operating supplies, and depreciation.

Total net position decreased \$252, which represents a 0.07% decrease from 2016.

Overview of Annual Financial Report

The financial statements report information about the Authority 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 assets and liabilities of the Authority; 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 Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position present the result of the Authority'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.

Economic Factors and Next Year's Budget and Rates

The Authority's governing body considers many factors when setting the 2017 - 2018 water use rates including the economy, the rate of inflation and planned future capital projects. The water use rate for 2017 - 2018 has not increased over the 2016 - 2017 year.

Financial Analysis

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

Contacting the Authority's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. This discussion and analysis is based upon information that was available as of August 8, 2017.

If you have questions about this report or need additional financial information, contact the Independence Municipal Utilities Authority office located at 286-B Route 46, Great Meadows, NJ 07838.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
Condensed Financial Statements

Condensed Statement of Net Position

Exhibit A

| | For the Fiscal Year Ended | | Increase (Decrease) |
|----------------------------------|---------------------------|----------------------|------------------------|
| | February 28, 2017 | February 29, 2016 | |
| Current assets | | | |
| Unrestricted assets | \$ 17,092 | \$ 18,347 | \$ (1,255) |
| Restricted assets | 110,823 | 104,233 | 6,590 |
| Capital assets, net | 464,084 | 479,615 | (15,531) |
| Total assets | <u>\$ 591,999</u> | <u>\$ 602,195</u> | <u>\$ (10,196)</u> |
| Current liabilities | | | |
| Unrestricted | \$ 14,925 | \$ 13,143 | \$ 1,782 |
| Restricted | 69,536 | 69,353 | 183 |
| Long-term liabilities | | | |
| Unrestricted | 145,641 | 157,550 | (11,909) |
| Total liabilities | <u>\$ 230,102</u> | <u>\$ 240,046</u> | <u>\$ (9,944)</u> |
| Net position | | | |
| Net investment in capital assets | \$ 306,538 | \$ 310,427 | \$ (3,889) |
| Restricted | 41,287 | 34,880 | 6,407 |
| Unrestricted | 14,072 | 16,842 | (2,770) |
| Total net position | <u>\$ 361,897</u> | <u>\$ 362,149</u> | <u>\$ (252)</u> |

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

| | For the Fiscal Year Ended | | Increase (Decrease) |
|-------------------------------------|---------------------------|----------------------|------------------------|
| | February 28, 2017 | February 29, 2016 | |
| Operating revenues | \$ 71,326 | \$ 75,147 | \$ (3,821) |
| Operating expenses | 67,422 | 59,072 | 8,350 |
| Operating income | <u>3,904</u> | <u>16,075</u> | <u>(12,171)</u> |
| Non-operating revenues (expenses) | <u>(4,156)</u> | <u>(4,577)</u> | <u>421</u> |
| (Decrease) increase in net position | (252) | 11,498 | (11,750) |
| Net position - beginning of year | <u>362,149</u> | <u>350,651</u> | <u>11,498</u> |
| Net position - end of year | <u>\$ 361,897</u> | <u>\$ 362,149</u> | <u>\$ (252)</u> |

Basic Financial Statements

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Comparative Statement of Net Position

| | <u>February 28,</u> <u>2017</u> | <u>February 29,</u> <u>2016</u> |
|--------------------------------|------------------------------------|------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 4,896 | \$ 9,045 |
| Accounts receivable | 12,196 | 9,302 |
| Total current assets | <u>17,092</u> | <u>18,347</u> |
| Restricted assets | | |
| Cash and cash equivalents | 110,823 | 104,233 |
| Total restricted assets | <u>110,823</u> | <u>104,233</u> |
| Capital assets | | |
| Capital assets | 569,288 | 571,981 |
| Less: accumulated depreciation | (105,204) | (92,366) |
| Net capital assets | <u>464,084</u> | <u>479,615</u> |
| Total assets | <u>\$ 591,999</u> | <u>\$ 602,195</u> |

See accompanying notes to the financial statements.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Comparative Statement of Net Position (continued)

| | <u>February 28,</u> <u>2017</u> | <u>February 29,</u> <u>2016</u> |
|--|------------------------------------|------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 2,288 | \$ 788 |
| Payroll deductions payable | 548 | 530 |
| Accrued interest payable | 184 | 187 |
| Current portion of long-term debt | <u>11,905</u> | <u>11,638</u> |
| Total current liabilities | <u>14,925</u> | <u>13,143</u> |
| Current liabilities (payable from restricted assets) | | |
| Customer deposits | | |
| Reserve for Highlands Improvement | 15,600 | 15,600 |
| Reserve for J&W Escrow | 7,708 | 7,687 |
| Reserve for Pumping Station | <u>46,228</u> | <u>46,066</u> |
| Total current liabilities (payable from restricted assets) | <u>69,536</u> | <u>69,353</u> |
| Long-term debt, net of current maturities | <u>145,641</u> | <u>157,550</u> |
| Total liabilities | <u>230,102</u> | <u>240,046</u> |
| Net position | | |
| Net investment in capital assets | 306,538 | 310,427 |
| Restricted | 41,287 | 34,880 |
| Unrestricted | <u>14,072</u> | <u>16,842</u> |
| Total net position | <u>361,897</u> | <u>362,149</u> |
| Total liabilities and net position | <u>\$ 591,999</u> | <u>\$ 602,195</u> |

See accompanying notes to the financial statements.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Comparative Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended

| | February 28, 2017 | February 29, 2016 |
|---|--------------------------|--------------------------|
| Operating revenues | | |
| Water charges | \$ 69,707 | \$ 73,881 |
| Interest income on delinquent accounts | 297 | 699 |
| Miscellaneous | 1,322 | 567 |
| Total operating revenues | <u>71,326</u> | <u>75,147</u> |
| Operating expenses | | |
| Cost of providing services | 42,204 | 35,642 |
| Administrative and general | 12,380 | 13,558 |
| Depreciation | 12,838 | 9,872 |
| Total operating expenses | <u>67,422</u> | <u>59,072</u> |
| Operating income | <u>3,904</u> | <u>16,075</u> |
| Non-operating revenues (expenses) | | |
| Interest income | 210 | 78 |
| Interest expense | (4,366) | (4,655) |
| Total non-operating revenues (expenses) | <u>(4,156)</u> | <u>(4,577)</u> |
| Change in net position | (252) | 11,498 |
| Net position, beginning | <u>362,149</u> | <u>350,651</u> |
| Net position, ending | <u><u>\$ 361,897</u></u> | <u><u>\$ 362,149</u></u> |

See accompanying notes to the financial statements.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Comparative Statement of Cash Flows
For the Years Ended

| | February 28, 2017 | February 29, 2016 |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 67,110 | \$ 74,377 |
| Other operating cash receipts | 1,322 | 567 |
| Cash payments to suppliers and employees | (53,066) | (50,110) |
| Net cash provided by (used for) operating activities | <u>15,366</u> | <u>24,834</u> |
| Cash flows from investing activities | | |
| Interest on cash and investments | 210 | 78 |
| Reserve for improvement interest received | 183 | 172 |
| Net cash provided by investing activities | <u>393</u> | <u>250</u> |
| Cash flow from capital and related financing activities | | |
| Cancellation of prior year capital expense | 2,693 | - |
| Payment of debt principal | (11,642) | (11,385) |
| Payment of debt interest | (4,369) | (4,658) |
| Net cash provided by (used for) capital and related financing activities | <u>(13,318)</u> | <u>(16,043)</u> |
| Net increase in cash and cash equivalents | 2,441 | 9,041 |
| Cash and cash equivalents, beginning | <u>113,278</u> | <u>104,237</u> |
| Cash and cash equivalents, ending | <u>\$ 115,719</u> | <u>\$ 113,278</u> |
| Reconciliation of balance sheet | | |
| Unrestricted cash and cash equivalents | \$ 4,896 | \$ 9,045 |
| Restricted cash and cash equivalents | 110,823 | 104,233 |
| Total cash and cash equivalents | <u>\$ 115,719</u> | <u>\$ 113,278</u> |

See accompanying notes to the financial statements.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Comparative Statement of Cash Flows (continued)
For the Years Ended

| | <u>February 28, 2017</u> | <u>February 29, 2016</u> |
|--|------------------------------|------------------------------|
| Reconciliation of income from operations to net cash | | |
| Provided (used) by operating activities | | |
| Income from operations | \$ 3,904 | \$ 16,075 |
| Adjustments to reconcile income from operations to net cash provided (used) by operating activities | | |
| Depreciation | 12,838 | 9,872 |
| Change in assets and liabilities | | |
| (Increase) decrease in accounts receivable | (2,894) | (203) |
| Increase (decrease) in accounts payable | 1,500 | (898) |
| Increase (decrease) in payroll deductions payable | 18 | (12) |
| Net cash provided (used) by operating activities | <u>\$ 15,366</u> | <u>\$ 24,834</u> |

See accompanying notes to the financial statements.

Notes to the Financial Statements

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

The financial statements of the Independence Municipal Utilities Authority (the 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 accounting policies of the Authority's accounting policies are described below.

Reporting entity

The Authority (a component unit of the Township of Independence) was created in accordance with the State Municipal Utilities Authorities Law (PL 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 officials appointed by the Township of Independence 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.

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.

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, liabilities and deferred inflow or outflow of resources associated with the operations are included on the Statement of Net Position. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Basis of accounting (continued)

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 affect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the Statement of Net Position 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.

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.

Budget and budgetary accounting

At least 60 days prior to the Authority's year-end (February 28, 2017), 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.

Income taxes

The Authority is a component unit of the Township of Independence and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

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

| <u>Account</u> | <u>Use for which Restricted</u> |
|-------------------------------------|---|
| Reserve for State Unemployment | Required employee and employer contribution to State Unemployment Insurance Fund - Reimbursement Method |
| Reserve for Developer's Deposits | Funds required by the Authority to assure payment of performance |
| Reserve for Renewals & Replacements | Renewals and replacements funded by budget appropriations and payments of connection fees |

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---------------------------|---------------|
| Building and improvements | 40 - 50 years |
| Other equipment | 10 - 15 years |
| Office equipment | 5 years |

Donated facilities

On April 12, 1979, the Authority entered into an agreement with Highland Properties, Inc. whereby, Highland Properties, Inc. constructed a water supply system, consisting of wells, storage facilities, mains, laterals and other 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 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.

Note 2 - Deposits, cash equivalents, 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. U.S. 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.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 2 - Deposits, cash equivalents, and investments (continued)

N.J.S.A. 17:9-41 e.t. 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.

The Authority's carrying (Statement of Net Position) amounts were \$115,719 and \$113,278 for February 28, 2017 and February 29, 2016, respectively. The bank balances were \$119,670 and \$120,197 for February 28, 2017 and February 29, 2016, respectively.

Concentration of credit risk

The Authority maintains its cash balances in three financial institutions. These cash balances are insured by Federal Deposit Insurance Corporation, (FDIC) up to the amount of \$250,000 in each bank depository. The funds in excess of the FDIC limit are insured by the State of New Jersey's Governmental Unit Deposit Protection Act (GUDPA).

Note 3 - Capital assets

A summary of changes in capital assets and accumulated depreciation is as follows:

| <u>February 28, 2017</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|---------------------------|------------------------------|--------------------|------------------|---------------------------|
| Building and improvements | \$ 494,831 | \$ - | \$ 2,693 | \$ 492,138 |
| Office equipment | 1,614 | - | - | 1,614 |
| Other equipment | 75,536 | - | - | 75,536 |
| Total capital assets | 571,981 | - | 2,693 | 569,288 |
| Accumulated depreciation | (92,366) | (12,838) | - | (105,204) |
| Capital assets, net | <u>\$ 497,615</u> | <u>\$ (12,838)</u> | <u>\$ 2,693</u> | <u>\$ 464,084</u> |

| <u>February 29, 2016</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|---------------------------|------------------------------|-------------------|------------------|---------------------------|
| Building and improvements | \$ 494,831 | \$ - | \$ - | \$ 494,831 |
| Office equipment | 1,614 | - | - | 1,614 |
| Other equipment | 75,536 | - | - | 75,536 |
| Total capital assets | 571,981 | - | - | 571,981 |
| Accumulated depreciation | (82,494) | (9,872) | - | (92,366) |
| Capital assets, net | <u>\$ 489,487</u> | <u>\$ (9,872)</u> | <u>\$ -</u> | <u>\$ 497,615</u> |

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 4 - Long-term debt

At February 28, 2017 and February 29, 2016 long-term debt consisted of the following as of:

| | 2017 | 2016 |
|---|------------|------------|
| Mortgage with a bank, due in monthly installments for principal and interest of \$621 through October 2023, interest at 4.715%, secured by real property. | \$ 42,534 | \$ 47,844 |
| New Jersey Environmental Infrastructure Trust loan, due in annual installments of \$2,995 to \$4,288 through August 1, 2033, interest from 0.19% to 3.30%, secured by a pledge on future revenue. | 59,504 | 62,505 |
| New Jersey Environmental Infrastructure Trust Fund loan, due in semi-annual installments of \$3,330 through August 1, 2033, with no interest, secured by a pledge of future revenue. | 55,508 | 58,839 |
| Total long term debt | 157,546 | 169,188 |
| Less current matures of long term debt | 11,905 | 11,638 |
| Long term debt, net of current maturities | \$ 145,641 | \$ 157,550 |

As of February 28, 2017, the future minimum principal payments for the next five years and thereafter are as follows:

| | | |
|------------|----|--------|
| 2018 | \$ | 11,905 |
| 2019 | | 12,189 |
| 2020 | | 12,497 |
| 2021 | | 12,832 |
| 2022 | | 13,190 |
| Thereafter | | 94,933 |

The Authority has debt authorized, but not issued, in the amount of \$194,000 as summarized below:

| | | |
|---|----|-----------|
| Debt authorized by resolution dated July 26, 2013 | \$ | 325,000 |
| Debt issued through NJ Environmental Infrastructure Trust | | (131,000) |
| Total debt authorized, but not issued | \$ | 194,000 |

Note 5 - Authority revenues

Water charges are charged on a rate 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.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Independence)
Notes to the Financial Statements

Note 6 - Compensated absences

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

Note 7 - 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 - Risks of losses from worker's compensation, property, automobile, liability, and public official's liability are covered by the insurance held by the Township of Independence. 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 the three prior 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 Deposits | Interest Earnings | Employee Deposits | Amount Reimbursed | Ending Balance |
|----------------|-----------------------|----------------------|----------------------|----------------------|-------------------|
| 2017 | \$ - | \$ - | \$ 38 | \$ - | \$ 1,189 |
| 2016 | - | 1 | 35 | - | 1,151 |
| 2015 | - | 1 | 35 | - | 1,115 |

Note 8 - Reclassifications

Certain amounts in the prior year financials have been reclassified to conform to the 2016 presentation.

Note 9 - Subsequent events

The Authority's management has determined that no material events or transactions occurred subsequent to February 28, 2017 and through August 8, 2017, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

Supplementary Information

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Schedule of Changes in Net Position - Restricted Accounts
For the Year Ended February 28, 2017

| | Reserve for Improvements | | | Net Position | | | Total |
|------------------------------|--------------------------|-----------|-----------|--------------|--------------|-----------|------------|
| | Highlands | Pump | Forest | State | Renewals & | Total | |
| | Improve | Station | Ridge | Unemployment | Replacements | Net | |
| | | | Insurance | | Position | Total | |
| Balance at beginning of year | \$ 15,600 | \$ 46,066 | \$ 7,687 | \$ 1,151 | \$ 33,729 | \$ 34,880 | \$ 104,233 |
| Additions | | | | | | | |
| Deposits received | - | - | - | 38 | 6,369 | 6,407 | 6,407 |
| Interest income | - | 162 | 21 | - | - | - | 183 |
| Total additions | - | 162 | 21 | 38 | 6,369 | 6,407 | 6,590 |
| Balance at end of year | \$ 15,600 | \$ 46,228 | \$ 7,708 | \$ 1,189 | \$ 40,098 | \$ 41,287 | \$ 110,823 |

See independent auditors' report.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Schedule of Budgetary Comparison Information
For the Years Ended

| | February 28, 2017 | | February 29, 2016 | |
|---|---------------------|------------------|---------------------|------------------|
| | Unaudited Budget | Actual | Unaudited Budget | Actual |
| Revenues | | | | |
| User charges and fees | \$ 68,680 | \$ 69,707 | \$ 68,000 | \$ 73,881 |
| Reserve capacity fees | 100 | 297 | 100 | 699 |
| Interest income | 250 | 210 | 250 | 78 |
| Miscellaneous | - | 1,322 | - | 567 |
| Total revenues | \$ 69,030 | \$ 71,536 | \$ 68,350 | \$ 75,225 |
| Expenses | | | | |
| Administrative and general | | | | |
| Salaries and wages | \$ 6,625 | \$ 5,791 | \$ 6,380 | \$ 5,497 |
| Employee benefits | 507 | 443 | 491 | 421 |
| Professional fees | 4,400 | 4,804 | 4,400 | 4,966 |
| Office expense | 1,800 | 867 | 1,800 | 2,026 |
| Miscellaneous other expenses | 250 | 475 | 500 | 648 |
| Total administrative and general | 13,582 | 12,380 | 13,571 | 13,558 |
| Cost of providing services | | | | |
| Salaries and wages | 13,625 | 6,197 | 13,120 | 5,881 |
| Employee benefits | 1,043 | 474 | 1,009 | 450 |
| Utilities | 6,500 | 7,243 | 6,500 | 7,160 |
| Water testing | 3,600 | 6,359 | 3,599 | 4,013 |
| Maintenance and repairs | 7,000 | 18,429 | 5,000 | 17,291 |
| Operating supplies | 1,300 | 3,502 | 1,300 | 847 |
| Total cost of providing services | 33,068 | 42,204 | 30,528 | 35,642 |
| Capital | | | | |
| Renewals and replacements | 6,369 | 6,369 | 8,207 | 8,207 |
| Debt service | | | | |
| Principal | 11,638 | 11,642 | 11,381 | 11,385 |
| Interest and fees | 4,373 | 4,369 | 4,663 | 4,655 |
| Total debt service | 16,011 | 16,011 | 16,044 | 16,040 |
| Total expenses | \$ 69,030 | \$ 76,964 | \$ 68,350 | \$ 73,447 |

See independent auditors' report.



Certified Public Accountants, PC
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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Chairman and Members 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 year ended February 28, 2017 and February 29, 2016, and the related Notes to the Financial Statements, which collectively comprise the Independence Municipal Utilities Authority's (the Authority) (a component unit of the Township of Independence) basic financial statements, and have issued our report thereon dated August 8, 2017.

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 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of General Comments and Recommendations 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.

Independence Municipal Utilities Authority's Response to Findings

Independence Municipal Utilities Authority's response to findings identified in our audit is described in the accompanying Schedule of General Comments and Recommendations. Independence Municipal Utilities Authority's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC

August 8, 2017
Flemington, New Jersey

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Schedule of General Comments and Recommendations

Significant Deficiencies

2017 - 01 Segregation of Duties

- Condition: An overall lack of segregation of duties in all accounting control processes.
- Cause: The small size of the Authority's administrative staff.
- Effect: Because of the lack of segregation of duties, errors in accounting control processes could be made and not be detected.
- Recommendation: Procedures should be implemented by the Authority to reduce the risk of errors occurring and going undetected.

Views of Responsible Officials and Planned Corrective Action (unaudited):

The management and governing body have determined that the Authority is effectively and efficiently served with a single individual performing these functions. The Authority has implemented compensating controls and continues to consider risk assessment as it relates to the likelihood of misstatement of financial statement amounts due to error or fraud.

INDEPENDENCE MUNICIPAL UTILITIES AUTHORITY
Schedule of General Comments and Recommendations

Recommendations

2017-01 Procedures should be implemented by the Authority to reduce the risk of errors in connection with a lack of segregation of duties.

Status of Prior Year's Audit Findings/Recommendations

A review was performed on prior year recommendations and corrective action was taken on all with exception of the following which is included in this year's recommendations:

2016-01 Procedures should be implemented by the Authority to reduce the risk of errors in connection with a lack of segregation of duties.

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.

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC