MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Page
PART I - INTRODUCTORY SECTION (UNAUDITED)	
Letter of Transmittal	1-3
Organizational Chart	4-9
Roster of Officials	10
PART II - FINANCIAL SECTION	
Independent Auditors' Report	1-3
Management's Discussion and Analysis (Unaudited)	4-9
Financial Statements	
Comparative Statement of Net Position	10-11
Comparative Statement of Revenue, Expenses and Changes in Net Position	12
Comparative Statement of Cash Flows	13
Notes to Financial Statements	14-29
	Schedule
Supplementary Information	
Comparative Statement of Revenue, Expenses and Changes in Net Position	1
Schedule of Revenue and Expenditures Compared to Budget	2-4
Schedule of Revenue, Expenses and Changes in Net Position – Water Division and Solid Waste Division	5
PART III - SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	1
Schedule of Expenditures of State Awards	2
Notes to Schedules of Expenditures of Federal and State Awards	3
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*	4-5
Schedule of Findings and Responses	6
Summary Schedule of Prior Audit Findings	7
PART IV – COMMENTS AND RECOMMENDATIONS	
Comments and Recommendations	8-9
Summary of Recommendations	10

MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY

March 13, 2013

The Honorable Chairman and Members
of the Morris County Municipal Utilities Authority
Morristown, NJ

Dear Authority Members:

The annual financial report of the Morris County Municipal Utilities Authority (the "Authority") for the years ended December 31, 2012 and 2011, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The comprehensive annual financial report is presented in four sections: introductory, financial, single audit and comments and recommendations. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. The Authority may be required to undergo a single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the auditors' report on the internal control structure and compliance with applicable laws and regulations and findings and recommendations, are included in the single audit section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Authority was created in 1958 as a public body corporate and politic of the State of New Jersey by the Board of Chosen Freeholders of the County of Morris pursuant to N.J.S.A. 40:14B-1 et seq. The Authority was established to protect the County water supply and prevent further diversion to areas outside the County. The Authority is currently using two well field sites (Alamatong and Flanders Valley). The Authority supplies water to the Townships of Randolph, Roxbury, Denville, Jefferson, Parsippany-Troy Hills and Mine Hill, Boroughs of Mount Arlington and Wharton, the Southeast Morris County M.U.A., and the New Jersey American Water Company. The Authority provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection and other purposes. The Frank J. Markewicz pump facility, located in Randolph Township, is the primary operating and monitoring facility for the water operations.

On September 23, 1987, the Board of Chosen Freeholders of the County of Morris designated the Authority as the agency to design and construct a solid waste system, including transfer stations, solid waste disposal facilities and other facilities for the collection, treatment and disposal of solid waste. This is to be accomplished in accordance with the solid waste management plan of Morris County, as amended from time to time.

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Offices located at 300 Mendham Rd. (Rt. 24), Morris Township, N.J. 07960

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REPORTING ENTITY AND ITS SERVICES: (Cont'd)

Trash transfer facilities are located in Parsippany Troy-Hills and Mount Olive Townships. These facilities, located in the east and west portions of the county, process and stage all trash from Morris County for transport to landfills located outside of New Jersey, primarily Pennsylvania. The Authority also provides pickup services to municipalities and commercial entities for recyclable materials, e.g. paper of various types, as well as plastic, metal and glass containers. The Authority also provides vegetative waste processing at sites in Parsippany Troy-Hills and Mount Olive Townships. These sites accept from various sources - trees, branches, grass, leaves, and process these materials into mulch and compost. The end products are sold to county residents and landscapers. The Authority also operates a household hazardous waste collection facility located at the Mount Olive transfer station. This facility accepts hazardous waste from residents and businesses and ships it for processing to various companies. Lastly, the Authority also provides recycling educational programs aimed at schools and the business communities.

The Authority is a legally separate organization, whose members are appointed by the Board of Chosen Freeholders. Financial transactions are processed and accounted for by the Authority's financial administration. The County has provided the Authority with long term loans for capital and operating needs. These loans, for the most part were interest free with a few exceptions. The County also issued bond anticipation notes for the acquisition of the transfer stations. This debt was not interest free and was paid by the Authority. Accordingly, the Authority should be considered a component unit of the County of Morris under the provisions of Governmental Accounting Standards Board Codification Section 2100 "Defining the Financial Reporting Entity".

General Trends and Significant Events

During 2012, the Authority's water division experienced the following:

- Finalized the resolution of the Authority's water supply contract deficit.
- Conceptual approval with Jersey City MUA for future water purchase.
- Review of the proposed Rockaway well for new water source.
- Initiated rehabilitation of Dover Chester Road water storage facility.
- Conducted successful online reverse auction to secure competitive two year electricity contract.

During 2012, the Authority's solid waste division experienced the following:

- Procured a contract with J.P. Mascaro & Sons for transfer station, transportation and landfill services for five years.
- The Authority continued to improve and upgrade the transfer station as part of a multi-year program.
- Entered into lease agreement with Parsippany Troy-Hills for use of scalehouse property.
- The Authority entered into new curbside recycling collection contracts with municipal customers with marketing at ReCommunity in Mine Hill.

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 5. The Authority has adopted a cash management plan which 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. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds which are covered under the Morris County Insurance Fund.

OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the Authority. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments of 1996 and the related OMB Circular A- 133 and New Jersey OMB's Circular 04-04. The auditors' report on the financial statements is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the single audit section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Morris County Municipal Utilities Authority for their concern in providing fiscal accountability to the citizens of Morris County and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

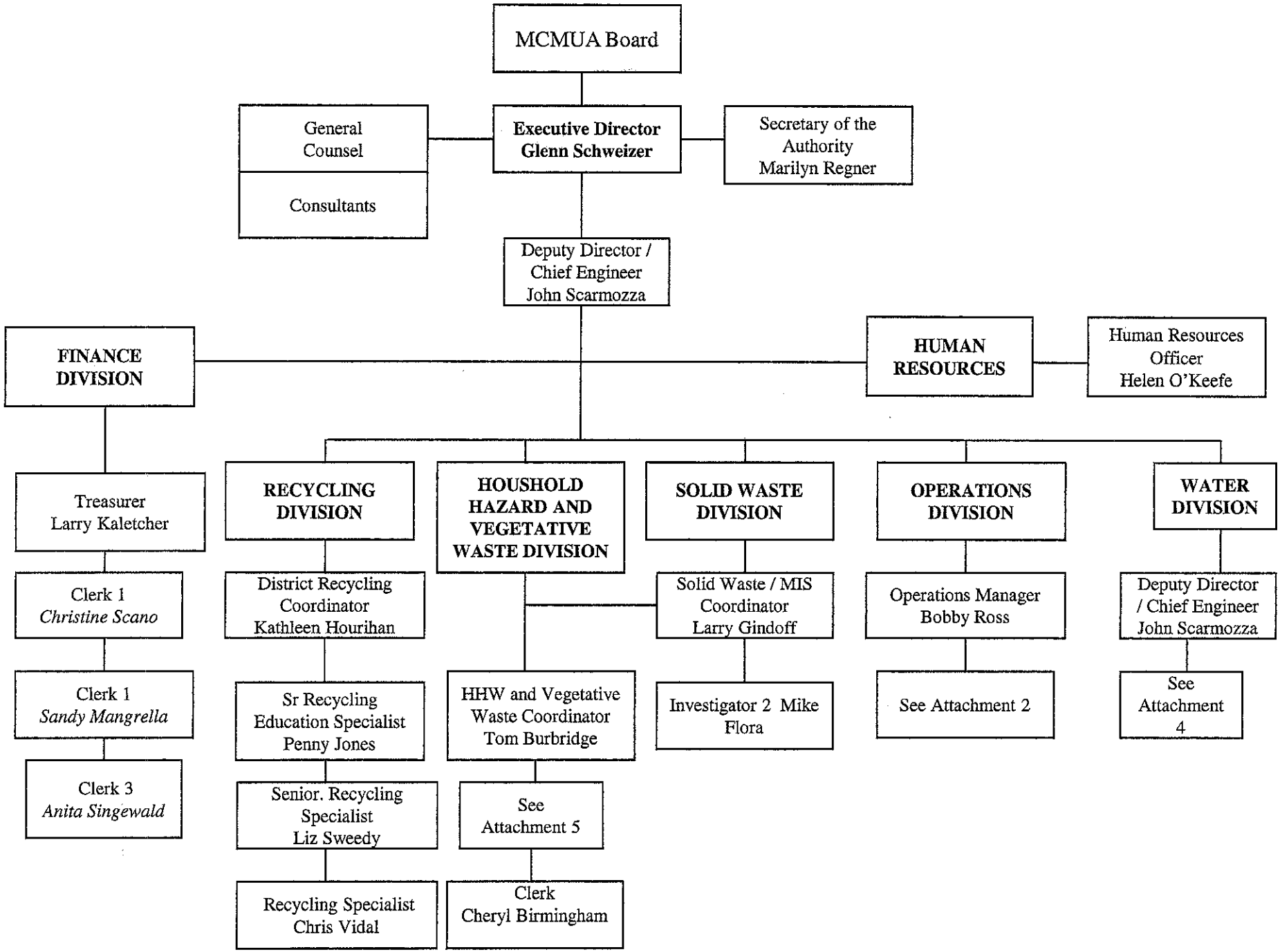
Glenn Schweizer
Executive Director

Lawrence A. Kaletcher
Chief Financial Officer

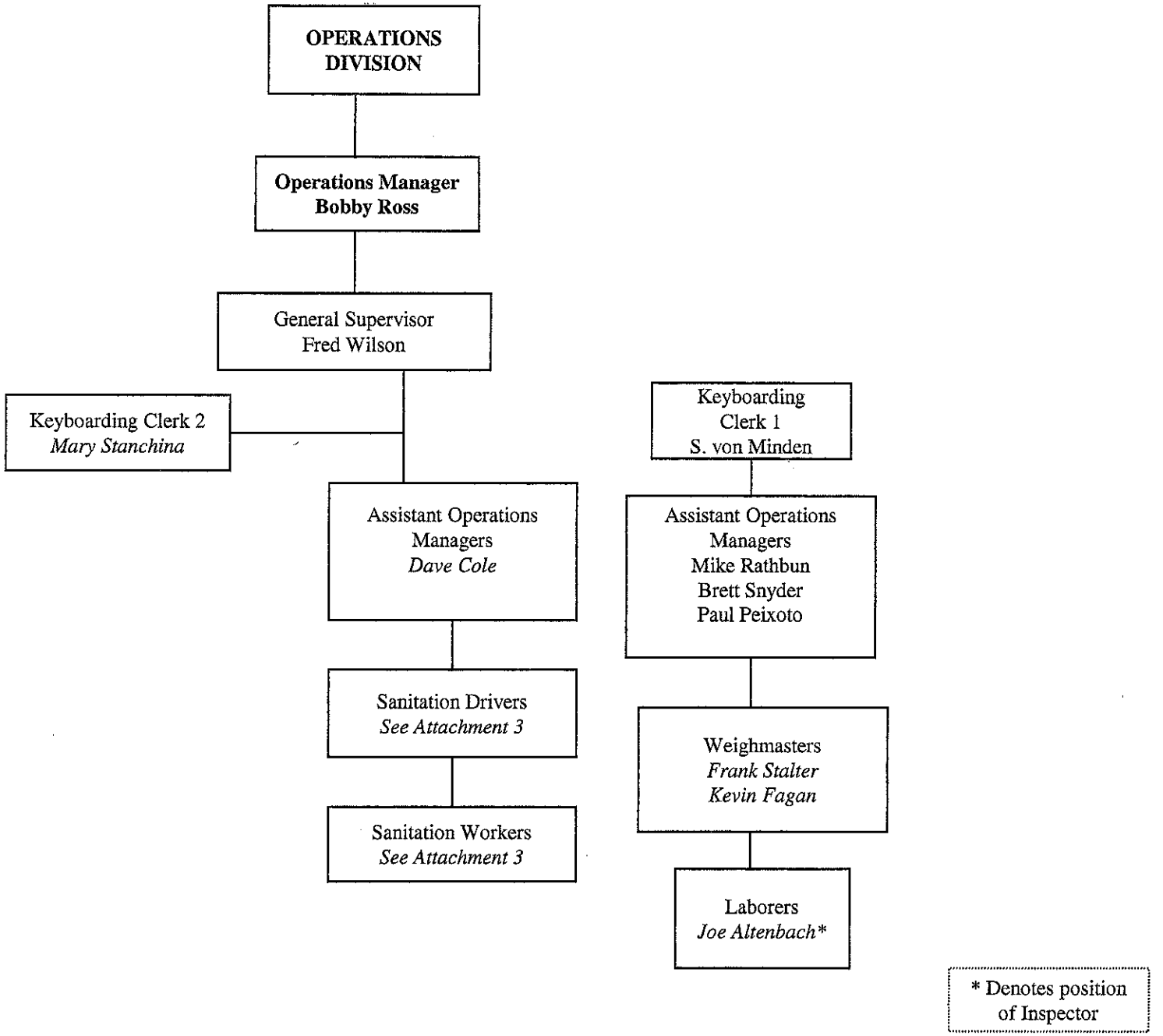
MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY

Organizational Chart
2012

Organizational Charts organized by groups. Please note names in italics indicate union employee.


MCMUA Board
General Counsel
Consultants
Executive Director Glenn Schweizer
Secretary of the Authority Marilyn Regner
Deputy Director / Chief Engineer John Scarmozza
FINANCE DIVISION
HUMAN RESOURCES
Human Resources Officer Helen O'Keefe
Treasurer Larry Kaletcher
Clerk 1 Christine Scano
Clerk 1 Sandy Mangrella
Clerk 3 Anita Singewald
RECYCLING DIVISION
District Recycling Coordinator Kathleen Hourihan
Sr Recycling Education Specialist Penny Jones
Senior. Recycling Specialist Liz Sweedy
Recycling Specialist Chris Vidal
HOUSHOLD HAZARD AND VEGETATIVE WASTE DIVISION
HHW and Vegetative Waste Coordinator Tom Burbridge
See Attachment 5
Clerk Cheryl Birmingham
SOLID WASTE DIVISION
Solid Waste / MIS Coordinator Larry Gindoff
Investigator 2 Mike Flora
OPERATIONS DIVISION
Operations Manager Bobby Ross
See Attachment 2
WATER DIVISION
Deputy Director / Chief Engineer John Scarmozza
See Attachment 4

Attachment 2



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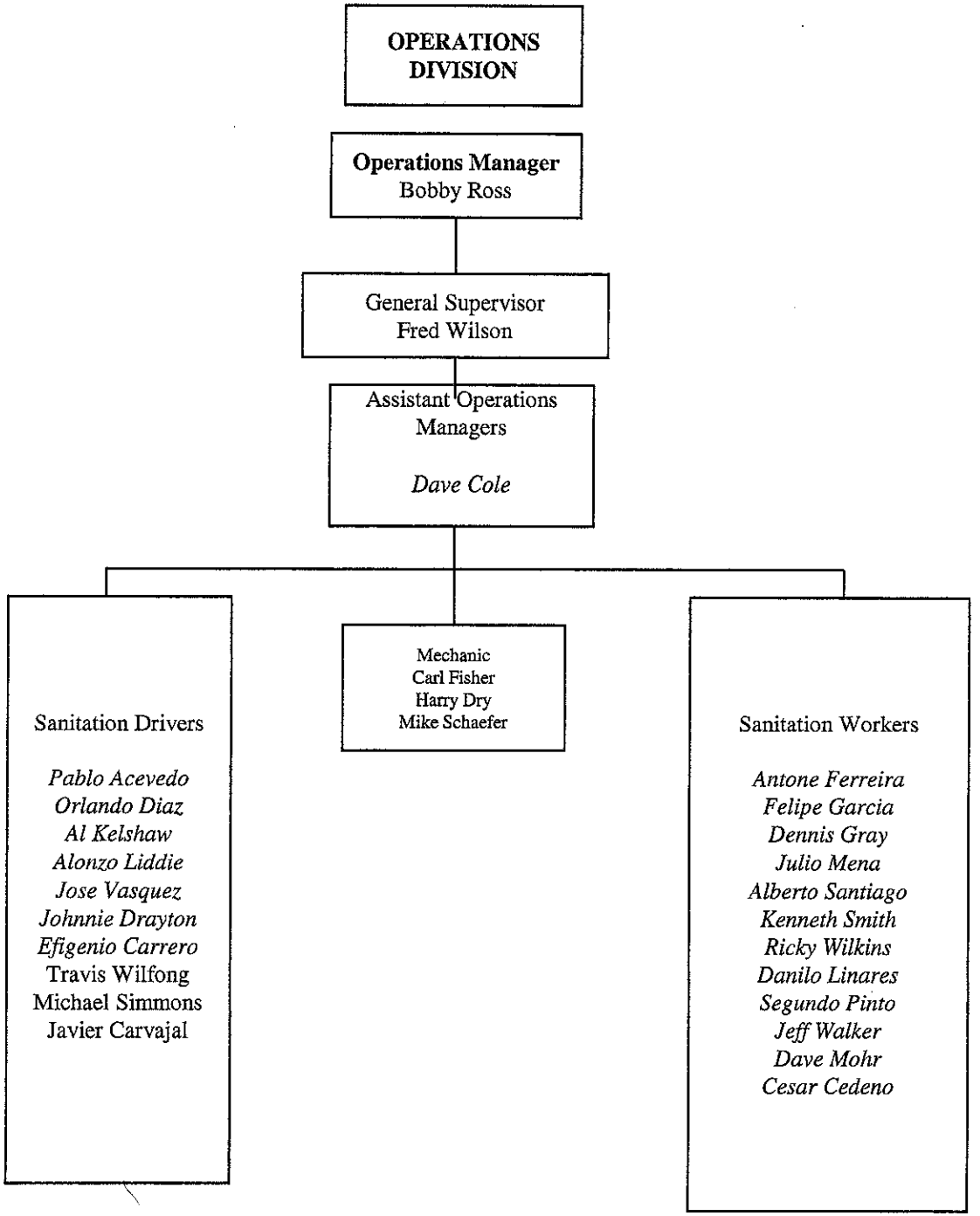
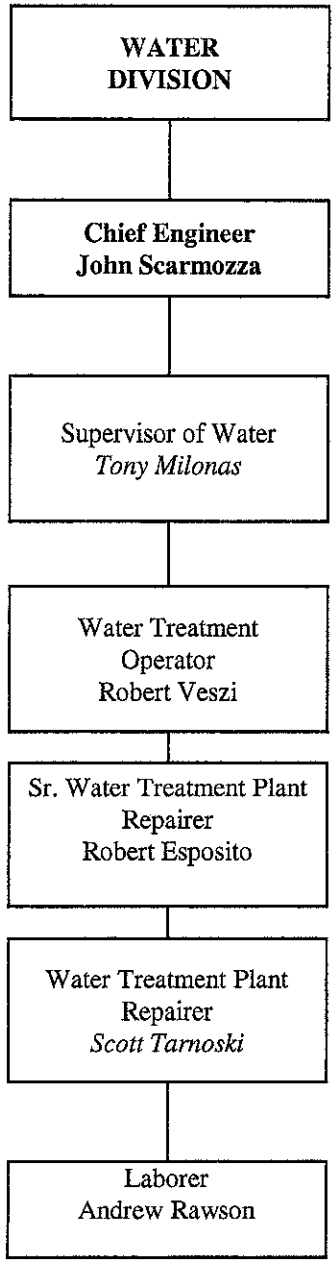
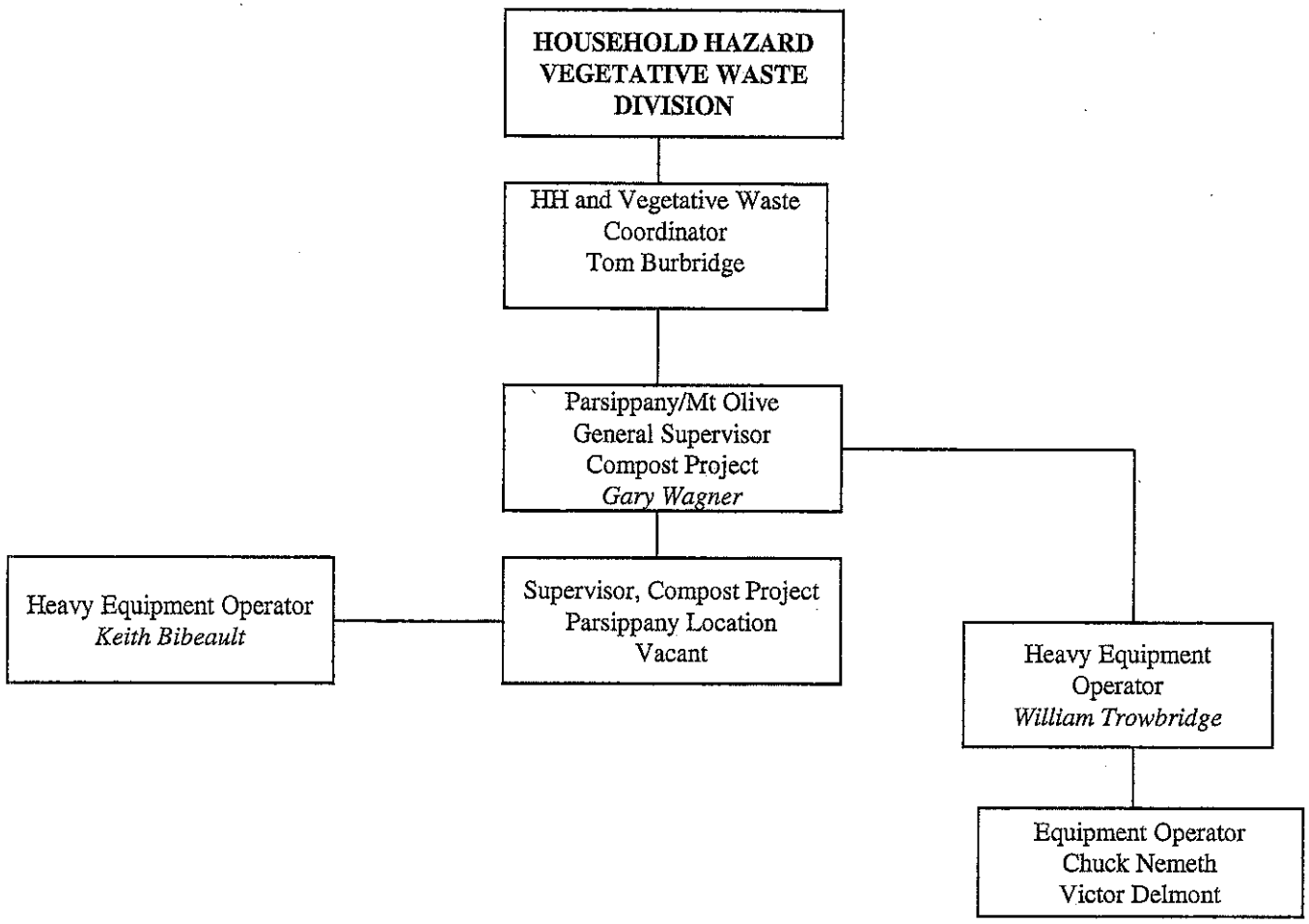



WATER
DIVISION
Chief Engineer
John Scarmozza
Supervisor of Water
Tony Milonas
Water Treatment
Operator
Robert Veszi
Sr. Water Treatment Plant
Repairer
Robert Esposito
Water Treatment Plant
Repairer
Scott Tarnoski
Laborer
Andrew Rawson

Attachment 5



MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2012

Board Members

Frank Druetzler	Chairperson
Chris Dour	Vice Chairperson
James Barry	Board Member
William Hudzik	Board Member
Dr. Dorothea Kominos	Board Member
Dr. Arthur Nusbaum	Board Member
Richard L. Plambeck	Board Member
Fletcher Platt	Board Member
Laura Szwak	Board Member

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia, LLP
200 Valley Road Suite 300
Mt. Arlington, NJ 07856

ATTORNEYS

Joseph J. Maraziti, Jr., Esq.
Maraziti, Falcon & Healey
150 John F. Kennedy Parkway
Short Hills, NJ 07078

FINANCIAL SECTION

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

The Honorable Chairman and Members
of the Morris County Municipal
Utilities Authority
Morristown, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the Morris County Municipal Utilities Authority, (the "Authority"), a component unit of the County of Morris, as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, as listed in the foregoing 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 opinions 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, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the component unit financial statements referred to above, present fairly, in all material respects, the financial position of the Authority at December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplementary data schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedules of expenditures of federal and state awards, as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*; and New Jersey's OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary data schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplementary data schedules and the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 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.

Mt. Arlington, New Jersey
March 13, 2013

NISIVOCCIA LLP

William F. Schroeder
Registered Municipal Accountant #452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial position remains relatively strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- During fiscal year 2012, the Authority shipped 362,920 tons of solid waste to the landfills. This is 20,323 tons less than 2011 or a 5.3% decrease.

- In addition to the above, the Authority's recycling of various types of recyclable waste removed 15,584 tons from the waste stream. This is compared to 18,108 tons collected during 2011, which represents a 13.94% decrease. The Household Hazardous Waste (HHW) facility eliminated another 115.23 tons of hazardous waste from the waste stream. Additionally, several HHW/Used Consumer Electronics (UCE) collection events were conducted in the County. A total of 2,489 participants delivered another 85.95 tons of HHW/UCE material. This is significant for several reasons. The first being the removal of harmful chemicals which, if disposed of illegally, could impact the aquifer water quality. Also, it allows for the capture of precious metals used in the manufacture of computers and various other types of equipment.

- For fiscal year 2012, the Authority delivered 1.456 billion gallons of potable water compared to 1.572 billion gallons delivered in 2011. This represents a decrease of 7.38%.

- Combined operating revenues were $41.64 million, a decrease from 2011 of $1.41 million. This was a decrease of 3.27%.

Overview of the Financial Statements

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

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of revenue, expenses, and changes in net position; a statement of cash flows and notes to the financial statements. In addition, there are several supplementary information schedules.

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 Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the ***statement of revenues, expenses, and changes in net position*** presents the results of the business activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles.

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

The ***notes to the financial statements*** provide additional information essential to a full understanding of the Authority's financial statements.

The ***supplementary information schedules*** provide detailed comparison of budget to actual expenses and other information.

Financial Conditions

The Authority's financial condition remained relatively strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net position. The current financial condition, technical support staff capabilities, and operating and expansion plans to meet anticipated customer needs are well balanced and under control.

The Authority's total net position decreased from the prior year by $2.58 million. The analysis below focuses on the Authority's net position (Table I) and changes in net position (Table 2) as compared to the prior year.

Financial Conditions (Cont'd)

Table I

Net Position

	December 31, 2012	December 31, 2011	Increase/ (Decrease) from 2011	Percentage of Increase (Decrease)
Current and Other Assets	$ 19,305,452	$18,652,848	$ 652,604	3.50%
Capital Assets	28,447,571	29,943,373	(1,495,802)	-5.00%
Total Assets	47,753,023	48,596,221	(843,198)	-1.74%
Current Liabilities	4,561,657	5,014,254	(452,597)	-9.03%
Long-Term Liabilities	11,395,457	9,206,662	2,188,795	23.77%
Total Liabilities	15,957,114	14,220,916	1,736,198	12.21%
Invested in Capital Assets, Net of Debt	28,447,571	29,943,373	(1,495,802)	-5.00%
Unrestricted	3,348,338	4,431,932	(1,083,594)	-24.45%
Total Net Position	$ 31,795,909	$34,375,305	$ (2,579,396)	-7.50%

Total net position decreased 7.50%, which is mainly attributable to the recording of the accrual of other postemployment benefits of $2,249,700, utilization of unrestricted funds and the current economic conditions.

Changes in the Authority's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table II

Statement of Revenue, Expenses and Changes in Net Position

	December 31, 2012	December 31, 2011	Increase/ (Decrease) from 2011	Percentage of Increase/ Decrease
Operating Revenue	$41,638,026	$43,046,413	$ (1,408,387)	-3.27%
Nonoperating Revenue	444,524	246,578	197,946	80.28%
Total Revenue	42,082,550	43,292,991	(1,210,441)	-2.80%
Water Division	2,871,417	3,015,456	(144,039)	-4.78%
Solid Waste Division	40,385,941	41,882,391	(1,496,450)	-3.57%
Depreciation	1,378,718	1,335,859	42,859	3.21%
Nonoperating Expenses	51,504	34,016	17,488	51.41%
Total Expenses	44,687,580	46,267,722	(1,580,142)	-3.42%
Loss Before Other Revenues	(2,605,030)	(2,974,731)	369,701	12.43%
Other	25,634	692,243	(666,609)	-96.30%
Change in Net Position	(2,579,396)	(2,282,488)	(296,908)	-13.01%
Beginning Net Position	34,375,305	36,657,793	(2,282,488)	-6.23%
Ending Net Position	$31,795,909	$34,375,305	$ (2,579,396)	-7.50%

Results of Operations

Operating Revenues: Revenues from operations fall into several categories: Water Operations, Tipping Fees, Curbside Recycling, Consolidation Center Recycling, Vegetative Waste, and Household Hazardous Waste. Vegetative waste receipts increased 17.04%, Curbside recycling increased 8.04% and household hazardous waste receipts increased 16.42% over 2011. Tipping fee revenue decreased 3.88%, consolidation center receipts decreased 99.60% and water charges decreased 13.12%.

Capital Contributions and Grants: Under the terms and conditions of a 1971 agreement with the County, the Authority is limited in its ability to incur long term debt. The Authority may issue temporary financing, i.e., Bond Anticipation Notes; however, the aggregate may not exceed $5,000,000.

The Authority realized revenue of $386,311 in State grants. Of this amount, $289,255 was used to operate the household hazardous waste facility.

Expenses: The Authority operates two trash transfer stations and a co-located household hazardous waste facility, a curbside collection program which provides recyclable waste pickup and marketing for approximately half of the municipalities in the county. In addition, the Authority operates a vegetative waste facility for the collection of such waste into processed compost and mulch for sale to residents and businesses. Lastly, the Authority operates and maintains a potable water treatment and delivery system.

Total operating and nonoperating expenses decreased $1,580,142 or 3.42% from 2011. The solid waste decrease was $1,496.450 or 3.57%. The water decrease was $144,039 or 4.78%. Depreciation increased $42,859 or 3.21% and non-operating expenses increased by $17,488. The overall decrease in expenses is primarily due to the correlation of the solid waste and water division expenses being proportionately associated with revenue generated. In 2012, the Authority recorded an increase in the liability for the accrual of other postemployment benefits of $2,249,700.

Budgetary Highlights: Over the course of the year, the Authority's Board of Directors approved amendments to the original adopted budget. Anticipated revenues and appropriations were increased from $43,656,711 to $43,733,742.

Capital Assets: As of December 31, 2012, the Authority had $28.45 million invested in capital assets, including land, two transfer stations, a household hazardous waste facility, a recycling center, a vegetative waste facility and a potable water treatment and delivery system. This amount represents a decrease of $1.50 million from the prior year.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the years ended December 31, 2012 and 2011. These changes are also presented in Note 2 to the financial statements.

Table III

Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase/ (Decrease) from 2011	Percentage of Increase/ (Decrease)
	2012	2011		
Land	$ 2,912,288	$ 3,135,215	$ (222,927)	-7.11%
Buildings and Building Improvements and Machinery and Equipment	51,970,580	51,864,737	105,843	0.20%
Total	54,882,868	54,999,952	(117,084)	-0.21%
Less:				
Accumulated Depreciation	26,435,297	25,056,579	1,378,718	5.50%
Capital Assets, Net of Accumulated Depreciation	$28,447,571	$29,943,373	$ (1,495,802)	-5.00%

Long-term Debt: In 2012, the Authority recorded an increase in the liability for the accrual of other postemployment benefits of $2,249,700.

Long-term Debt: In 2012, the Authority recorded an increase in the liability for the accrual of other postemployment benefits of $2,249,700.

Table IV
Outstanding Long-Term Debt

	Dec. 31, 2012	Dec. 31, 2011	Increase/ (Decrease) from 2011	Percent of Increase/ (Decrease)
Compensated Absences	$ 432,457	$ 493,362	$ (60,905)	-12.34%
Other Postemployment Benefit Obligations	10,963,000	8,713,300	2,249,700	25.82%
	$ 11,395,457	$ 9,206,662	$ 2,188,795	23.77%

Cash Flow Activity: The cash and cash equivalents at year-end 2012 decreased by $79,965, or .51% from the previous year. The Authority maintains an adequate cash balance to meet future emergencies and capital requirements.

Factors Bearing on the Authority's Future: The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenditures, net position, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated.

The passage of the Highlands Water Protection and Planning Act, N.J.S.A. 13:20-1 introduces potential limitations to future demands of growth within the Authority's franchise area. The Act may also result in additional regulations involving Authority projects. These potential conditions are not expected to have any material effect upon the financial condition or competitive position of the Authority.

Final Comments: The Authority has adopted a plan to develop future water supply sources to meet the increased demands of growth within its franchise areas. In addition, emergency backup provisions have been adopted with another Authority. Infrastructure improvements, vehicle and equipment replacement continue to be a priority of the Authority.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 15,670,583	$ 15,750,548
Tipping Fees Receivable (Net of Allowance for Uncollectible Receivables of $36,364 in 2012 and $40,254 in 2011)	1,804,323	1,860,709
Vegetative Waste Receivable	88,011	136,982
Curbside Recycling Receivable	300,127	251,995
Household Hazardous Waste Receivable	2,394	3,725
Consolidation Center Receivable	4,550	138,024
Resource Recovery Investment Tax Fund Receivable	83,444	
Other Water Division Receivables	747,179	
Due from County of Morris - Sale of Property	222,927	
National Resources Conservation Services - Wildlife Habitat Incentive Program Grant Receivable		533
Water Charges Receivable	381,914	510,332
Total Current Assets	19,305,452	18,652,848
Noncurrent Assets:		
Capital Assets, Net:		
Sites (Land)	2,912,288	3,135,215
Depreciable Buildings and Building Improvements and Machinery and Equipment	25,535,283	26,808,158
Total Noncurrent Assets	28,447,571	29,943,373
TOTAL ASSETS	$ 47,753,023	$ 48,596,221

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011
(Continued)

	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts Payable - Operating	$ 3,399,677	$ 3,598,126
Accounts Payable - Consolidation Center		309,944
Accounts Payable - Capital	2,266	
Deferred Revenue	66,058	115,738
Escrow Deposits	1,093,656	990,446
Total Current Liabilities	4,561,657	5,014,254
Long-Term Liabilities:		
Compensated Absences Payable	432,457	493,362
Other Postemployment Benefits Obligation	10,963,000	8,713,300
Total Long-Term Liabilities	11,395,457	9,206,662
Total Liabilities	15,957,114	14,220,916
NET POSITIONS		
Invested in Capital Assets, Net of Related Debt	28,447,571	29,943,373
Unrestricted	3,348,338	4,431,932
Total Net Position	$ 31,795,909	$ 34,375,305

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenue:		
Water Charges	$ 3,057,864	$ 3,519,756
Tipping Fees	34,952,628	36,365,115
Other Receipts - Water Division	804,239	40,094
Other Receipts - Solid Waste Division	45,643	10,107
Household Hazardous Waste	51,082	43,876
Curbside Recycling Receipts	2,013,756	1,863,830
Vegetative Waste Receipts	626,696	535,466
Consolidation Center Receipts	2,674	668,169
Resource Recovery Investment Tax Fund	83,444	
Total Operating Revenue	41,638,026	43,046,413
Operating Expenses:		
Water Division Expenses	2,871,417	3,015,456
Solid Waste Division Expenses	40,385,941	41,882,391
Depreciation	1,378,718	1,335,859
Total Operating Expenses	44,636,076	46,233,706
Operating Loss	(2,998,050)	(3,187,293)
Nonoperating Revenue (Expenses):		
State of NJ Grant Revenue:		
Clean Communities Grant	97,056	65,920
Recycling Enhancement Grant	289,255	111,924
National Resources Conservation Services - Wildlife Habitat Incentive Program Grant		533
Interest Earned on Investments	35,863	47,201
Rental Income	22,350	21,000
Property Repairs and Maintenance	(20,736)	(4,017)
Property Taxes	(30,768)	(29,999)
Total Nonoperating Revenue (Expenses)	393,020	212,562
(Loss) Before Other Revenues/(Expenses)	(2,605,030)	(2,974,731)
Other Revenues/(Expenses):		
Capital Contributions		429,952
Prior Year National Resources Conservation Services - Wildlife Habitat Incentive Program Grant Cancelled		(319)
Prior Year Accounts Payable Cancelled	25,634	132,995
Capitalization of Prior Year Accounts Payable		129,615
Change in Net Position	(2,579,396)	(2,282,488)
Net Position, Beginning of Year	34,375,305	36,657,793
Net Position, End of Year	$ 31,795,909	$ 34,375,305

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 41,128,358	$ 42,928,977
Other Receipts	102,703	50,201
Cash Paid to Suppliers and Employees (Including Grant Expenditures)	(41,551,322)	(42,107,628)
Net Cash Provided by/(Used for) Operating Activities	(320,261)	871,550
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Equipment	(105,843)	(1,545,767)
Net Cash Provided by/(Used for) Capital and Related Financing Activities	(105,843)	(1,545,767)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grants Received	337,164	78,111
Cash Received from Building Rentals	22,350	21,000
Property Maintenance	(18,470)	(4,581)
Property Taxes on Rental Properties	(30,768)	(29,999)
Net Cash Provided by/(Used for) Non-Capital Financing Activities	310,276	64,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	35,863	47,201
Net Cash Provided by Investing Activities	35,863	47,201
Net (Decrease) in Cash and Cash Equivalents	(79,965)	(562,485)
Cash and Cash Equivalents - Beginning of Year	15,750,548	16,313,033
Cash and Cash Equivalents - End of Year	$ 15,670,583	$ 15,750,548
Reconciliation of net operating (loss) to net cash provided by/(used for) operating activities:		
Operating (Loss)	$ (2,998,050)	$ (3,187,293)
Adjustments to Reconcile Operating (Loss) to		
Net Cash Provided by/(Used for) Operating Activities:		
Depreciation	1,378,718	1,335,859
Prior Year Accounts Payable Cancelled	25,634	132,995
Capitalization of Prior Year Accounts Payable		129,615
Changes in Net Assets:		
(Increase) Decrease in Water Charges Receivable	128,418	(137,643)
Decrease in Tipping Fees Receivable	56,386	16,316
(Increase) Decrease in Vegetative Waste Receivable	48,971	(15,733)
(Increase) in Curbside Recycling Receivable	(48,132)	(7,183)
(Increase) Decrease in Household Hazardous Waste Receivable	1,331	(660)
(Increase) Decrease in Consolidation Center Receivable	133,474	(14,103)
(Increase) in Resource Recovery Investment Tax Fund Receivable	(83,444)	
(Increase) in Other Water Division Receivable	(747,179)	
Increase (Decrease) in Accounts Payable - Operating	(198,449)	522,463
Increase (Decrease) in Accounts Payable - Consolidation Center	(309,944)	27,840
Increase (Decrease) in Compensated Absences Payable	(60,905)	20,506
Increase in Other Post Employment Benefits Obligation	2,249,700	1,956,800
(Decrease) in Prepaid Vegetative Waste		(20)
Increase in Reserve for Escrow Deposits	103,210	91,791
Net Cash Provided by/(Used for) by Operating Activities	$ (320,261)	$ 871,550

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Authorization Legislation - The Morris County Municipal Utilities Authority, hereinafter called the "Authority", was created in 1958 as a public body corporate and politic of the State of New Jersey by the Board of Chosen Freeholders of the County of Morris pursuant to N.J.S.A. 40:14B-1 et seq. The Authority was established to protect the County water supply and prevent further diversion to areas outside the County. The Authority is currently utilizing two well field sites (Alamatong and Flanders Valley). The Authority is presently supplying water to the Townships of Randolph, Roxbury, Denville, Jefferson, Parsippany-Troy Hills and Mine Hill, Boroughs of Mount Arlington and Wharton, the Southeast Morris County Municipal Utilities Authority, and New Jersey American Water Company.

On September 23, 1987, the Board of Chosen Freeholders of the County of Morris designated the Morris County Municipal Utilities Authority as the agency to design and construct a solid waste system, including transfer stations, solid waste disposal facilities and other facilities for the collection, treatment and disposal of solid waste in accordance with the solid waste management plan of Morris County, as amended from time to time.

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings and interest expense.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned and/or expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 statement of net position. Net position (i.e., totals assets and deferred inflows net of total liabilities and deferred outflows) are segregated into "invested in capital assets, net of related debt"; and "unrestricted" components.

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

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

A. Basis of Presentation and Accounting (Cont'd)

Reporting Entity

Governmental Accounting Standards Board publication Codification of Governmental Accounting and Financial Reporting Standards section 2100, "Defining the Financial Reporting Entity", establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Authority is a legally separate organization, whose members are appointed by the Board of Chosen Freeholders. Financial transactions are processed and accounted for by the Authority's financial administration. The County has provided the Authority with long-term loans for capital and operating needs for its water operations which are interest free. The County had also provided the Authority with a long-term loan for the acquisition of transfer stations. The County issues annual bond anticipation notes to fund this loan, and the resulting interest expense is paid by the Authority. The County has adopted ordinances to fund capital projects of the Authority and has donated assets which are recorded as contributed capital of the Authority. Accordingly, the Authority should be considered a component unit of the County of Morris under the provisions of Governmental Accounting Standards Boards, Codification Section 2100.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are recorded as deferred revenue.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue.

C. Inventories

The cost of inventories of supplies are recorded as expenditures at the time individual items are purchased, since they are immaterial to the financial position and results of operations.

D. Cash and Cash Equivalents

Amounts include petty cash, change funds, amounts on deposit, and short-term investments with original maturities of three months or less.

E. Investments

Investments are stated at cost which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

G. Compensated Absences

The Authority accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), Accounting for Compensated Absences. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Authority employees are granted varying amounts of vacation and sick leave in accordance with the Authority's various employee contracts/agreements. Upon termination, employees are paid for accrued vacation and sick leave. These employee contracts/agreements permit employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement, employees shall be paid by the Authority for the unused vacation and sick leave in accordance with the Authority's applicable employee contracts/agreements.

In the *Statement of Net Position*, the liabilities, whose average maturities are greater than one year, should be reported in two components – the amount due within one year and the amount due in more than one year. Compensated absences are accrued and reported as a liability in the period earned. The balance as of December 31, 2012 was $432,457, which is included on the Statement of Net Position as a non-current liability.

H. Net Position

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

1) Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

2) Restricted – when constraints placed on net position are either a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

3) Unrestricted - any other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

I. Allowance for Uncollectible Accounts

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

J. Revenue Recognition

Customers are billed monthly and revenue is recorded net of any discounts, assessments or abatements, if applicable.

K. Capital Contributions

Transmission and distribution system assets contributed to the Authority by installers are capitalized at the installers' costs, which approximate fair value at the time of the Authority's acquisition, and are recorded as capital contributions when received.

L. Storage Facilities

The Authority utilizes five storage facilities (Mine Hill, Mount Arlington and three in Randolph) for their water division. (See Note 14)

Note 2: Capital Assets

Capital assets are recorded at cost and consisted of the following, as of December 31, 2011 and 2012:

	Beginning Balance	Increases	(Decreases)/ Adjustments	Ending Balance
Capital Assets not Being Depreciated:				
Sites (Land)	$ 3,135,215		$ (222,927)	$ 2,912,288
Total Capital Assets Not Being Depreciated	3,135,215		(222,927)	2,912,288
Capital Assets Being Depreciated:				
Buildings and Building Improvements and Machinery and Equipment	51,864,737	$ 105,843		51,970,580
Total Capital Assets	54,999,952	105,843	(222,927)	54,882,868
Less Accumulated Depreciation for:				
Buildings and Building Improvements and Machinery and Equipment	25,056,579	1,378,718		26,435,297
Capital Assets Net of Accumulated Depreciation	$29,943,373	$(1,272,875)	$ (222,927)	$28,447,571

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets are reviewed for impairment.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

	Estimated Useful Life
Vehicles	5 Years
Recycling Equipment	15 Years
Transfer Stations	40 Years
Transmission Facilities	40 Years

The Authority occupies space in a county-owned building located on Route 24, Morris Township, New Jersey.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 2: Capital Assets (Cont'd)

The Authority still owns three rental properties located in Washington Valley. All buildings purchased on these properties were incidental to the purchase of the property and will be razed or sold at public auction at the time these sites become operational. These buildings are presently being rented, with the rental income generated being recognized as nonoperating income. Applicable maintenance expenses and taxes were recognized as nonoperating expenses.

Note 3 - Service Contract

A 1971 Service Contract between the Authority and the County of Morris requires the Authority to supply water to municipalities in the County and to establish such annual service charges to the County that will be sufficient to (1) pay or provide for the expenses of operations and maintenance of the water system and the principal of and interest on any and all bonds as the same become due; (2) maintain such reserves and sinking funds as may be required by the terms of any contract of the Authority or any bond resolution, or as may be deemed necessary or desirable by the Authority; and (3) comply in all respects to the terms and provisions of any bond resolution of the Municipal Authorities Law (N.J.S.A. 40:14B-1 et seq.).

Note 4 - Pension

Authority employees are enrolled in a cost sharing multiple-employer public employee retirement system: the Public Employees' Retirement System (PERS). The State of New Jersey sponsors and administers this plan which cover substantially all Authority employees. As a general rule, all full-time employees are eligible to join this public employees' retirement system.

Employees who are members of PERS and retire at a specified age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" during years of creditable service. Vesting occurs after 8 to 10 years of service.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. For PERS, the contribution rate was 6.5% of base salary from October 1, 2011 thru June 30, 2012 and increased to 6.64% effective July 1, 2012. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of- living adjustments and noncontributory death benefits.

Authority contributions to PERS amounted to $447,471, $570,700 and $311,274 for 2012, 2011 and 2010, respectively.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 5 - Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures,* requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Authority ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed on the following page.

Deposits:

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

> The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than $25,000,000.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 5 - Cash and Cash Equivalents (Cont'd)

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund; or

(8) Agreements for the repurchase of fully collateralized securities if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in statute; and

(e) a master repurchase agreement providing for the custody and security of collateral is executed.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 5 - Cash and Cash Equivalents (Cont'd)

As of December 31, 2012, cash and cash equivalents of the Morris County Municipal Utilities Authority consisted of the following:

Cash on Hand	Checking/ Savings Accounts	Total
$ 450	$15,670,133	$ 15,670,583

During the period ended December 31, 2012, the Authority did not hold any investments. The carrying amount of the Morris County Municipal Utilities Authority cash and cash equivalents at year end was $15,670,583 and the bank balance was $18,473,656.

Note 6 - Leases

The Authority leases to various individuals the buildings it acquired with the purchase of its properties in Morris Township. These leases, which are of a one-year duration, generated rental income in 2012 of $22,350. Related property maintenance and property tax expense for 2012 was $51,504. This rental income and the related expenses are nonoperating revenue and expenses. Any excess rental revenue, as compared to related expenses, is generally used for future rental operations.

Note 7 - Transfer Station Services

Commencing on January 1, 1995, the Authority took control over several key operational responsibilities at its two transfer stations, including all billing services, scale house operations, inspection, enforcement and overall management. The Authority also took control of the Haulers' escrow deposits. All Haulers who make more than 3 deliveries of waste to the transfer stations are required to maintain a cash escrow deposit with the Authority. Waste Management of New Jersey, Inc., an independent contractor, provides waste handling, facility maintenance, and transportation services associated with the two transfer stations.

Note 8 - State Flow Control Regulations

On November 10, 1997, the U.S. Supreme Court denied a petition for certification in the Atlantic Coast case which gives full force and effect to the Third Circuit Court of Appeals' decision which invalidated New Jersey's waste flow system except to the extent that waste flow directives result from a competitive procurement process. Although the Authority is not a party in this litigation, the ruling potentially impacts the operations of the Authority.

The Authority submitted an Administrative Action dated December 9, 1997 to NJDEP in accordance with N.J.A.C. 7:26-6.11(b)a. The Administrative Action demonstrated that the Authority's procurement of both, the Easement Agreement for landfill capacity dated January 6, 1993 and the transfer station operations and transportation contract on November 7, 1997 satisfied the requirements of Atlantic Coast Demolition and Recycling, Inc. v. Board of Chosen Freeholders, 112 F.2d 652 (3d.Cir.2000) cert. denied November 10, 1997. By letter dated January 9, 1998, the NJDEP approved the Administrative Action. Thus, directed waste flow continues to be legally enforceable in Morris County. The impact, if any, of these rulings on the Authority's revenue in future periods is unclear at this time.

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.

The Authority is a member of the Morris County Insurance Fund. The Fund provides its members with Liability, Property, and Automobile Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self administered group of governmental entities established for the purpose of providing low-cost insurance coverage for their respective members in order to keep local property taxes at a minimum.

As a member of the Fund, the Authority could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

The Fund can declare and distribute dividends to members upon approval of the Insurance Commissioners. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body.

The December 31, 2012 audit report of the Fund is not available as of the date of this report.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 9- Risk Management (Cont'd)

Summarized, selected financial information for the year ended December 31, 2011 for the Fund is as follows:

	Morris County Insurance Fund
Total Assets	$ 9,014,582
Net Position	$ 1,195,611
Total Revenue	$ 3,151,086
Total Operating Expenses	$ 2,603,360
Increase in Net Position	$ 547,726
Members Dividends	$ -0-

Financial statements for the Fund are available at the offices of the Morris County Treasurer:
County of Morris
Administration & Records Building
4th Floor, CN 900
Morristown, NJ 07963

Health Benefits Insurance

Health benefits, workers compensation insurance and unemployment insurance are covered under the County of Morris. The County obtains its health benefits coverage through Horizon Blue Cross of NJ. The County currently maintains medical and prescription health care insurance with Horizon Blue Cross Blue Shield of New Jersey. The County advances funds to Horizon to pay medical and prescription claims for County employees. In 2009, insurance premiums amounting to approximately $18,263,855 along with the interest income were available to cover approximately $18,872,503 of incurred claims and administration costs. The County had $448,095 as advance deposits for cash flow purposes with Horizon at December 31, 2009. The County has $2,729,982 in contracts payable on its Current Fund balance sheet at December 31, 2009, which together with advance deposits, approximates the liability for incurred but not reported claims. For the year ended December 31, 2009, there was a total of $649,967 claims in excess of the specific stop loss pool for two individuals who exceeded the $300,000 attachment point.

Note 10 - Related Party Transactions

The Authority and the County of Morris have several related party transactions throughout the year in the ordinary course of operations. Total reimbursements to the County were approximately $1,004,497 for 2012 and $1,024,436 for 2011 which consisted of workers compensation and liability insurance, pension expense, vehicle maintenance and fuel, metered mail and various printing and office supplies.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 11 - Contractual Commitments

The Authority has entered into several contracts in the normal course of its business operations to provide solid waste and water services to their customers, including other local governments. Below is a summary of some of the significant contracts or agreements:

The Authority entered a 5-year contract with J.P. Mascaro & Sons, Inc for transportation and landfill at $56.62 per ton and for transfer station operations at $10.57 per ton for 2013. This contract expires in January 2018.

The Authority has lease agreements with DMS for the Dover consolidation center and an agreement with Parsippany-Troy Hills Township for the Par-Troy transfer station.

The Authority has a marketing contract with ReCommunity for recycling of single-stream recyclable materials which expires in 2016.

The Authority has contracts with MXI, Inc and Clean Venture with an annual cost of $114,600 and $145,725 respectively, for services related to the household hazardous waste facility.

Note 12 - Intraentity and Interfund Transfers

In the normal course of business, the Authority will from time to time authorize advances between accounts. During 2012, the Authority transferred $40,000 between operating and capital accounts. There were no advances outstanding as of December 31, 2012.

Note 13 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

	2012	2011
Vendors	$ 3,262,020	$ 3,444,348
Accrued Salaries and Benefits	139,923	153,778
	3,401,943	3,598,126
Consolidation Center		309,944
Total	$ 3,401,943	$ 3,908,070

Note 14 - Storage Facilities

The Authority utilizes five storage facilities (Mine Hill, Mount Arlington and three in Randolph) for their water division. Investment in the storage facilities totals $5,821,334 which is included in Capital Assets.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 15 - Capital Contributions and Grants

The Authority periodically receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of facilities and equipment. Capital grants of the Authority are reported as operating revenue as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

Note 16 - Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenditures, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

Note 17 - Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority participates in federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

Note 18 - Post-Retirement Medical Benefits

The County of Morris provides post-retirement benefits, as follows, to Morris County Municipal Utilities Authority employees who meet the following criteria:

1. The Morris County Municipal Utilities Authority pays the entire cost of health care premiums for all employees and their eligible dependents who retire in good standing, on a disability pension from a New Jersey administered retirement system;

2. The Morris County Municipal Utilities Authority pays the entire cost of health care premiums for all employees and their eligible dependents who retire in good standing, with 25 years or more of service credit in a New Jersey state or locally administered retirement system, and with at least 15 years of service with the Morris County Municipal Utilities Authority at the time of retirement;

Note 18 - Post-Retirement Medical Benefits (Cont'd)

3. The Morris County Municipal Utilities Authority pays the entire cost of health care premiums for all employees and their eligible dependents who retire in good standing at age sixty-two (62 or older) with at least fifteen (15) years of service with the Morris County Municipal Utilities Authority.

A surviving spouse is eligible for coverage if the retiree meets the eligibility criteria requirements detailed above.

For retirees over 65, the plan coverage under the County is secondary to Medicare. The Morris County Municipal Utilities Authority reimburses 100% of its eligible retirees' Medicare Part B premiums.

The Authority accounts for certain post-employment health care benefits provided by the Authority in accordance with Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Funding Policy

The Morris County Municipal Utilities Authority is not required to nor does it contribute the annual required contribution (ARC) per N.J.S.A. 40A:4-1 et. seq. There is currently no provision under State statute for the Morris County Municipal Utilities Authority to issue debt to finance their other post employment benefit ("OPEB") liability.

As per their agreement with Horizon Blue Cross Blue Shield of NJ, the Morris County Municipal Utilities Authority advances funds to this health care provider to pay medical and prescription claims and administrative costs for Morris County Municipal Utilities Authority employees.

Currently, there are no contribution requirements of plan members.

Note 18 - Post-Retirement Medical Benefits (Cont'd)

Plan Description

The provisions of Chapter 88, P.L. 1974, along with any Authority approved ordinances and resolutions, provide the authority for the Authority to offer the post-employment health care benefits as detailed below.

The Authority provides medical, prescription drug and Medicare Part B reimbursement to retirees and their covered dependents All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits. The Authority sponsors and participates in a single-employer defined benefit OPEB plan. The OPEB plan is administered by the County and does not issue a stand-alone financial statement.

Employees are eligible to receive postretirement health benefits through the County health plan by meeting either of the following criteria:

- Retires after 25 years or more of service credit in a New Jersey State retirement system and with at least 15 years of service with the County of Morris, or
- Retires at age 62 or older with at least 15 years of service with the County of Morris

The County subsidizes 100% of the cost of coverage for current retirees meeting the requirements outlined above and future retirees who have at least 20 years of service as of 7/1/11, the County Reimburses 100% of eligible retiree's Medicare Part B premiums.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer. The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years , with an assumption that payroll increases by 4% per year.

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trend rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer and plan members are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 18 - Post-Retirement Medical Benefits (Cont'd)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2010, 2011 and 2012 actuarial valuations, the projected unit credit cost method was used. Under this method, the present value of benefits is allocated uniformly over an employee's expected working lifetime. The actuarial assumptions per the 2012 valuation include a 2.00% anticipated rate of return on investments. For medical benefits, the initial rate utilized is 9.0% or 8.0% (depending on medical plan) and decreases to a 5.0% long-term trend rate for all medical benefits after 10 years. For prescription drug benefits, the initial trend rate is 10.0%, decreasing to a 5.0% long-term trend rate after 10 years. For Medicare Part B reimbursements, the trend rate is 5.0%.

Annual OPEB Cost per Actuarial Valuation

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contribution to the plan and the Authority's obligation to the Plan at December 31, 2010, 2011 and 2012:

Benefit Obligations and Normal Cost

	Valuation December 31,		
	2010	2011	2012
Actuarial accrued liability (AAL):			
Retired employees	$ 2,655,000	$5,468,800	$ 5,861,500
Active employees	16,690,000	19,354,100	24,208,300
Unfunded actuarial accrued liability (UAAL)	$ 19,345,000	$ 24,822,900	$ 30,069,800
Normal cost at beginning of year	$ 1,227,100	$ 1,270,000	$ 1,483,400
Amortization factor based on 30 years	$ 621,800	$ 681,600	$ 760,700
Annual covered payroll	$ 3,514,900	$ 3,706,200	N/A
UAAL as a percentage of covered payroll	550.37%	669.77%	N/A

N/A – Not Available

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

Note 18 - Post-Retirement Medical Benefits (Cont'd)

Level Dollar Amortization
Calculation of ARC under Entry Age Method

	Valuation December 31,		
	2010	2011	2012
ARC normal cost with interest to end of year	$ 1,270,000	$ 1,483,400	$ 1,754,000
Amortization of unfunded actuarial accrued liability (UAAL) over 30 years with interest at year end	621,800	681,600	760,700
Annual Required Contribution (ARC)	1,891,800	2,165,000	2,514,700
Interest on net OPEB obligation	174,900	168,900	174,300
Adjustment to ARC	(160,600)	(185,500)	(220,400)
Annual OPEB cost (expense)	1,906,100	2,148,400	2,468,600
Pay as you go benefits	(146,800)	(191,600)	(218,900)
Net OPEB expense at December 31,:			
2010, 2011 and 2012, respectively	1,759,300	1,956,800	2,249,700
Prior year	4,997,200	6,756,500	8,713,300
Net OPEB obligation December 31,:			
2010, 2011 and 2012, respectively	$ 6,756,500	$ 8,713,300	$ 10,963,000

Unfunded actuarial accrued liability (December 31, 2010)	$ 19,345,000
Unfunded actuarial accrued liability (December 31, 2011)	$ 24,822,900
Projected unfunded actuarial accrued liability (December 31, 2012)	$ 30,069,800

MORRIS COUNTY MUNICIPAL

UTILITIES AUTHORITY

SUPPLEMENTARY INFORMATION

SCHEDULE 1

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenue:		
Water Charges	$ 3,057,864	$ 3,519,756
Tipping Fees	34,952,628	36,365,115
Other Receipts - Water Division	804,239	40,094
Other Receipts - Solid Waste Division	45,643	10,107
Household Hazardous Waste	51,082	43,876
Curbside Recycling Receipts	2,013,756	1,863,830
Vegetative Waste Receipts	626,696	535,466
Consolidation Center Receipts	2,674	668,169
Resource Recovery Investment Tax Fund	83,444	
Total Operating Revenue	41,638,026	43,046,413
Operating Expenses:		
Water Division Expenses	2,871,417	3,015,456
Solid Waste Division Expenses	40,385,941	41,882,391
Depreciation	1,378,718	1,335,859
Total Operating Expenses	44,636,076	46,233,706
Operating Loss	(2,998,050)	(3,187,293)
Nonoperating Revenue (Expenses):		
State of NJ Grant Revenue:		
Clean Communities Grant	97,056	65,920
Recycling Enhancement Grant	289,255	111,924
National Resources Conservation Services - Wildlife Habitat Incentive Program Grant		533
Interest Earned on Investments	35,863	47,201
Rental Income	22,350	21,000
Property Repairs and Maintenance	(20,736)	(4,017)
Property Taxes	(30,768)	(29,999)
Total Nonoperating Revenue (Expenses)	393,020	212,562
(Loss) Before Other Revenues/(Expenses)	(2,605,030)	(2,974,731)
Other Revenues/(Expenses):		
Capital Contributions		429,952
Prior Year National Resources Conservation Services - Wildlife Habitat Incentive Program Grant Cancelled		(319)
Prior Year Accounts Payable Cancelled	25,634	132,995
Capitalization of Prior Year Accounts Payable		129,615
Change in Net Position	(2,579,396)	(2,282,488)
Net Position, Beginning of Year	34,375,305	36,657,793
Net Position, End of Year	$ 31,795,909	$ 34,375,305

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)

	Original Budget	Budget After Modification	2012 Actual	2011 Actual
Revenue:				
Fund Balance Utilized	$ 2,026,875	$ 2,026,875	$ 2,026,875	$ 4,539,144
Water Charges	3,372,119	3,372,119	3,057,864	3,519,756
Tipping Fees	35,090,330	35,090,330	34,952,628	36,365,115
Vegetative Waste Receipts	501,319	501,319	626,696	535,466
Interest Earned on Investments	40,000	40,000	35,863	47,201
Other Receipts - Water	35,473	35,473	804,239	40,094
Other Receipts - Solid Waste			45,643	10,107
Household Hazardous Waste	35,542	35,542	51,082	43,876
Curbside Recycling Receipts	2,128,073	2,128,073	2,013,756	1,863,830
Consolidation Center Receipts			2,674	668,169
Resource Recovery Investment Tax Fund	167,380	167,380	83,444	
Rental Income			22,350	21,000
State of NJ Grant Revenue:				
Clean Communities Grant		77,031	97,056	65,920
Recycling Enhancement Grant	259,600	259,600	289,255	111,924
National Resources Conservation Services - Wildlife Habitat Incentive Program Grant				533
	$ 43,656,711	$ 43,733,742	$ 44,109,425	$ 47,832,135
Water Division Expenditures:				
Salaries:				
Administration	$ 309,659	$ 309,659	$ 278,769	$ 262,091
Operating	291,169	291,169	257,385	243,774
	600,828	600,828	536,154	505,865
Other Expenses:				
Legal	110,000	94,000	28,893	168,072
Audit	18,000	18,000	10,991	10,775
Employee Benefits	369,981	371,981	287,774	314,223
Administrative and Insurance	68,521	68,521	53,377	57,353
Engineering and Professional Services	50,000	50,000	25,531	16,000
Legal Advertising	1,000	1,000	691	525
Travel and Training	8,500	3,900	442	10,498
Office Supplies	10,000	10,000	11,297	9,455
Equipment	30,000	46,000	11,096	11,395
Repairs and Replacements	70,000	70,000	48,635	46,893
Electric Power	860,000	860,000	641,254	789,112

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)
(Continued)

	Original Budget	Budget After Modification	2012 Actual	2011 Actual
Water Division Expenditures (Cont'd):				
Other Expenses (Cont'd):				
Chlorine and Chemicals	$ 23,000	$ 23,000	$ 14,434	$ 17,093
Environmental Costs	10,000			251
Gasoline, Oil, etc.	20,000	20,000	29,693	13,539
Heating, Fuel, Oil, Boiler	20,000	20,000	7,266	30,635
Telephone, Lease Lines, Laboratory	50,000	50,000	42,732	48,365
Provision for Depreciation (Non-Budgeted)			794,628	749,182
Contributed Capital	291,787	291,787		
Capital Improvements				68,305
Real Estate Taxes	163,200	163,200	152,850	149,839
Fees and Permits	46,000	46,000	43,570	40,329
SMCMUA Water Agreement	517,760	517,760	491,820	353,743
Vehicle Purchase	35,000	37,600		
Vehicle Replacement	5,000	15,000	10,688	2,838
Laboratory Analysis	21,000	21,000	10,242	22,975
Tools and Equipment	3,000	3,000	3,822	2,583
Tools and Equipment Repairs	3,000	3,000	755	348
Uniforms	7,000	7,000	2,585	2,174
Minor Construction	8,000	8,000	6,659	2,107
Cultural Center Contribution	8,000	8,000	5,968	6,410
Facility Rental Contribution	16,187	16,187	16,187	16,186
Facility Maintenance	60,000	60,000	38,443	3,303
Tipping Fees	600	600		149
Water and Sewer Fees	100	100	113	65
Other Postemployment Benefits (Non-budgeted)			337,455	293,520
National Resources Conservation Services - Wildlife Habitat Incentive Program Grant				533
Property Maintenance			20,736	4,017
Property Taxes			30,768	29,999
	2,904,636	2,904,636	3,181,395	3,292,789
Total Water Division Expenditures	3,505,464	3,505,464	3,717,549	3,798,654
Solid Waste Division Expenditures:				
Salaries:				
Administration	772,222	772,222	716,725	851,400
Operating	2,322,430	2,322,430	2,153,992	2,407,002
	3,094,652	3,094,652	2,870,717	3,258,402
Other Expenses:				
Audit	50,000	50,000	33,873	32,325
Employee Benefits	1,833,056	1,833,056	1,505,106	1,708,911
Administrative and Insurance	205,563	188,643	160,881	177,035
Travel and Training	18,130	18,130	2,893	5,494
Office and Computer Equipment	6,700	6,700	590	4,434
Office Supplies	7,840	18,000	16,848	16,046
Legal	145,000	255,000	204,755	98,303
Consulting Engineer	185,000	75,000	3,758	33,498
Legal Advertising	17,000	17,000	12,530	3,690
Gasoline, Oil, etc.	5,000	5,000	4,650	4,956
Telephone, Lease Lines, Laboratory	15,000	15,000	5,901	6,099
Spare Parts and Maintenance	19,740	25,000	20,983	9,376
Vehicle Maintenance	2,000	3,500	2,225	1,543

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENDITURES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)
(Continued)

	Original Budget	Budget After Modification	2012 Actual	2011 Actual
Solid Waste Division Expenditures (Cont'd):				
Expenditures (Cont'd):				
Other Expenses (Cont'd):				
Provision for Depreciation (Non-Budgeted)			$ 584,090	$ 586,677
Consolidation Center	$ 271,500	$ 271,500	172,100	106,483
Vegetative Waste Costs	295,400	295,400	229,036	238,322
Household Hazardous Waste	289,926	289,926	43,862	201,765
Curbside Recycling	660,500	660,500	486,906	568,211
Contingency	1,000	1,000		
Project Reserve	270,000	270,000		
Special Projects	55,000	55,000	174	12,333
Fees and Permits	20,000	20,000	12,546	16,063
Cultural Center Rental	48,560	48,560	48,559	48,560
Cultural Center Utilities	25,000	25,000	17,903	19,227
Par-Troy Lease Agreement	100,000	100,000	100,000	100,000
Operation and Maintenance - Transfer Station	32,509,680	32,509,680	32,130,589	33,370,191
Other Postemployment Benefits (Non-budgeted)			1,912,245	1,663,280
Clean Communities Grant Expenditures		77,031	97,056	65,920
Recycling Enhancement Grant			289,255	111,924
	37,056,595	37,133,626	38,099,314	39,210,666
Total Solid Waste Division Expenditures	40,151,247	40,228,278	40,970,031	42,469,068
	$ 43,656,711	$ 43,733,742	$ 44,687,580	$ 46,267,722
Revenue Over/(Under) Expenditures			$ (578,155)	$ 1,564,413
Less: Unrestricted Net Assets Utilized			2,026,875	4,539,144
Net (Loss)			$ (2,605,030)	$ (2,974,731)

SCHEDULE 3

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - WATER DIVISION AND SOLID WASTE DIVISION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Total	Water Division	Solid Waste Division
Operating Revenue:			
Water Charges	$ 3,057,864	$ 3,057,864	
Tipping Fees	34,952,628		$ 34,952,628
Other Receipts - Water Division	804,239	804,239	
Other Receipts - Solid Waste Division	45,643		45,643
Household Hazardous Waste	51,082		51,082
Curbside Recycling Receipts	2,013,756		2,013,756
Vegetative Waste Receipts	626,696		626,696
Consolidation Center Receipts	2,674		2,674
Resource Recovery Investment Tax Fund	83,444		83,444
Total Operating Revenue	41,638,026	3,862,103	37,775,923
Operating Expenses:			
Water Division Expenses	2,871,417	2,871,417	
Solid Waste Division Expenses	40,385,941		40,385,941
Depreciation	1,378,718	794,628	584,090
Total Operating Expenses	44,636,076	3,666,045	40,970,031
Operating Loss	(2,998,050)	196,058	(3,194,108)
Nonoperating Revenue (Expenses):			
State of NJ Grant Revenue:			
Clean Community Grant	97,056		97,056
Recycling Enhancement Grant	289,255		289,255
Interest Earned on Investments	35,863	15,330	20,533
Rental Income	22,350	22,350	
Property Maintenance	(20,736)	(20,736)	
Property Taxes on Rental Properties	(30,768)	(30,768)	
Total Nonoperating Revenue (Expenses):	393,020	(13,824)	406,844
(Loss) Before Other Revenue/(Expenses	(2,605,030)	182,234	(2,787,264)
Other Revenues/(Expenses):			
Prior Year Accounts Payable Cancelled	25,634		25,634
Change in Net Position	(2,579,396)	182,234	(2,761,630)
Net Position, Beginning of Year	34,375,305	26,335,014	8,040,291
Net Position, End of Year	$ 31,795,909	$ 26,517,248	$ 5,278,661

SINGLE AUDIT SECTION

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Name of Federal Agency or Department	Name of Program	C.F.D.A. Number	Grant Award Amount	Amount Received	Grant Period From	Grant Period To	Amount of Current Year Expenditures	Cumulative Expenditures
U.S. Department of Agriculture:								
National Resources Conservation Services	Wildlife Habitat Incentive Program	10.914	$ 533	$ 533	01/01/11	12/31/11	$ -0-	$ 533

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2012

State Funding Department	State Program	State Grant Award Number	Grant Award Amount	Amount Received	Grant Period From	Grant Period To	Amount of Current Year Expenditures	Cumulative Expenditures
Department of Environmental Protection	Recycling Enhancement Grant	752-042-4900	$ 480,000		01/01/10	06/30/13	$ 29,655	$ 452,293
		008-V42Y-6010	259,600	$ 259,600	01/01/12	12/31/12	259,600	259,600
Department of Environmental Protection	Clean Communities Grant	765-042-4900-005-V42Y-6010	78,111		01/01/11	12/31/12	58,376	78,111
			77,031	77,031	01/01/12	12/31/12	38,680	38,680
				$ 336,631			$ 386,311	$ 828,684

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2012

Note 1. GENERAL

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state awards programs of the Morris County Municipal Utilities Authority. The Authority is defined in Note 1 to the Authority's financial statements. All federal and state financial awards received directly from federal and state agencies, as well as federal and state financial awards passed through other government agencies are included on the schedules of expenditures of federal and state awards.

Note 2. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards are presented on the cash basis of accounting. The information in these schedules are presented in accordance with the requirements of Federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

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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*

Independent Auditors' Report

The Honorable Chairman and Members
of the Morris County Municipal
Utilities Authority
Morristown, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("the Division"), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Morris County Municipal Utilities Authority (the "Authority") as of, and for the years ended, December 31, 2012 and 2011, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated March 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Authority'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
March 13, 2013

NISIVOCCIA LLP

William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant #452

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012

Summary of Auditors' Results:

- An unqualified opinion was issued on the Authority's financial statements.
- The audit did not disclose any material weaknesses or significant deficiencies in the internal controls of the Authority.
- The audit did not disclose any noncompliance which is material in relation to the financial statements of the Authority.
- The Authority was not subject to the single audit provisions of Federal OMB Circular A-133 and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* for 2012 as grant expenditures were less than the single audit thresholds of $500,000 identified in the Circulars.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for State Awards:

- Not applicable since state expenditures were below the threshold defined in NJOMB 04-04.

Findings and Questioned Costs for Federal Awards:

- Not applicable since federal expenditures were below the threshold defined in Federal OMB Circular A-133.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Authority had no findings or questioned costs noted in the audit for the year ended December 31, 2011.

COMMENTS AND RECOMMENDATIONS

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

N.J.S. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of $17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to $25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest $1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

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

Effective January 1, 2011 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 is $17,500, and with a qualified purchasing agent the threshold may be up to $36,000.

The minutes indicated that bids were requested by public advertising and contracts awarded. The minutes also indicated that resolutions were adopted and advertised, authorizing the awarding of contracts or agreements for professional services per N.J.S. 40A:11-5.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(CONTINUED)

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq. (Cont'd)

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Status of Prior Year Recommendations

There were no recommendations from the prior year.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

There are no recommendations.

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