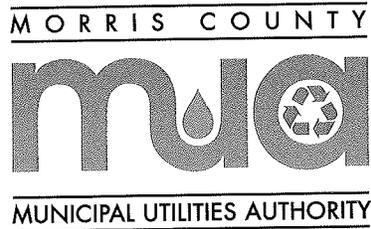


MORRIS COUNTY MUNICIPAL
UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
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March 4, 2016

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 year ended December 31, 2015, 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 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to the single audit, including the auditors' report on internal control 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) and purchases water from Southeast Morris County M.U.A. 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.

The Honorable Chairman and Members
 Of the Morris County Municipal Utilities Authority
 Page 2
 March 4, 2016

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 2015, the Authority's water division experienced the following:

- Completed SCADA upgrades throughout most of the Water Division facilities.
- Replaced pump and motor as well as electrical upgrade for Well #8.
- Completed Phase 1 of an Asset Management Plan which identified and prioritized future capital projects.
- Initiated exploratory work for the proposed Scrub Oaks Mine Well.
- Initiated roof repair project on well houses and pump stations.
- Initiated rehabilitation of water storage tanks at Markewicz Pump Station.

During 2015, the Authority's solid waste division experienced the following:

- Executed a contract with J.P. Mascaro & Sons for transfer station, transportation and landfill services for five years.
- Lowered the transfer station tipping fee as a result of favorable rebidding of contract.
- The Authority continued to improve and upgrade the transfer station as part of a multi-year program.
- The Authority entered into a new curbside collection contract with Pequannock Township.
- Conducted procurement for a new 3 year Recycling Marketing agreement.

During 2015, the Authority experienced the following:

- Auction and sale of house and property located in Washington Valley.
- Auction and sale of vehicles and equipment no longer of use to the Authority.

The Honorable Chairman and Members
 Of the Morris County Municipal Utilities Authority
 Page 3
 March 4, 2016

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 4. 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.

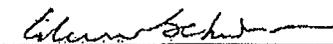
OTHER INFORMATION:

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08. 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.

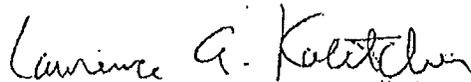
ACKNOWLEDGEMENTS:

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

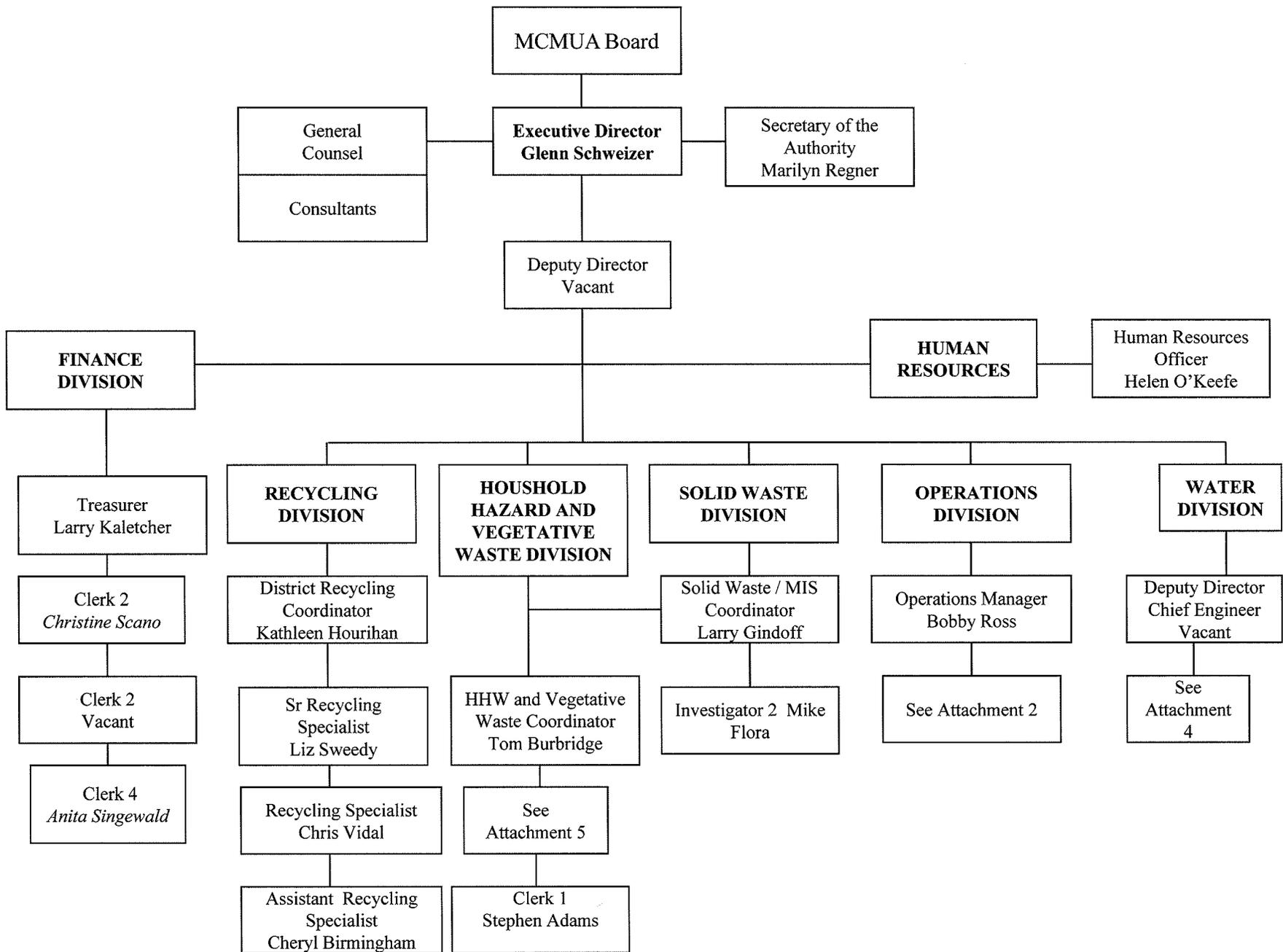


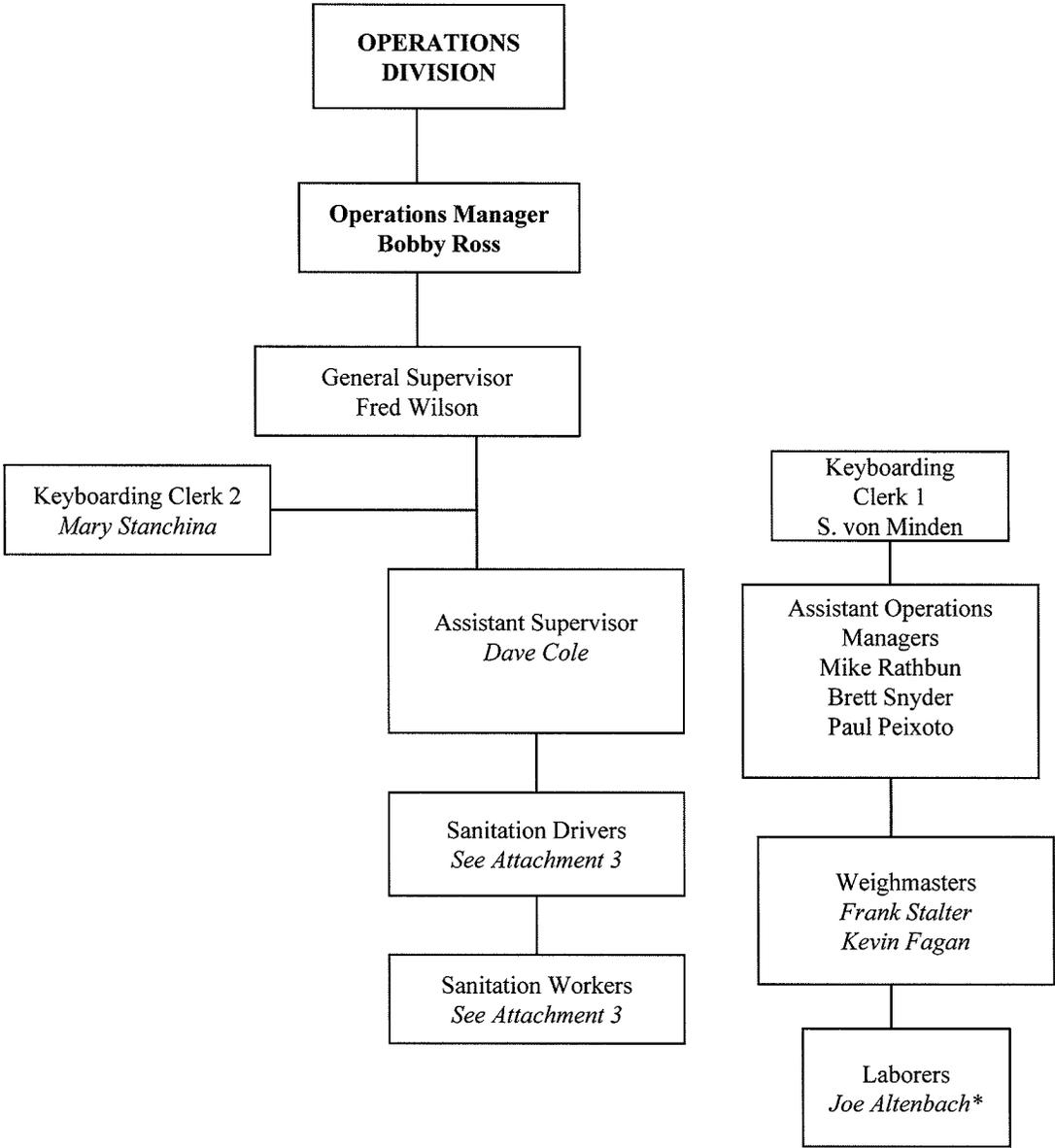
Lawrence A. Kaletcher
 Chief Financial Officer

MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY

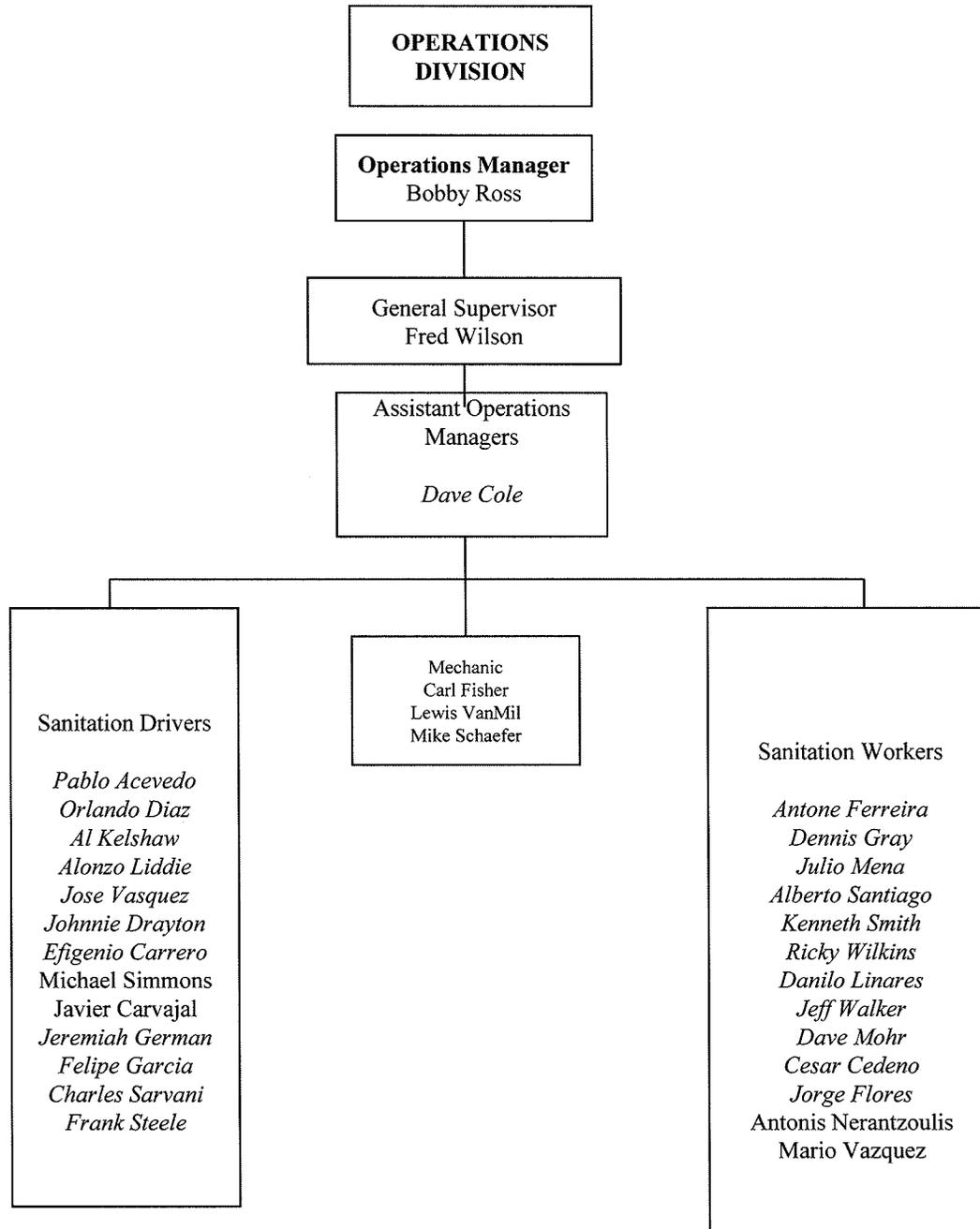
Organizational Chart
2015

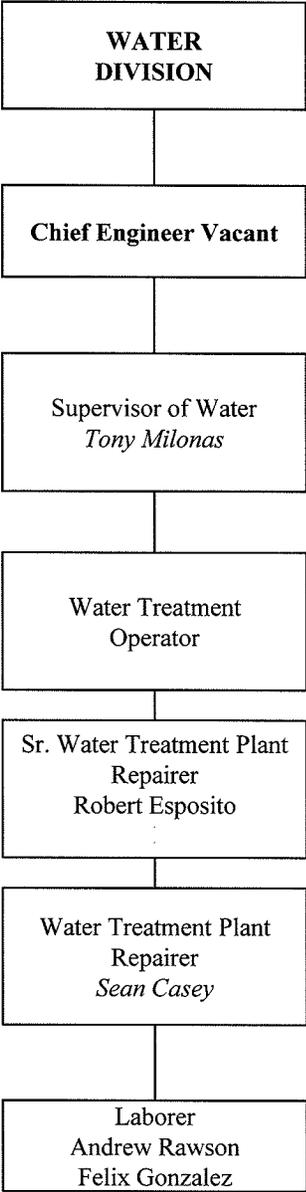
Organizational Charts organized by groups.

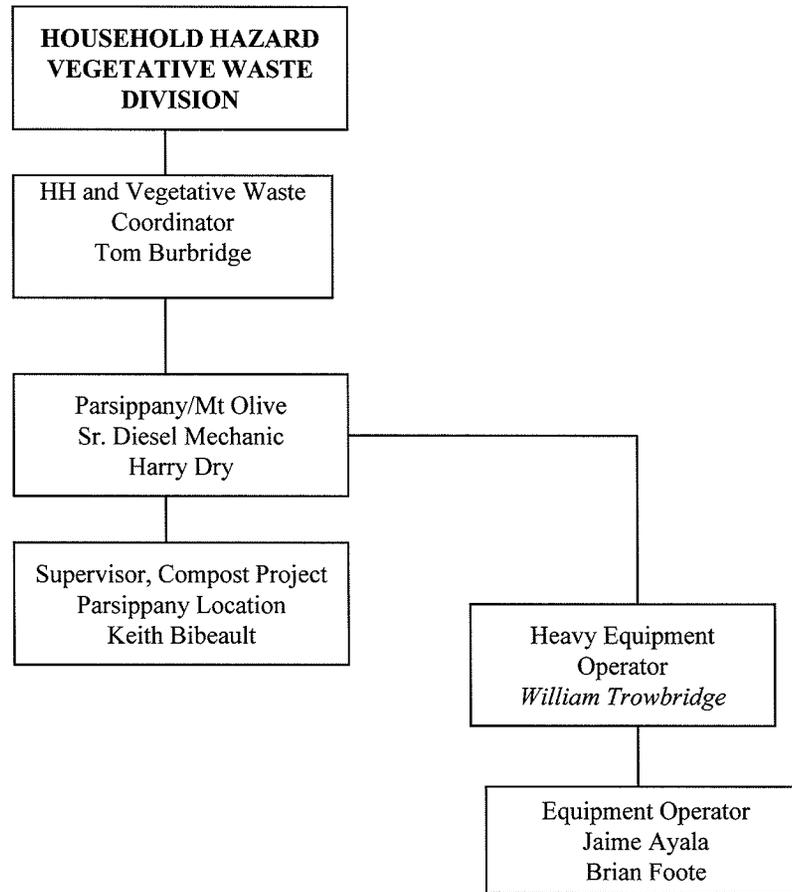




* Denotes position of Inspector







MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2015

Board Members

Christopher Dour	Chairman
Laura Szwak	Vice Chairwoman
James J. Barry, Jr.	Board Member
Frank Druetzler	Board Member
William Hudzik	Board Member
Dr. Dorothea Kominos	Board Member
Dr. Arthur Nusbaum	Board Member
Richard Plambeck	Board Member
Fletcher Platt	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 LLP
150 John F. Kennedy Parkway
Short Hills, NJ 07078

FINANCIAL SECTION



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 year ended December 31, 2015 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 audit. We conducted our audit 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.

The Honorable Chairman and Members
of the Morris County Municipal
Utilities Authority
Page 2

Basis for Qualified Opinion

The Authority's financial statements include a net OPEB liability at December 31, 2015 which was calculated by the Authority and not by an actuary. Also, the postretirement funding status as required by GASB#45 was not available for 2015. In our opinion, a net OPEB liability calculated by an actuary and the disclosure of the postretirement funding status information is required to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the basic financial statements, the Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* during the year ended December 31, 2015. Our opinions are not modified with respect to this matter. The implementation resulted in the restatement of certain balances on the Statement of Net Position and the ending balance for Net Position as of December 31, 2014 as detailed in Note 21 to the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the required supplementary information pension schedules and the post-retirement benefits schedule of funding progress 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 information 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *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 Honorable Chairman and Members
of the Morris County Municipal
Utilities Authority
Page 3

The supplementary information 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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 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 4, 2016 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 4, 2016

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 strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- During year 2015, the Authority shipped 383,122 tons of solid waste to the landfills. This is 185 tons less than 2014 or a 2.05% decrease.
- In addition to the above, the Authority's recycling of various types of recyclable waste removed 14,954 tons from the waste stream. This is compared to 16,174 tons collected during 2014, which represents a 7.54% decrease. The Household Hazardous Waste (HHW) facility eliminated another 88.06 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 2,487 participants delivered another 85.86 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 year 2015, the Authority delivered 1.662 billion gallons of potable water compared to 1.535 billion gallons delivered in 2014. This represents an increase of 8.27%.
- Combined operating revenues were \$43.21 million, an increase from 2014 of \$50,756. This was an increase of .12%.
- Combined operating expenses were \$39.35 million, an increase from 2014 of \$83,599. This was an increase of .21%.

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 as well as any deferred inflows or outflows of resources, 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 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 increased from the prior year by \$2.81 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)

	December 31,		Increase/ (Decrease) from 2014	Percentage of Increase (Decrease)
	2015	2014*		
Current and Other Assets	\$ 33,913,629	\$27,937,998	\$ 5,975,631	21.39%
Capital Assets, Net	<u>26,079,353</u>	<u>27,212,799</u>	<u>(1,133,446)</u>	-4.17%
Total Assets	<u>59,992,982</u>	<u>55,150,797</u>	<u>4,842,185</u>	8.78%
Deferred Outflows of Resources	<u>199,285</u>	<u> </u>	<u>199,285</u>	100.00%
Current Liabilities	6,067,922	5,034,973	1,032,949	20.52%
Long-Term Liabilities	<u>21,740,542</u>	<u>21,064,047</u>	<u>676,495</u>	3.21%
Total Liabilities	<u>27,808,464</u>	<u>26,099,020</u>	<u>1,709,444</u>	6.55%
Deferred Inflows of Resources	<u>517,853</u>	<u> </u>	<u>517,853</u>	100.00%
Net Position:				
Net Investment in Capital Assets	26,079,353	27,212,799	(1,133,446)	-4.17%
Unrestricted	<u>5,786,597</u>	<u>1,838,978</u>	<u>3,947,619</u>	214.66%
Total Net Position	<u>\$ 31,865,950</u>	<u>\$29,051,777</u>	<u>\$ 2,814,173</u>	9.69%

* Restated

Total net position increased 9.69%, which is mainly attributable to a new favorable contract for transfer station, transportation and landfill services offset by the recording of the accrual of other postemployment benefits of \$1,000,000.

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 two years.

Table II

	Statement of Revenue, Expenses and Changes in Net Position		Increase/ (Decrease) from 2014	Percentage of Increase/ Decrease
	December 31,			
	2015	2014		
Operating Revenue	\$43,210,415	\$43,159,659	\$ 50,756	0.12%
Nonoperating Revenue	389,146	379,005	10,141	2.68%
Total Revenue	43,599,561	43,538,664	60,897	0.14%
Water Division	4,045,593	2,983,275	1,062,318	35.61%
Solid Waste Division	35,308,153	36,286,872	(978,719)	-2.70%
Depreciation	1,330,658	1,361,123	(30,465)	-2.24%
Nonoperating Expenses	24,559	44,352	(19,793)	-44.63%
Total Expenses	40,708,963	40,675,622	33,341	0.08%
Change in Net Position Before Special Item	2,890,598	2,863,042	27,556	0.96%
Special Item	(76,425)		(76,425)	100.00%
Change in Net Position	2,814,173	2,863,042	(48,869)	-1.71%
Beginning Net Position	29,051,777	26,188,735	2,863,042	10.93%
Ending Net Position	\$31,865,950	\$29,051,777	\$ 2,814,173	9.69%

Results of Operations

Operating Revenues: Revenue from operations falls into several categories: Water Operations, Tipping Fees, Curbside Recycling, Vegetative Waste, and Household Hazardous Waste. Household hazardous waste revenue increased 10.30% and water charges increased 11.45% over 2014. Tipping fee revenue decreased .38%, curbside recycling decreased 8.28% and vegetative waste revenue decreased 9.73%.

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 \$315,693 in State grants. Of this amount, \$222,300 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, as well as 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 increased \$33,341 or .08% from 2014. The solid waste decrease was \$978,719 or 2.70% which was offset by the water increase of \$1,062,318 or 35.61%. Depreciation decreased \$30,465 or .224% and non-operating expenses decreased by \$19,793. The decrease in solid waste expenses is primarily due to a new contract for transfer station, transportation and landfill services. The increase in water expenses is primarily due to the water tank rehabilitation project. In 2015, the Authority recorded an increase in the liability for the accrual of other postemployment benefits of \$1,000,000.

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 \$44,443,697 to \$44,546,086.

Capital Assets: As of December 31, 2015, the Authority had \$26.08 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 \$1.13 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, 2015 and 2014. These changes are also presented in Note 2 to the financial statements.

	December 31,		Increase/ (Decrease) from 2014	Percentage of Increase/ (Decrease)
	2015	2014		
Land	\$ 2,803,799	\$ 2,836,004	\$ (32,205)	-1.14%
Buildings and Building Improvements and Machinery and Equipment	52,753,981	52,765,015	(11,034)	-0.02%
Total	55,557,780	55,601,019	(43,239)	-0.08%
Less:				
Accumulated Depreciation	29,478,427	28,388,220	1,090,207	3.84%
Capital Assets, Net of Accumulated Depreciation	\$26,079,353	\$27,212,799	\$ (1,133,446)	-4.17%

Long-term Debt: In 2015, the Authority recorded an increase in the liability for the accrual of other postemployment benefits of \$1,000,000.

Table IV
Outstanding Long-Term Debt

	Dec. 31, 2015	Dec. 31, 2014*	Increase/ (Decrease) from 2014	Percent of Increase/ (Decrease)
Compensated Absences	\$ 455,438	\$ 481,245	\$ (25,807)	-5.36%
Net Pension Liability	6,337,504	6,635,202	(297,698)	-4.49%
Other Postemployment Benefit Obligations	14,947,600	13,947,600	1,000,000	7.17%
	<u>\$ 21,740,542</u>	<u>\$ 21,064,047</u>	<u>\$ 676,495</u>	3.21%

* Restated

Cash Flow Activity: The cash and cash equivalents at year-end 2015 increased by \$6,061,926, or 23.93% 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 expenses, 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
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	31,398,707
Tipping Fees Receivable		1,596,485
Vegetative Waste Receivable		99,381
Curbside Recycling Receivable (Net of Allowance for Uncollectible Receivables of \$14,522)		292,732
Household Hazardous Waste Receivable		4,088
Water Charges Receivable		522,236
		33,913,629
Total Current Assets		33,913,629

Noncurrent Assets:

Capital Assets, Net:		
Sites (Land)		2,803,799
Depreciable Buildings and Building Improvements and Machinery and Equipment		23,275,554
		26,079,353
Total Noncurrent Assets		26,079,353

TOTAL ASSETS

59,992,982

DEFERRED OUTFLOWS OF RESOURCES

Changes in Assumptions - Pensions		199,285
		199,285
Total Deferred Outflows of Resources		199,285

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2015
(Continued)

LIABILITIES

Current Liabilities:

Accounts Payable - Operating	\$	4,744,317
Accounts Payable - Capital		5,251
Unearned Revenue		70,979
Escrow Deposits		1,244,375
Security Deposit		3,000

Total Current Liabilities		6,067,922
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Long-Term Liabilities:

Compensated Absences Payable		455,438
Net Pension Liability		6,337,504
Other Postemployment Benefits Obligation		14,947,600

Total Long-Term Liabilities		21,740,542
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Total Liabilities		27,808,464
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DEFERRED INFLOWS OF RESOURCES:

Investment Gains - Pensions		377,681
Changes in Proportion - Pensions		140,172

Total Deferred Inflows of Resources		517,853
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NET POSITION

Net Investment in Capital Assets		26,079,353
Unrestricted		5,786,597

Total Net Position	\$	31,865,950
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MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenue:	
Water Charges	\$ 3,827,030
Tipping Fees	36,356,292
Other Receipts - Water Division	364,693
Other Receipts - Solid Waste Division	133,590
Household Hazardous Waste	41,082
Curbside Recycling Receipts	1,963,032
Vegetative Waste Receipts	524,696
Total Operating Revenue	<u>43,210,415</u>
Operating Expenses:	
Water Division Expenses	4,045,593
Solid Waste Division Expenses	35,308,153
Depreciation	1,330,658
Total Operating Expenses	<u>40,684,404</u>
Operating Income	<u>2,526,011</u>
Nonoperating Revenue (Expenses):	
State of NJ Grant Revenue:	
Clean Communities Grant	93,393
Recycling Enhancement Grant	222,300
Interest Earned on Investments	73,453
Property Repairs and Maintenance	(11,573)
Property Taxes	(12,986)
Total Nonoperating Revenue (Expenses)	<u>364,587</u>
Change in Net Position Before Special Item	2,890,598
Special Item - Loss on Disposal of Equipment	<u>(76,425)</u>
Change in Net Position	2,814,173
Net Position, Beginning of Year (Restated)	<u>29,051,777</u>
Net Position, End of Year	<u>\$ 31,865,950</u>

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

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	\$ 42,685,143
Cash Received from Customers	498,283
Other Receipts	(37,221,446)
Cash Paid to Suppliers and Employees (Including Grant Expenses)	<u>5,961,980</u>
Net Cash Provided by Operating Activities	<u>5,961,980</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	32,205
Proceeds from Sale of Property	(305,842)
Purchase of Equipment	<u>(273,637)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(273,637)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	324,689
Grants Received	(11,573)
Property Maintenance	(12,986)
Property Taxes on Rental Properties	<u>300,130</u>
Net Cash Provided by Non-Capital Financing Activities	<u>300,130</u>
CASH FLOWS FROM INVESTING ACTIVITIES	73,453
Interest on Investments	<u>73,453</u>
Net Cash Provided by Investing Activities	<u>73,453</u>
Net Increase in Cash and Cash Equivalents	6,061,926
Cash and Cash Equivalents - Beginning of Year	<u>25,336,781</u>
Cash and Cash Equivalents - End of Year	<u>\$ 31,398,707</u>
Reconciliation of net operating income to net cash provided by operating activities:	\$ 2,526,011
Operating Income	1,330,658
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation	(105,185)
Changes in Net Position:	
(Increase) in Water Charges Receivable	99,795
Decrease in Tipping Fees Receivable	40,167
Decrease in Vegetative Waste Receivable	45,705
Decrease in Curbside Recycling Receivable	(3,243)
(Increase) in Household Hazardous Waste Receivable	440
Decrease in Consolidation Center Receivable	8,616
Decrease in Water Refund Receivable	1,132,075
Increase in Accounts Payable - Operating	5,162
Increase in Accounts Payable - Capital	(25,807)
(Decrease) in Compensated Absences Payable	318,568
Increase in Deferred Inflows/Outflows	(297,698)
(Decrease) in Net Pension Liability	1,000,000
Increase in Other Post Employment Benefits Obligation	3,000
Increase in Security Deposits	(116,284)
(Decrease) in Escrow Deposits	<u>5,961,980</u>
Net Cash Provided by Operating Activities	<u>\$ 5,961,980</u>

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

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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) and purchases water from Southeast Morris County Municipal Utilities Authority. 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 outflows net of total liabilities and deferred inflows) are segregated into "Net investment in capital assets" 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
YEAR ENDED DECEMBER 31, 2015
(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 and a resulting financial benefit or burden relationship, 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 had provided the Authority with long-term loans for capital and operating needs for its water operations which were interest free. The County had also provided the Authority with a long-term loan for the acquisition of transfer stations. The County issued annual bond anticipation notes to fund this loan, and the resulting interest expense was paid by the Authority. The County had adopted ordinances to fund capital projects of the Authority and had donated assets which were 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 unearned 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 expenses 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.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

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, 2015 was \$455,438, which is included on the Statement of Net Position as a non-current liability.

H. Net Position

Net Position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the Authority that is applicable to a future reporting period. The Authority had a deferred outflow of resources at December 31, 2015 for the changes in assumptions in pension.

A deferred inflow of resources is an acquisition of net position by the Authority that is applicable to a future reporting period. The Authority had deferred inflows of resources at December 31, 2015 for changes in proportion in pension and the net difference between projected and actual investment earnings on pension plan investments.

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

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

H. Net Position (Cont'd)

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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

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.

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 13)

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of New Jersey Public Employees' Retirement System (PERS) and additions to/deductions from the PERS's net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension Plan investments are reported at fair value.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 2 - Capital Assets

Capital assets are recorded at cost and consisted of the following, as of December 31, 2014 and 2015:

	Beginning Balance	Increases	(Decreases)/ Adjustments	Ending Balance
Capital Assets not Being Depreciated:				
Sites (Land)	\$ 2,836,004		\$ (32,205)	\$ 2,803,799
Total Capital Assets Not Being Depreciated	<u>2,836,004</u>		<u>(32,205)</u>	<u>2,803,799</u>
Capital Assets Being Depreciated:				
Buildings and Building Improvements and Machinery and Equipment	52,765,015	\$ 305,842	(316,876)	52,753,981
Total Capital Assets	<u>55,601,019</u>	<u>305,842</u>	<u>(349,081)</u>	<u>55,557,780</u>
Less Accumulated Depreciation for:				
Buildings and Building Improvements and Machinery and Equipment	28,388,220	1,330,658	(240,451)	29,478,427
Capital Assets Net of Accumulated Depreciation	<u>\$ 27,212,799</u>	<u>\$ (1,024,816)</u>	<u>\$ (108,630)</u>	<u>\$ 26,079,353</u>

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 owned two rental properties located in Washington Valley during 2015. One of the properties was sold at public auction. The building on the other property was razed. 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.).

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 4 - 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 investment 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 pages.

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.

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;

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 4 - Cash and Cash Equivalents (Cont'd)

Investments: (Cont'd)

- (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.

As of December 31, 2015, cash and cash equivalents and investments of the Morris County Municipal Utilities Authority consisted of the following:

<u>Cash on Hand</u>	<u>Checking/ Savings Accounts</u>	<u>Investments Certificates of Deposits</u>	<u>Total</u>
<u>\$ 450</u>	<u>\$27,386,292</u>	<u>\$ 4,011,965</u>	<u>\$ 31,398,707</u>

The carrying amount of the Morris County Municipal Utilities Authority cash and cash equivalents and investments at year end was \$31,398,707 and the bank balance was \$37,753,697.

Note 5 - Leases

The Authority periodically leases various buildings it acquired with the purchase of its properties in Morris Township. These leases, which are of a one-year duration did not generate any rental income in 2015 and had related property maintenance and property tax expense of \$24,559 in 2015. Any rental income and related expenses are nonoperating revenue and expenses. Any excess rental revenue, as compared to related expenses, is generally used for future rental operations.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
 (Continued)

Note 6 - 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. J.P. Mascaro & Sons, an independent contractor, provides waste handling, facility maintenance, and transportation services associated with the two transfer stations.

Note 7 - 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 8 - 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. Workers compensation insurance and unemployment insurance are covered under the County of Morris. Health benefits is also covered under the County of Morris, however the Authority advances funds to Horizon Blue Cross Blue Shield of NJ to pay medical and prescription claims and administrative costs for Morris County Municipal Utilities Authority employees.

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.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 8- Risk Management (Cont'd)

The December 31, 2015 audit report of the Fund is not available as of the date of this report.

Summarized, selected financial information for the year ended December 31, 2014 for the Fund is as follows:

	<u>Morris County Insurance Fund</u>
Total Assets	<u>\$ 10,296,435</u>
Net Position	<u>\$ 4,723,569</u>
Total Revenue	<u>\$ 3,084,167</u>
Total Expenses	<u>\$ 3,081,987</u>
Change in Net Position	<u>\$ 2,180</u>
Members Dividends	<u>\$ -0-</u>

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

Note 9 - Related Party Transactions

The Authority and the County of Morris had several related party transactions throughout the year in the ordinary course of operations. Total reimbursements to the County were approximately \$685,457 for 2015 and \$904,186 for 2014 which consisted of workers compensation and liability insurance, pension expense, vehicle maintenance and fuel, metered mail and various printing and office supplies.

Note 10 - 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 has a contract with J.P. Mascaro & Sons, Inc for transportation and landfill at \$53.67 per ton and for transfer station operations at \$10.01 per ton during 2015. This contract expires in May 2020.

The Authority has a lease 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 . with total annual cost of \$231,124 for services related to the household hazardous waste facility.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 11 - Intraentity and Interfund Transfers

In the normal course of business, the Authority will from time to time authorize advances between accounts. During 2015, the Authority transferred \$5,000 between operating and capital accounts. There were no advances outstanding as of December 31, 2015.

Note 12 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

	<u>2015</u>	<u>2014</u>
Vendors - Operating	\$ 4,570,305	\$ 3,519,002
Accrued Salaries and Benefits	<u>174,012</u>	<u>93,240</u>
	4,744,317	3,184,365
Vendors - Capital	<u>5,251</u>	<u>89</u>
Total	<u>\$ 4,749,568</u>	<u>\$ 3,612,331</u>

Note 13 - Storage Facilities

The Authority utilizes five water 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.

Note 14 - 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.

Note 15 - 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 expenses, 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 16 - 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.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 17 - Long Term Liabilities

During the year ended December 31, 2015, the following changes occurred in liabilities reported in the financial statements:

	(Restated) Balance 12/31/2014	Increased	Decreased	Balance 12/31/2015
Compensated Absences Payable	\$ 481,245	\$ 3,032	\$ 28,839	\$ 455,438
Net Pension Liability	6,635,202		297,698	6,337,504
Other Postemployment Benefit Obligations	13,947,600	1,000,000		14,947,600
	<u>\$ 21,064,047</u>	<u>\$ 1,003,032</u>	<u>\$ 326,537</u>	<u>\$ 21,740,542</u>

Net Pension Liability

The Public Employee's Retirement System (PERS) net pension liability is recorded in the current and long-term liabilities. The current portion of the net pension liability at December 31, 2015 is \$-0- and the long term portion is \$6,337,504. See Note 18 for further information on the PERS.

Other Postemployment Benefit Obligations

The liability for other postemployment benefit obligations is recorded in the current and long-term liabilities. The current portion of the liability at December 31, 2015 is \$-0- and the long term portion is \$14,947,600. See Note 19 for further information on these benefits.

Note 18 - Pension Plans

Substantially all of the Authority's employees participate in a contributory, defined benefit public employee retirement system: the Public Employee's Retirement System (PERS) of New Jersey.

Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 18 - Pension Plans (Cont'd)

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Authority contributions to PERS amounted to \$279,048 for 2015.

The employee contribution rate was 6.92% effective July 1, 2014 and increased to 7.06% effective July 1, 2015. 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.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 18 - Pension Plans (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Authority reported a liability of \$6,337,504 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013 which was rolled forward to June 30, 2014. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2014, the Authority's proportion was 0.034%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2013. The Authority has rolled forward the net pension liability to December 31, 2014 with no adjustments.

For the year ended December 31, 2015, the Authority recognized pension expense of \$279,048. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 199,285	
Changes in Proportion		\$ 140,172
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		377,681
	<u>\$ 199,285</u>	<u>\$ 517,853</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion) related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2015	\$ (57,787)
2016	(57,787)
2017	(57,787)
2018	(57,787)
2019	36,633
Thereafter	16,119
	<u>\$ (178,396)</u>

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 18 - Pension Plans (Cont'd)

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013 which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	3.01%
Salary Increases:	
2012-2021	2.15 – 4.40% based on age
Thereafter	3.15 – 5.40% based on age
Investment Rate of Return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	6.00%	0.80%
Core Bonds	1.00%	2.49%
Intermediate-Term Bonds	11.20%	2.26%
Mortgages	2.50%	2.17%
High Yield Bonds	5.50%	4.82%
Inflation-Indexed Bonds	2.50%	3.51%
Broad U.S. Equities	25.90%	8.22%
Developed Foreign Equities	12.70%	8.12%
Emerging Market Equities	6.50%	9.91%
Private Equity	8.25%	13.02%
Hedge Funds/Absolute Return	12.25%	4.92%
Real Estate (Property)	3.20%	5.80%
Commodities	2.50%	5.35%

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

(Continued)

Note 18 - Pension Plans (Cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 5.39% as of June 30, 2014. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9% and a municipal bond rate of 4.29% as of June 30, 2014 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the collective net pension liability as of June 30, 2014 calculated using the discount rate as disclosed below, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Fiscal Year Ended June 30, 2014		
	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Authority's proportionate share of the Net Pension Liability	\$ 7,972,796	\$ 6,337,504	\$ 4,964,275

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
 (Continued)

Note 19 - 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;
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, except employees hired after November 1, 2012 in a non-collective bargaining agreement or an expired collective bargaining agreement; and employees within a collective bargaining unit upon expiration of their agreement.

A surviving spouse is eligible for coverage if the retiree meets the eligibility criteria requirements detailed above for all employees hired prior to January 1, 2007. Employees hired after January 1, 2007 will receive health benefits for themselves only at retirement if the retiree meets the eligibility 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 Governmental 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.

The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget. During 2015, the Authority had approximately 20 employees who met eligibility requirements and recognized expenses of approximately \$366,495.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

(Continued)

Note 19 - Post-Retirement Medical Benefits (Cont'd)

Funding Policy (Cont'd)

The Authority accounts for certain post-employment health care benefits provided in accordance with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Employers that participate in *single-employer* or *agent multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or over contributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liability (or funding excess) of the plan over a period not to exceed thirty years. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.

The Authority as a sole employer recognizes OPEB expenses in an amount equal to annual OPEB cost. Net OPEB obligations, if any, are to be displayed as liabilities (or assets) in the financial statements.

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 County and meet the eligibility criteria will receive these benefits. As of December 31, 2014, the last valuation date, approximately 31 retirees and spouses, and 61 active members meet the eligibility requirements put forth in P.L. 1992, c 126. The County 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 Morris County Municipal Utilities Authority, s, or
- Retires at age 62 or older with at least 15 years of service with the Morris County Municipal Utilities Authority,, except employees hired after November 1, 2012 in a non-collective bargaining agreement or an expired collective bargaining agreement; and employees within a collective bargaining unit upon expiration of their agreement

The Authority 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 July 1, 2011. Other retirees can apply for Direct Pay with Horizon and pay the full cost of benefits, i.e. no Authority subsidy.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 19 - Post-Retirement Medical Benefits (Cont'd)

Plan Description (Cont'd)

Future retirees, who do not have at least 20 years of service as of July 1, 2011, will pay an amount equal to their Contribution Rate times the plan's gross premiums. The Contribution Rate is based on type of coverage (single or family) and the Retirement Allowance. Retirement Allowance is assumed to be the annual annuity from the New Jersey pension plan. The annual annuity from the PERS pension plan is equal to the Final Average Earnings times service at retirement divided by 55.

The Authority reimburses 100% of eligible retiree's Medicare Part B premiums. All Authority retirees are eligible.

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 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 Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include economic assumptions; benefit assumptions and demographic assumptions. Economic assumptions include the discount and health care cost trend rates. Benefit assumptions encompass the initial per capita costs rates for medical coverage. Finally, demographic assumptions include probabilities concerning retirement, mortality and termination without being eligible for benefits, disability, participation rates and coverage levels were based on those used to value the New Jersey State Health Benefits Program. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 2013 and 2014 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 2014 valuation include a 2.00% anticipated rate of return on investments. For medical benefits, the initial rate utilized is 8.5% (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 8.5%, decreasing to a 5.0% long-term trend rate after 10 years. For Medicare Part B reimbursements, the trend rate is 5.0%.

In 2015 an actuarial valuation was not available, however the Authority provided their own projection.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 19 - Post-Retirement Medical Benefits (Cont'd)

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, 2013, 2014 and 2015:

Benefit Obligations and Normal Cost

	Valuation December 31,		
	2013	2014	2015
Actuarial accrued liability (AAL):			
Retired employees	\$ 9,157,800	\$ 9,084,500	N/A
Active employees	15,936,900	17,417,800	N/A
Unfunded actuarial accrued liability (UAAL)	<u>\$ 25,094,700</u>	<u>\$ 26,502,300</u>	N/A
Normal cost at beginning of year	\$ 1,754,000	\$ 1,182,700	N/A
Amortization factor based on 30 years	\$ 634,800	\$ 670,400	N/A
Annual covered payroll	\$ 2,998,100	N/A	N/A
UAAL as a percentage of covered payroll	837.00%	N/A	N/A

N/A – Not Available

Level Dollar Amortization

Calculation of ARC under Projected Unit Credit Cost Method

	Valuation December 31,		
	2013	2014	2015
ARC normal cost with interest to end of year	\$ 1,778,098	\$ 611,002	N/A
Amortization of unfunded actuarial accrued liability (UAAL) over 30 years with interest at year end	634,800	670,400	N/A
Annual Required Contribution (ARC)	2,412,898	1,281,402	N/A
Interest on net OPEB obligation	219,300	249,000	N/A
Adjustment to ARC	<u>(277,300)</u>	<u>(314,900)</u>	N/A
Annual OPEB cost (expense)	2,354,898	1,215,502	N/A
Pay as you go benefits	<u>(274,200)</u>	<u>(311,600)</u>	N/A
Net OPEB expense at December 31,:			
2013, 2014 and 2015, respectively	2,080,698	903,902	1,000,000 *
Prior year	<u>10,963,000</u>	<u>13,043,698</u>	<u>13,947,600</u>
Net OPEB obligation December 31,:			
2012, 2013 and 2014, respectively	<u>\$ 13,043,698</u>	<u>\$ 13,947,600</u>	<u>\$ 14,947,600</u>
Unfunded actuarial accrued liability (December 31, 2013)			<u>\$ 25,094,700</u>
Unfunded actuarial accrued liability (December 31, 2014)			<u>\$ 26,502,300</u>
Projected unfunded actuarial accrued liability (December 31, 2015)			<u>N/A</u>

* - Authority provided the 2015 valuation.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(Continued)

Note 20 - Net Position Designations

The Authority made the following designations of unrestricted net position as of December 31, 2015:

Renewal and Replacement	\$ 2,350,000
Contractual Obligations	865,328
Operation and Maintenance - Reserve	934,519
Future Capital Improvements	<u>1,636,750</u>
	<u>\$ 5,786,597</u>

Note 21 - Prior Period Adjustment

The Authority made a prior year adjustment in the Authority's Financial Statements to record the net pension liability as of December 31, 2014 as a result of implementing Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

	Balance 12/31/14 as Previously Reported	Retroactive Adjustments	Balance 12/31/14 as Restated
<u>Statement of Net Position:</u>			
Liabilities:			
Long-Term Liabilities	\$ 14,428,845	\$ 6,635,202	\$ 21,064,047
Total Liabilities	19,463,818	6,635,202	26,099,020
Net Position:			
Unrestricted	8,474,180	(6,635,202)	1,838,978
Total Net Position	35,686,979	(6,635,202)	29,051,777

MORRIS COUNTY MUNICIPAL
UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
POST RETIREMENT BENEFITS - SCHEDULE OF FUNDING PROGRESS
(UNAUDITED)

<u>Year</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2013	1/13	-0-	\$ 25,094,700	\$ 25,094,700	0.00%	\$ 2,998,100	837.00%
2014	1/14	-0-	26,502,300	26,502,300	0.00%	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Not Available

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TWO YEARS
UNAUDITED

	<u>Year Ending December 31,</u>	
	<u>2014</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.0347174893%	0.0338492414%
Authority's proportionate share of the net pension liability	\$ 6,635,202	\$ 6,337,504
Authority's covered employee payroll	\$ 2,749,175	\$ 2,713,266
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	241.35%	233.57%
Plan fiduciary net position as a percentage of the total pension liability	48.72%	52.08%

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TWO YEARS
UNAUDITED

	<u>Year Ending December 31,</u>	
	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 376,082	\$ 279,048
Contributions in relation to the contractually required contribution	<u>(376,082)</u>	<u>(279,048)</u>
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Authority's covered employee payroll	\$ 2,749,175	\$ 2,713,266
Contributions as a percentage of covered employee payroll	13.68%	10.28%

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 5.55% as of June 30, 2013 to 5.39% as of June 30, 2014 in accordance with Paragraph 44 of GASB Statement No. 67.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenue:	
Water Charges	\$ 3,827,030
Tipping Fees	36,356,292
Other Receipts - Water Division	364,693
Other Receipts - Solid Waste Division	133,590
Household Hazardous Waste	41,082
Curbside Recycling Receipts	1,963,032
Vegetative Waste Receipts	524,696
Total Operating Revenue	<u>43,210,415</u>
Operating Expenses:	
Water Division Expenses	4,045,593
Solid Waste Division Expenses	35,308,153
Depreciation	1,330,658
Total Operating Expenses	<u>40,684,404</u>
Operating Income	<u>2,526,011</u>
Nonoperating Revenue (Expenses):	
State of NJ Grant Revenue:	
Clean Communities Grant	93,393
Recycling Enhancement Grant	222,300
Interest Earned on Investments	73,453
Property Repairs and Maintenance	(11,573)
Property Taxes	(12,986)
Total Nonoperating Revenue (Expenses)	<u>364,587</u>
Change in Net Position Before Special Item	2,890,598
Special Item - Loss on Disposal of Equipment	<u>(76,425)</u>
Change in Net Position	2,814,173
Net Position, Beginning of Year (Restated)	<u>29,051,777</u>
Net Position, End of Year	<u><u>\$ 31,865,950</u></u>

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2015
(With Comparative Totals for 2014)

	Original Budget	Budget After Mod- ification	2015 Actual	2014 Actual
Revenue:				
Fund Balance Utilized	\$ 402,806	\$ 402,806	\$ 402,806	
Water Charges	3,736,467	3,736,467	3,827,030	\$ 3,433,872
Tipping Fees	36,947,400	36,947,400	36,356,292	36,496,363
Vegetative Waste Receipts	566,890	566,890	524,696	581,225
Interest Earned on Investments	55,000	55,000	73,453	57,291
Other Receipts - Water	397,376	397,376	364,693	270,566
Other Receipts - Solid Waste			133,590	200,072
Household Hazardous Waste	37,735	37,735	41,082	37,247
Curbside Recycling Receipts	2,077,723	2,077,723	1,963,032	2,140,314
State of NJ Grant Revenue:				
Clean Communities Grant		102,389	93,393	74,214
Recycling Enhancement Grant	222,300	222,300	222,300	247,500
	<u>\$ 44,443,697</u>	<u>\$ 44,546,086</u>	<u>\$ 44,002,367</u>	<u>\$ 43,538,664</u>
 Water Division Expenses:				
Salaries:				
Administration	\$ 278,809	\$ 278,809	\$ 200,615	\$ 269,115
Operating	342,502	342,502	291,134	258,952
	<u>621,311</u>	<u>621,311</u>	<u>491,749</u>	<u>528,067</u>
 Other Expenses:				
Legal	95,000	95,000	57,764	81,976
Audit	16,500	16,500	11,436	11,211
Employee Benefits	369,419	365,419	297,715	331,002
Administrative and Insurance	72,933	60,933	59,704	56,611
Engineering and Professional Services	200,000	200,000	170,373	204,779
Legal Advertising	3,000	9,000	6,173	2,914
Travel and Training	6,500	6,500	150	2,270
Office Supplies	12,000	12,000	7,495	6,950
Equipment	85,000	85,000	16,990	55,067
Repairs and Replacements	80,000	80,000	29,887	47,726
Electric Power	750,000	750,000	665,513	652,963

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2015
(With Comparative Totals for 2014)
(Continued)

	Original Budget	Budget After Mod- ification	2015 Actual	2014 Actual
Water Division Expenses (Cont'd):				
Other Expenses (Cont'd):				
Chlorine and Chemicals	\$ 22,000	\$ 22,000	\$ 18,981	\$ 14,328
Gasoline, Oil, etc.	30,000	30,000	7,273	14,407
Heating, Fuel, Oil, Boiler	22,000	22,000	9,921	11,593
Telephone, Lease Lines, Laboratory	30,000	30,000	33,222	37,750
Provision for Depreciation (Non-Budgeted)			820,331	836,819
Capital Improvements	1,200,000	1,200,000	1,185,080	
Real Estate Taxes	150,000	150,000	134,971	132,881
Fees and Permits	20,000	30,000	25,815	21,207
SMCMUA Water Agreement	616,186	616,186	587,520	548,707
Vehicle Replacement	12,000	12,000	5,649	2,320
Laboratory Analysis	25,000	25,000	13,450	23,341
Tools and Equipment	7,000	7,000	2,101	5,245
Tools and Equipment Repairs	4,000	4,000	169	1,054
Uniforms	3,000	3,000	3,887	2,259
Minor Construction	50,000	50,000	14,967	21,259
Cultural Center Contribution	5,000	5,000		
Facility Rental Contribution	8,000	8,000	6,408	5,606
Facility Maintenance	40,000	40,000	30,958	23,864
Tipping Fees	600	600	180	185
Water and Sewer Fees	200	200	92	148
Other Postemployment Benefits (Non-budgeted)			150,000	135,585
Property Maintenance			11,573	22,711
Property Taxes			12,986	21,641
	<u>3,935,338</u>	<u>3,935,338</u>	<u>4,398,734</u>	<u>3,336,379</u>
Total Water Division Expenses	<u>4,556,649</u>	<u>4,556,649</u>	<u>4,890,483</u>	<u>3,864,446</u>
Solid Waste Division Expenses:				
Salaries:				
Administration	672,578	702,578	702,578	691,712
Operating	2,226,482	2,226,482	2,129,985	2,119,594
	<u>2,899,060</u>	<u>2,929,060</u>	<u>2,832,563</u>	<u>2,811,306</u>
Other Expenses:				
Audit	86,000	86,000	35,208	34,533
Employee Benefits	1,689,090	1,634,090	1,443,118	1,452,459
Administrative and Insurance	208,798	188,798	180,912	172,331
Travel and Training	14,720	14,720	5,743	4,463
Office and Computer Equipment	4,000	4,000	2,326	750
Office Supplies	16,000	16,000	15,938	120,583
Legal	100,000	100,000	50,223	168,781
Consulting Engineer	20,000	20,000		6,251
Legal Advertising	10,000	10,000	5,939	4,319
Gasoline, Oil, etc.	5,000	5,000	1,891	4,148
Telephone, Lease Lines, Laboratory	12,000	12,000	5,874	7,216
Spare Parts and Maintenance	75,395	75,395	31,136	26,767
Vehicle Maintenance	2,500	2,500	1,167	1,134

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2015
(With Comparative Totals for 2014)
(Continued)

	Original Budget	Budget After Mod- ification	2015 Actual	2014 Actual
Solid Waste Division Expenses (Cont'd):				
Expenses (Cont'd):				
Other Expenses (Cont'd):				
Provision for Depreciation (Non-Budgeted)			\$ 510,327	\$ 524,304
Consolidation Center	\$ 79,617	\$ 54,617	8,997	92,585
Vegetative Waste Costs	267,750	337,750	258,310	264,356
Household Hazardous Waste	256,584	256,584	17,798	19,968
Curbside Recycling	956,770	956,770	431,218	736,146
Contingency	1,000	1,000		
Project Reserve	485,000	485,000	186,333	38,250
Special Projects	43,000	43,000	21,665	17,616
Fees and Permits	17,000	17,000	16,245	12,657
Cultural Center Rental	19,773	19,773	19,188	16,791
Par-Troy Lease Agreement	211,974	211,974	207,309	205,546
Operation and Maintenance - Transfer Station	31,304,398	31,304,398	28,363,360	28,977,885
Operation and Maintenance Reserve	1,101,619	1,101,619		
Other Postemployment Benefits (Non-budgeted)			850,000	768,317
Clean Communities Grant Expenses		102,389	93,392	74,214
Recycling Enhancement Grant			222,300	247,500
	<u>36,987,988</u>	<u>37,060,377</u>	<u>32,985,917</u>	<u>33,999,870</u>
Total Solid Waste Division Expenses	<u>39,887,048</u>	<u>39,989,437</u>	<u>35,818,480</u>	<u>36,811,176</u>
	<u>\$ 44,443,697</u>	<u>\$ 44,546,086</u>	<u>\$ 40,708,963</u>	<u>\$ 40,675,622</u>
Revenue Over/(Under) Expenses			\$ 3,293,404	\$ 2,863,042
Less: Unrestricted Fund Balance Utilized			402,806	
Net Income (Loss)			<u>\$ 2,890,598</u>	<u>\$ 2,863,042</u>

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, 2015

	Total	Water Division	Solid Waste Division
Operating Revenue:			
Water Charges	\$ 3,827,030	\$ 3,827,030	
Tipping Fees	36,356,292		\$ 36,356,292
Other Receipts - Water Division	364,693	364,693	
Other Receipts - Solid Waste Division	133,590		133,590
Household Hazardous Waste	41,082		41,082
Curbside Recycling Receipts	1,963,032		1,963,032
Vegetative Waste Receipts	524,696		524,696
Total Operating Revenue	<u>43,210,415</u>	<u>4,191,723</u>	<u>39,018,692</u>
Operating Expenses:			
Water Division Expenses	4,045,593	4,045,593	
Solid Waste Division Expenses	35,308,153		35,308,153
Depreciation	1,330,658	820,331	510,327
Total Operating Expenses	<u>40,684,404</u>	<u>4,865,924</u>	<u>35,818,480</u>
Operating Income (Loss)	<u>2,526,011</u>	<u>(674,201)</u>	<u>3,200,212</u>
Nonoperating Revenue (Expenses):			
State of NJ Grant Revenue:			
Clean Community Grant	93,393		93,393
Recycling Enhancement Grant	222,300		222,300
Interest Earned on Investments	73,453	23,341	50,112
Property Maintenance	(11,573)	(11,573)	
Property Taxes on Rental Properties	(12,986)	(12,986)	
Total Nonoperating Revenue (Expenses)	<u>364,587</u>	<u>(1,218)</u>	<u>365,805</u>
Change in Net Position Before Special Item	2,890,598	(675,419)	3,566,017
Special Item:			
Loss on Disposal of Equipment	(76,425)		(76,425)
Change in Net Position	2,814,173	(675,419)	3,489,592
Net Position, Beginning of Year (Restated))	<u>29,051,777</u>	<u>24,914,582</u>	<u>4,137,195</u>
Net Position, End of Year	<u>\$ 31,865,950</u>	<u>\$ 24,239,163</u>	<u>\$ 7,626,787</u>

SINGLE AUDIT SECTION

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

<u>Name of Federal Agency or Department</u>	<u>Name of Program</u>	<u>C.F.D.A. Number</u>	<u>Grant Award Amount</u>	<u>Amount Received</u>	<u>Grant Period</u>		<u>Amount of Current Year Expenditures</u>	<u>Cumulative Expenditures</u>
					<u>From</u>	<u>To</u>		

NOT APPLICABLE

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, 2015

State Funding Department	State Program	State Grant Award Number	Grant Award Amount	Amount Received	Grant Period		Amount of Current Year Expenditures	Cumulative Expenditures	
					From	To			
Department of Environ- mental Protection	Recycling Enhancement Grant	752-042-4900 008-V42Y-6010		\$ 222,300	\$ 222,300	01/01/15	12/31/15	\$ 222,300	\$ 222,300
Department of Environ- mental Protection	Clean Communities Grant	765-042-4900- 005-V42Y-6010	84,352			01/01/14	12/31/15	61,983	84,352
			102,389			01/01/15	12/31/16	31,410	31,410
				102,389				93,393	115,762
				\$ 324,689				\$ 315,693	\$ 338,062

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF STATE AWARDS

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2015

Note 1. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards (the “schedules”) include the federal and state grant activity of the Morris County Municipal Utilities Authority (the “Authority”) under programs of the federal and state governments for the year ended December 31, 2015. The information in these schedules is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) and New Jersey’s OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the County of Morris, they are not intended to and do not present the financial position, changes in fund balance or cash flows of the County of Morris.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedules represent adjustments or credits mad in the normal course of business to amounts reported as expenditures in prior years. Pass-through identifying numbers are presented where available. The Authority has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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.



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

Lawrence Business Center
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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 year ended December 31, 2015, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated March 4, 2016.

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.

The Honorable Chairman and Members
of the Morris County Municipal
Utilities Authority
Page 2

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 result 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 4, 2016

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, 2015

Summary of Auditors' Results:

- The Independent Auditors' Report expresses a qualified opinion on the financial statements of the Authority as the Authority's financial statements include a net OPEB liability at December 31, 2015 which was calculated by the Authority and not by an actuary. Also, the postretirement funding status as required by GASB#45 was not available for 2015.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *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*.
- No instances of noncompliance material to the financial statements of the District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- The Authority was not subject to the single audit provisions of the Uniform Guidance and New Jersey OMB's Circular 15-08 for the year ended December 31, 2015 as both state and federal grant expenditures were less than the single audit thresholds of \$750,000 identified in the Uniform Guidance and NJOMB 15-08.

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 Federal Awards:

- Not applicable since federal expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- Not applicable since state expenditures were below the single audit threshold.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

There were no prior year audit findings.

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. 1971, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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 thru June 30, 2015 and \$40,000 thereafter.

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.

Other Postemployment Benefit Obligations

Finding

The Authority's financial statements include a net OPEB liability at December 31, 2015 which was calculated by the Authority and not by an actuary. Also, the postretirement funding status as required by GASB#45 was not available for 2015. In our opinion, a net OPEB liability calculated by an actuary and the disclosure of the postretirement funding status information is required to conform with accounting principles generally accepted in the United States of America.

Recommendation

It is recommended that the Authority has a net OPEB liability calculated by an actuary. Also, the postretirement funding status as required by GASB #45 be available for audit review.

Management's Response

The County of Morris annually provides the Authority with a net OPEB liability calculation by an actuary, however the report for 2015 was not available as of the date of this report.

Status of Prior Year Recommendations

There were no recommendations in the prior year.

MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The Authority has a net OPEB liability calculated by an actuary. Also, the postretirement funding status as required by GASB #45 be available for audit review.

* * * * *