

## Report on Internal Control Over Compliance

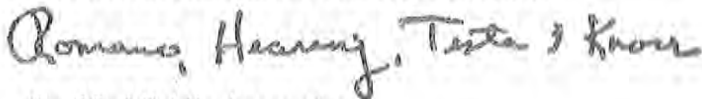
Management of Cumberland County Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cumberland County Utilities Authority's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

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

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

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

ROMANO, HEARING, TESTA & KNORR



Certified Public Accountants

April 11, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Cumberland County Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's overall financial position and results of operation for the year that ended on December 31, 2013. Please read it in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The Authority's Net Capital Assets increased by \$814,000 an increase of 5.37%.
- The Authority's Total Assets increased by \$2,188,000 an increase of 9.32%.
- During the year, the Authority's operating revenues decreased by \$83,000 to \$6.372 million, a 1.28% decrease, and operating expenses increased by \$102,000 to \$5.46 million, a 1.9% increase.
- The Authority's Net Position increased by \$619,000, a 4.18% increase.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority is a single enterprise fund. The Authority's Audit Report includes the required Basic Financial Statements, as described below, the Notes to Financial Statements, required supplementary information, which consists of this Management Discussion and Analysis and finally, supplementary information.

## REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its wastewater treatment user fees and other charges. This statement also measures the Authority's profitability and credit worthiness. The other required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?"

## FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The Authority's total net position increased from last year by \$619,000. The analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1  
Net Position  
(Dollars in Thousands)

	2013	2012 (RESTATED)	2013-2012 Increase(Decrease)	
			\$	%
Current Assets	\$ 3,320	\$ 2,810	\$ 510	18.15%
Noncurrent Assets	22,359	20,681	1,678	8.11%
Total Assets	<u>\$ 25,679</u>	<u>\$ 23,491</u>	<u>\$ 2,188</u>	9.31%
Deferred Loss on Defeasance of Debt	\$ 65	\$ 100	\$ (35)	-35.00%
Total Deferred Outflows of Resources	<u>\$ 65</u>	<u>\$ 100</u>	<u>\$ (35)</u>	-35.00%
Current Liabilities	\$ 415	\$ 580	\$ (165)	-28.45%
Current Liabilities Payable				
From Restricted Assets	2,068	1,295	773	59.69%
Long-Term Liabilities	7,852	6,925	927	13.39%
Total Liabilities	<u>\$ 10,335</u>	<u>\$ 8,800</u>	<u>\$ 1,535</u>	17.44%
Net Investment in				
Capital Assets	\$ 8,252	\$ 8,546	\$ (294)	-3.44%
Restricted Net Position	2,294	1,414	880	62.23%
Unrestricted Net Position	4,863	4,831	32	0.66%
Total Net Position	<u>\$ 15,409</u>	<u>\$ 14,791</u>	<u>\$ 618</u>	4.18%

The 18.15% increase in current assets is primarily the net result of an increase in due from restricted assets and decreases in cash and cash equivalents, certain receivables and inventory.

The 8.11% increase in non-current assets is the result of net increases to various receivables, investments, cash and cash equivalents and net capital assets and decreases in due from unrestricted assets.

The 28.45% decrease in current liabilities payable from unrestricted assets is the net result of decreases in user payable (a prior year billing adjustment), due to restricted assets and increases in accrued liabilities and accounts payable.

The 59.69% increase in current liabilities payable from restricted assets is the net result of increases in due to unrestricted assets, construction related payables, the current portion of revenue bonds and loans payable, deferred compensation due employees and sensor escrow, with decreases in accrued interest payable on bonds and loans and restricted accounts payable.

The 13.39% increase in long-term liabilities is the net result of increase to the New Jersey Environmental Infrastructure Trust Loans payable (See Note #9) and accrued compensated absences and decreases in principal maturities on revenue bonds payable.

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

### REVENUES

The Authority's total revenues are approximately \$6.438 million for the year ended December 31, 2013. Treatment Fees were \$5.930 million accounting for 93% of total revenue.

### EXPENSES

Operating expenses include cost of providing services, which totaled \$3.286 million, a 6.86% increase and administrative and general expenses of \$1.167 million, a 3.95% decrease.

	2013	2012 (RESTATED)	2013-2012 Increase(Decrease)	
			\$	%
Operating Revenue				
Treatment Fees	\$ 5,930	\$ 5,924	\$ 6	0.10%
Septage Fees	339	412	(73)	-17.72%
Other Operating	103	117	(14)	-11.97%
Nonoperating Revenue	66	74	(8)	-10.81%
Total Revenue	<u>\$ 6,438</u>	<u>\$ 6,527</u>	<u>\$ (89)</u>	<u>-1.36%</u>
Operating Expenses				
Cost of Providing Services	\$ 3,286	\$ 3,075	\$ 211	6.86%
Administrative and General	1,167	1,215	(48)	-3.95%
Depreciation	1,013	1,072	(59)	-5.50%
Non Operating Expense				
Interest and Amortization	287	334	(47)	-14.07%
Debt Issue Costs Incurred	67	24	43	179.17%
Total Expenses	<u>\$ 5,820</u>	<u>\$ 5,720</u>	<u>\$ 100</u>	<u>1.75%</u>
Change in Net Position	\$ 618	\$ 807	\$ (189)	-23.42%
Beginning Net Position (RESTATED)	<u>\$ 14,791</u>	<u>\$ 13,984</u>	<u>\$ 807</u>	<u>5.77%</u>
Ending Net Position	<u>\$ 15,409</u>	<u>\$ 14,791</u>	<u>\$ 618</u>	<u>4.18%</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of December 2013, the Authority had \$15.963 million invested in a broad range of capital assets. More detailed information about capital assets can be found in Note 6 to the financial statements. Total depreciation expense for the year was \$1.013 million.

The following table summarizes the Authority's capital assets, net of accumulated depreciation, and changes therein, for the year ended December 31, 2013.

Table 3  
Capital Assets, Net of Accumulated Depreciation  
(Dollars in Thousands)

	2013	2012	2013-2012	
			Increase(Decrease) \$	%
Land	\$ 1,135	\$ 1,135	\$ -	
Land Improvements	76	102	(26)	-25.49%
Treatment Plant and Facili	8,424	8,980	(556)	-6.19%
Pumping Stations and Inte	3,108	3,318	(210)	-6.33%
Machinery and Equipment	1,117	1,257	(140)	-11.14%
Vehicles	277	307	(30)	-9.77%
Office Equipment	14	13	1	7.69%
Construction in Progress	1,812	37	1,775	4797.30%
<b>Total</b>	<b>\$ 15,963</b>	<b>\$ 15,149</b>	<b>\$ 814</b>	<b>5.37%</b>

The Authority's FY 2014 capital budget plans for investing another \$219,000 in capital projects, including:

Motor/Pump Replacement.....	30
Buildings, Grounds and Vehicles.....	189
<b>TOTAL</b>	<b><u>\$219</u></b>

The Authority plans to fund the above capital projects from year 2014 revenue.



## **Debt Administration**

At December 31, 2013, the Authority had several outstanding bond issues and loans payable in the amount of \$8,847,712 that will mature in various amounts through the year 2032 with interest rates ranging from 3.8% to 5.5%. The Authority also has accrued compensated absences in the amount of \$65,540. More detailed information about long-term liabilities can be found in Note 9 to the financial statements.

## **NEXT YEAR'S BUDGETS AND RATES**

The Authority's 2014 Operating Budget reflects a 2.28% increase from the 2013 Amended Budget. The increase is due to necessary repairs of aging infrastructure along with increases in Salary & Wages and Capital Outlay. The increase in capital outlay is for the replacement of two vehicles in our fleet, one of which is our most expensive to maintain and replace. The proposed Capital Projects for 2014 include \$219,000 of expenditures from the operating capital budget. The Authority plans to fund the capital projects from year 2014 revenue. The proposed budget reflects a \$.02 cent/per thousand gallon rate increase to the Users. Growth within our service area has stalled and the 2014 Budget was developed to work within those limitations. The rate increase was necessary, in part, due to the conversion to the flow-based billing in 2013. This increase is less than ½ of 1% to the Users.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Authority's customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Authority's Director at the Cumberland County Utilities Authority, 333 Water Street, Bridgeton, NJ 08302.

**BASIC FINANCIAL STATEMENTS**