

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY**

**REPORT OF AUDIT**

**WITH  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED  
NOVEMBER 30, 2016 AND 2015**

**Township of Lower Municipal Utilities Authority**  
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**Township of Lower Municipal Utilities Authority  
Roster of Officials  
As of November 30, 2016**

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AUTHORITY COMMISSIONERS

Brian O'Connor  
Thomas A. Frisoli, Jr  
Harrison A. Bitting  
Stephen W. Sheftz  
Jacqueline U. Henderson

POSITION

Chairman  
Vice Chairman  
Treasurer  
Assistant Treasurer  
Board Member

OFFICIALS

Michael Chapman  
Craig Loper  
Sharon Otto  
Remington, Vernick & Walberg  
Cafiero & Kaufmann  
McManimon, Scotland & Baumann, LLC

Executive Director  
Water/Sewer Superintendent  
Board Secretary  
Engineers  
Solicitor  
Bond Counsel

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY**

**PART I**

**FINANCIAL SECTION**

**FOR THE FISCAL YEARS ENDED  
NOVEMBER 30, 2016 AND 2015**

## **INDEPENDENT AUDITOR'S REPORT**

The Chairman and Members of  
The Board of Commissioners of the  
Township of Lower Municipal Utilities Authority  
Villas, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Township of Lower Municipal Utilities Authority, in the County of Cape May, State of New Jersey, a component unit of the Township of Lower (Authority), as of and for the fiscal years ended November 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Township of Lower Municipal Utilities Authority, in the County of Cape May, State of New Jersey, a component unit of the Township of Lower, as of November 30, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary schedules, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

*Bowman & Company LLP*

BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

Voorhees, New Jersey  
May 25, 2017

**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 AUDITOR'S REPORT**

The Chairman and Members of  
The Board of Commissioners of the  
Township of Lower Municipal Utilities Authority  
Villas, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Township of Lower Municipal Utilities Authority, in the County of Cape May, State of New Jersey, a component unit of the Township of Lower, (Authority), as of and for the fiscal year ended November 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 25, 2017.

**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 opinion 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 Authority's internal control.

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

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



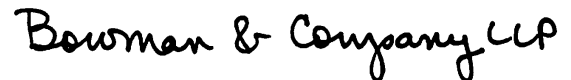
**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

Voorhees, New Jersey  
May 25, 2017

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY  
Management's Discussion and Analysis (MD&A)  
November 30, 2016 and 2015  
(Unaudited)**

**FINANCIAL HIGHLIGHTS**

Management believes the financial position of the Township of Lower Municipal Utilities Authority (the "Authority") is strong. Key financial highlights for the Authority's fiscal year 2016 were:

- Operating expenses were \$5,871,874.41, versus \$6,045,411.97 in 2015 and \$5,863,736.98 in 2014. The decrease in 2016 versus the prior fiscal year is primarily the result of a reduction in the amount paid to Cape May County MUA for the conveyance and disposal of treated effluent.
- Consumer accounts receivable as of November 30, 2016, 2015 and 2014 were \$821,596.50, \$680,178.44 and \$851,512.36, respectively, with the increase in 2016 primarily the result of a decrease in the estimated allowance for uncollectible accounts.
- Service charges and connection fee revenues in fiscal year 2016 amounted to \$8,411,214.78 and \$650,980.00, respectively.
- At year-end, total assets were \$55,085,871.37; deferred outflows were \$1,078,541.14; liabilities were \$22,449,359.01; and deferred inflows were \$753,626.54. The resultant net position at year-end was \$32,961,426.96.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and pension schedules, the basic financial statements, and supplemental information.

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statements of net position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. As the Authority follows the accrual method of accounting, the current fiscal year's revenue and expenses are accounted for in the statements of revenues, expenses and change in net position regardless of when cash is received or paid. Net position - the difference between the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - are a measure of the Authority's financial health or position. The statements of revenues, expenses and change in net position provides a breakdown of the various areas of revenues and expenses encountered during the current fiscal year. The statements of cash flows provides a breakdown of the various sources of cash flow, categorized into four areas: cash flows from operating activities, noncapital financing activities, capital and related financing activities and investing activities.

## **FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

The Authority's total net position was \$32,961,426.96 on November 30, 2016. Total assets, deferred outflows of resources, total liabilities, deferred inflows of resources, and total net position are detailed below.

### **Township of Lower Municipal Utilities Authority Net Position As of November 30,**

	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014 *</u></b> <b><u>(Restated)</u></b>
Total Unrestricted Assets	\$ 8,731,535.11	\$ 6,062,094.31	\$ 3,548,968.09
Total Restricted Assets	8,854,963.00	8,866,885.81	10,353,432.91
Capital Assets	36,605,142.72	34,144,788.44	34,853,716.99
Other Assets	894,230.54	1,013,480.15	945,489.00
Total Assets	55,085,871.37	50,087,248.71	49,701,606.99
Total Deferred Outflows of Resources	1,078,541.14	631,289.95	93,182.18
Total Current Liabilities			
Payable from Current Assets	665,635.97	619,293.59	517,747.45
Total Current Liabilities			
Payable from Restricted Assets	5,456,151.97	1,830,847.27	2,267,660.17
Long-Term Obligations	16,327,571.07	17,822,500.36	16,249,504.92
Total Liabilities	22,449,359.01	20,272,641.22	19,034,912.54
Total Deferred Inflows of Resources	753,626.54	372,335.70	15,104.61
Net Position			
Net Investment in Capital Assets	22,034,498.49	19,744,371.45	18,614,243.00
Restricted	3,243,000.00	3,215,450.00	3,968,740.00
Unrestricted	7,683,928.47	7,113,740.29	8,161,789.02
Total Net Position	32,961,426.96	30,073,561.74	30,744,772.02
Restatement to Record the Net Pension Liability, Pension Related Deferred Outflows & Accounts Payable per GASB 68	-	-	(3,342,310.91)
Net Position - November 30	<u>\$ 32,961,426.96</u>	<u>\$ 30,073,561.74</u>	<u>\$ 27,402,461.11</u>

\* The Authority implemented GASB 68.

**FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONTINUED)**

\* These 2016, 2015 and 2014 amounts (for Long-Term Liabilities and Net Position – Unrestricted) incorporate the impact of long term pension liability associated with the State of New Jersey’s Public Employee Retirement System (PERS). Effective with the Authority’s FY15, the Governmental Accounting Standards Board (GASB), the accepted standard setting body for governmental accounting and financial reporting principles, implemented GASB 68 & 71. GASB 68 & 71 require the implementation of certain accounting standards relating to the recording of the Authority’s long-term pension liability under PERS. Conceptually, GASB 68 & 71 requires the Authority to recognize its long-term pension liability and the impact it has on Unrestricted Net Position. Total Net Position for FY14 has been restated to reflect the impact this liability had on the Unrestricted Net Position for that fiscal year.

The Authority realized operating income of \$3,226,760.33 for the current fiscal year. Combined with non-operating expenses of \$338,895.11, the Authority’s total change in net position for the current fiscal year was an increase of \$2,887,865.22. Major components of this activity are detailed below.

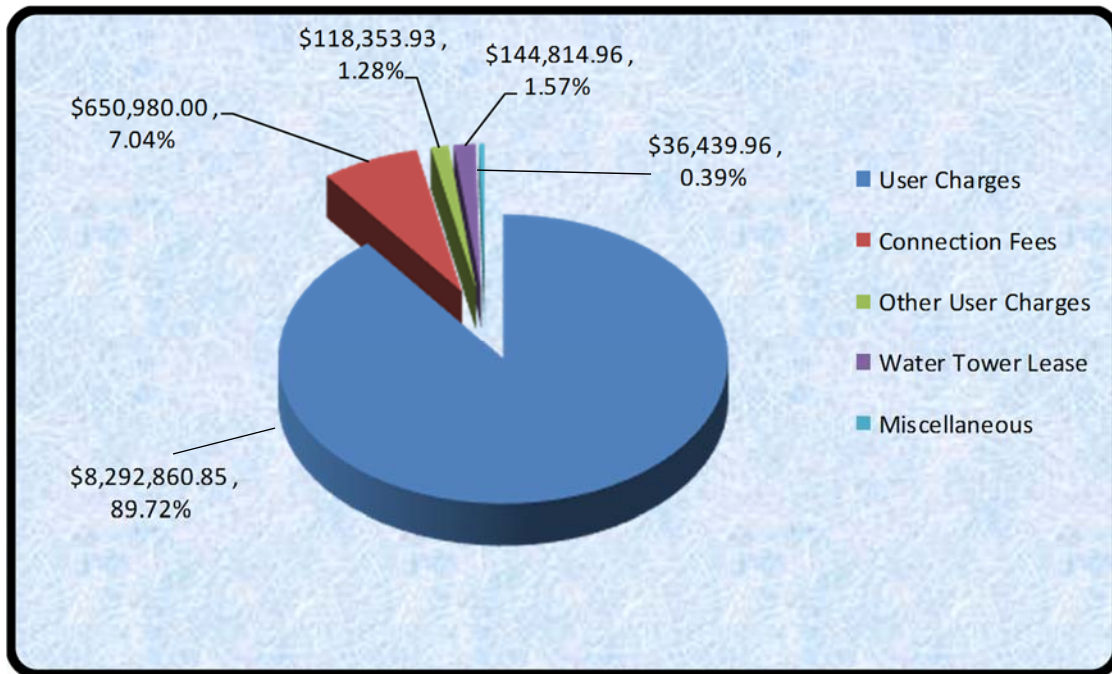
**Township of Lower Municipal Utilities Authority  
Revenues, Expenses and Net Position  
for the Fiscal Years Ended November 30,**

	<u>2016</u>	<u>2015</u>	<u>2014 *</u> <u>(Restated)</u>
Total Operating Revenues	\$ 9,098,634.74	\$ 9,160,165.16	\$ 9,358,346.00
Total Operating Expenses	<u>(5,871,874.41)</u>	<u>(6,045,411.97)</u>	<u>(5,863,736.98)</u>
Operating Income	3,226,760.33	3,114,753.19	3,494,609.02
Non Operating Revenues / (Expenses)	<u>(338,895.11)</u>	<u>(443,652.56)</u>	<u>(366,255.00)</u>
Increase in Net Position	2,887,865.22	2,671,100.63	3,128,354.02
Net Position - December 1	<u>30,073,561.74</u>	<u>27,402,461.11</u>	<u>27,616,418.00</u>
Net Position - November 30			
Prior to Restatement	32,961,426.96	30,073,561.74	30,744,772.02
Restatement to Record the Net Pension Liability, Pension Related Deferred Outflows & Accounts Payable per GASB 68	<u>-</u>	<u>-</u>	<u>(3,342,310.91)</u>
Net Position - November 30, Restated	<u>\$ 32,961,426.96</u>	<u>\$ 30,073,561.74</u>	<u>\$ 27,402,461.11</u>

\* The Authority implemented GASB 68.

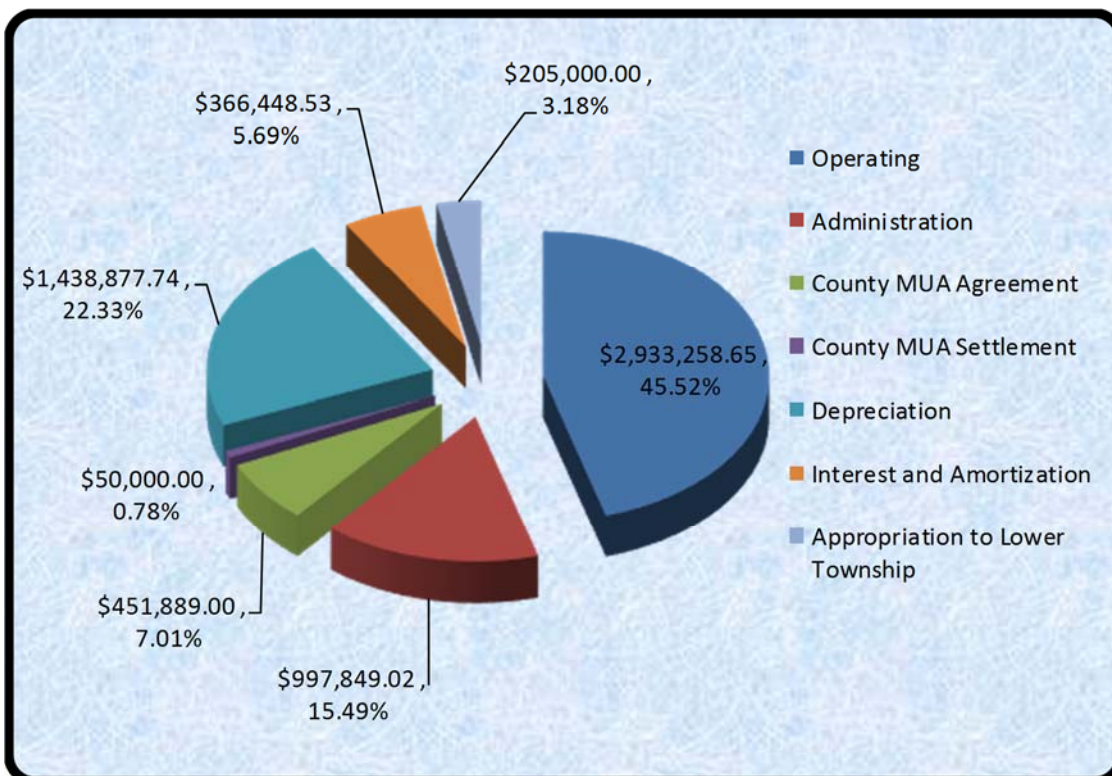
## TOTAL REVENUES

Following is a breakdown of total revenue for the fiscal year ended November 30, 2016.



## TOTAL EXPENSES

Following is a breakdown of total expenses for the fiscal year ended November 30, 2016.



## **OVERALL ANALYSIS**

The Authority's overall financial position is firm. From 2015 to 2016 the Authority experienced a 0.19% increase in service charge revenues. The rate structure approved in January, 2011 resulted in a minimum water rate of \$62.48/quarter and the sewer rate \$320/year, which has remained unchanged.

Connection fee revenue in the 2016 was \$650,980.00 compared to \$748,842.64 in 2015 and \$1,382,936.00 in 2014. The reduction in fees over this period can be attributed to the Authority completing the Townbank water project and recognizing a substantial amount of the resultant connection fees in 2014, with a smaller number of connections occurring in 2015 and 2016.

Overall, the Authority believes it is managing its financial position as efficiently as possible in spite of the challenging fiscal environment. Net position increased by \$2,887,865.22 in 2016, \$2,671,100.63 in 2015 and \$3,128,354.02 in 2014. The residential and public sectors, the most stable when considering the volatility of a billing base, comprise approximately 94% and 94% of the Authority's water and sewer customers respectively. There is no particular emphasis or imbalance in the type of business enterprises within the commercial sector. Industrial users exist, but do not comprise a major portion of the Authority's billing base.

## **BUDGET VARIANCES**

The actual Water Division revenues exceeded the anticipated revenues by \$510,105.33 in 2016 [\$3,686,635.00 budgeted vs. \$4,196,740.33 actual] and \$548,734.70 in 2015 [\$3,788,658.00 budgeted vs. \$4,337,392.70 actual]. The actual Sewer Division revenues also exceeded the anticipated revenues by \$341,067.07 in 2016 [\$4,703,977.00 budgeted vs. \$5,045,044.07 actual], while in 2015 the actual revenues were less than the anticipated revenues by (\$9,593.85) [\$4,995,776.00 budgeted vs. \$4,986,182.16 actual].

Connection fee revenues of \$20,800.00 were budgeted for in 2016 and \$480,000.00 were budgeted in 2015. Actual revenues realized for connection fees totaled \$650,980.00 in 2016 which was more than budgeted and \$748,842.64 in 2015. The investment in water infrastructure, previously in the Townbank section and currently in the East Villas section of the Township, continues to add to the users of the system thus affecting this revenue item.

Total Operating Appropriations once again came in well under our budget for 2016 in the amount of \$524,114.00 (Water Division) and \$1,015,334.53 (Sewer Division); as compared to 2015 the amount of \$381,731.77 (Water Division) and \$866,891.06 (Sewer Division).

During fiscal years 2016 and 2015, the Township of Lower exercised its right to request up to 5% of the appropriated annual costs of operation of the Authority per N.J.S.A. 40A: 5A-12.1. The amounts requested in 2016 and 2015 each totaled \$205,000.00.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

During the current fiscal year, the Authority added \$1,768,743.23 in capital assets, which included completed construction in progress amounts totaling \$1,537,187.64.

The Authority continues to maintain a proactive maintenance philosophy for its capital facilities. The Authority's 2016-17 budget includes two (2) Water Capital Projects and five (5) Sewer Capital projects along with an additional equipment purchases funded through the budget, General Fund and Renewal and Replacement Fund.

The Capital Program included in the 2016-17 budget includes 2016-17 anticipated capital costs of \$3,864,000.00 (Water Division), and \$2,244,000.00 (Sewer Division). The major line items making up a portion of the Capital Budget are:

1. Water Main Installation
2. Storage Tanks Painting, Operating Equipment
3. Sewer Main Rehabilitation
4. Rehabilitation of Pumping Stations
5. Sludge Handling Press Equipment

In connection with the most recent bond sale in February 2014, Moody's Investors Services assigned a rating of Aa3 to the Authority. The Authority does not anticipate any change in its excellent credit rating.

\$1,430,000.00 of debt service principal payments scheduled in 2016 were paid on two series of Revenue Refunding Bonds and \$161,301.80 of debt service principal payments scheduled in 2016 were paid on two series of USDA Loans.

In February 2016, the Authority adopted a resolution authorizing the issuance of its Project Notes, Series 2016 in the principal amount of not to exceed \$4,200,000.00 to temporarily finance a capital improvement project consisting of the East Villas Water Main Improvements Phase I (Project). The Authority has been approved by the USDA to permanently finance up to \$3,734,000.00 of the costs associated with the Project, and, in anticipation of the permanent financing, has determined to temporarily finance the costs of the Project with the proceeds of the Project Note. The Authority issued the Project Notes in September 2016.

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

This financial report is designed to provide Lower Township's citizens and our customers, clients, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Michael Chapman, Township of Lower Municipal Utilities Authority, 2900 Bayshore Road, Villas, NJ 08251.

## **BASIC FINANCIAL STATEMENTS**



**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Statements of Net Position  
As of November 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 7,316,595.23	\$ 4,962,197.26
Consumer Accounts Receivable, Net of Allowance of \$29,655.19 and \$118,697.42, respectively	821,596.50	680,178.44
Connection Fees Receivable	536,142.37	419,718.61
Prepaid Expenses	57,201.01	
Total Unrestricted Assets	8,731,535.11	6,062,094.31
Restricted Assets:		
Cash and Cash Equivalents	8,854,963.00	8,866,885.81
Total Current Assets	17,586,498.11	14,928,980.12
Noncurrent Assets:		
Capital Assets:		
Land	97,234.00	97,234.00
Completed (Net of Accumulated Depreciation)	34,088,431.43	33,758,565.94
Construction in Progress	2,419,477.29	288,988.50
Total Capital Assets	36,605,142.72	34,144,788.44
Unrestricted Assets:		
Connection Fees Receivable	894,230.54	1,013,480.15
Total Noncurrent Assets	37,499,373.26	35,158,268.59
Total Assets	55,085,871.37	50,087,248.71
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Related to Pensions	1,001,515.00	545,874.08
Deferred Loss on Defeasance of Debt	77,026.14	85,415.87
Total Deferred Outflows of Resources	1,078,541.14	631,289.95

(Continued)

## TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY

Statements of Net Position  
As of November 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 541,896.90	\$ 488,594.31
Accounts Payable - Related to Pensions	103,917.00	127,229.00
Overpayments	17,777.88	
Capital Lease	1,799.51	
Deposits and Reserves	244.68	3,470.28
	<u>665,635.97</u>	<u>619,293.59</u>
Total Current Liabilities Payable from Unrestricted Assets		
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	646,130.40	85,239.00
Deposits and Reserves	12,300.71	12,300.71
Accrued Interest on Bonds and Loans Payable	137,509.94	142,006.37
Bond Anticipation Notes	3,000,000.00	
Revenue Bonds Payable - Current Portion	1,495,000.00	1,430,000.00
USDA Loans Payable - Current Portion	165,210.92	161,301.19
	<u>5,456,151.97</u>	<u>1,830,847.27</u>
Total Current Liabilities Payable from Restricted Assets		
Long-term Liabilities:		
Compensated Absences	165,094.06	102,103.48
Net Pension Liability	3,464,400.00	3,322,008.00
Accrued Liability - Related to Pensions	43,299.00	53,012.08
Capital Lease	6,225.59	
Revenue Bonds Payable	3,316,402.26	4,848,015.11
USDA Loans Payable	9,332,150.16	9,497,361.69
	<u>16,327,571.07</u>	<u>17,822,500.36</u>
Total Long-Term Liabilities		
Total Liabilities	<u>22,449,359.01</u>	<u>20,272,641.22</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to Pensions	750,811.00	364,762.00
Deferred Gain on Defeasance of Debt	2,815.54	7,573.70
	<u>753,626.54</u>	<u>372,335.70</u>
Total Deferred Inflows of Resources		
<u>NET POSITION</u>		
Net Investment in Capital Assets	22,034,498.49	19,744,371.45
Restricted:		
Bond Service Fund	1,621,500.00	1,593,950.00
Bond Service Reserve Fund	1,621,500.00	1,621,500.00
Unrestricted	7,683,928.47	7,113,740.29
	<u>32,961,426.96</u>	<u>30,073,561.74</u>
Total Net Position		

The accompanying Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**Statements of Revenues, Expenses and Change in Net Position**  
**For the Fiscal Years Ended November 30, 2016 and 2015**

	<u><b>2016</b></u>	<u><b>2015</b></u>
Operating Revenues:		
User Charges, Service Agreements, Fees, Penalties and		
Provision for Doubtful Accounts	\$ 8,411,214.78	\$ 8,395,516.02
Connection Fees	650,980.00	748,842.64
Other Operating Revenues	<u>36,439.96</u>	<u>15,806.50</u>
Total Operating Revenues	<u>9,098,634.74</u>	<u>9,160,165.16</u>
Operating Expenses:		
Administration:		
Salaries and Wages	310,279.66	193,463.22
Fringe Benefits	240,766.63	194,141.50
Other Expenses	446,802.73	587,659.17
Cost of Providing Services:		
Salaries and Wages	989,556.68	920,850.96
Fringe Benefits	808,595.40	750,000.56
Other Expenses	1,636,995.57	1,971,322.18
Depreciation	<u>1,438,877.74</u>	<u>1,427,974.38</u>
Total Operating Expenses	<u>5,871,874.41</u>	<u>6,045,411.97</u>
Operating Income	<u>3,226,760.33</u>	<u>3,114,753.19</u>
Non-Operating Revenue / (Expenses):		
Water Tower Leases	144,814.96	164,738.54
Appropriations to Lower Township	(205,000.00)	(205,000.00)
Investment Income	(1,665.31)	(1,328.85)
Capital Project Reserve Loss Transactions		3,052.85
Interest on Debt	(403,061.38)	(419,424.76)
Bad Debt Recaptured (Expense)	89,403.77	(41,243.90)
Loss on Disposal of Assets		(1,985.56)
Amortization of Premium	<u>36,612.85</u>	<u>57,539.12</u>
Total Non-Operating Revenue / (Expenses)	<u>(338,895.11)</u>	<u>(443,652.56)</u>
Change in Net Position	2,887,865.22	2,671,100.63
Net Position - Beginning	<u>30,073,561.74</u>	<u>27,402,461.11</u>
Net Position - Ending	<u><u>\$ 32,961,426.96</u></u>	<u><u>\$ 30,073,561.74</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Statements of Cash Flows  
For the Fiscal Years Ended November 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 8,376,978.37	\$ 8,525,606.04
Receipts from Connection Fees	653,805.85	674,601.37
Payments for Other Goods or Services	(1,530,030.92)	(2,806,561.34)
Payments for Employee Services	(2,246,432.79)	(2,075,322.90)
Other Operating Receipts	36,439.96	15,806.50
	<u>5,290,760.47</u>	<u>4,334,129.67</u>
Net Cash Provided by Operating Activities		
Cash Flows from Non-Capital Financing Activities		
Water Tower Leases	144,814.96	164,738.54
Payment to the Township of Lower	(205,000.00)	(205,000.00)
	<u>(60,185.04)</u>	<u>(40,261.46)</u>
Net Cash Used In Non-Capital Financing Activities		
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Bonds	(1,430,000.00)	(1,765,000.00)
Principal Paid on Loans	(161,301.80)	(157,491.12)
Interest Paid on Bonds and Loans	(403,926.24)	(460,406.32)
Proceeds From Bond Anticipation Notes	3,000,000.00	
Proceeds From Capital Lease	9,588.46	
Payment of Capital Lease	(1,563.36)	
Acquisitions of Capital Assets	(3,899,232.02)	(717,979.15)
	<u>(2,886,434.96)</u>	<u>(3,100,876.59)</u>
Net Cash Used in Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Loss on Investment	(1,665.31)	(1,327.55)
	<u>(1,665.31)</u>	<u>(1,327.55)</u>
Net Cash Used in Investing Activities		
Net Change in Cash and Cash Equivalents	2,342,475.16	1,191,664.07
Cash and Cash Equivalents, December 1	<u>13,829,083.07</u>	<u>12,637,419.00</u>
Cash and Cash Equivalents, November 30	<u>\$ 16,171,558.23</u>	<u>\$ 13,829,083.07</u>

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended November 30, 2016 and 2015**

	<u><b>2016</b></u>	<u><b>2015</b></u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities:		
Operating Income	\$ 3,226,760.33	\$ 3,114,753.19
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation Expense	1,438,877.74	1,427,974.38
Bad Debt Recaptured (Expense)	89,403.77	(41,243.90)
Pension Liability Expense - GASB 68	39,775.00	(21,173.91)
Changes in Assets and Liabilities:		
(Increase) Decrease in Consumer Accounts Receivable	(141,418.06)	171,333.92
(Increase) Decrease in Connection Fees Receivable	2,825.85	(74,241.27)
(Increase) Decrease in Prepaid Expense	(57,201.01)	
Increase (Decrease) in Accounts Payable	53,302.59	(20,857.29)
Increase (Decrease) in Overpayments	17,777.88	
Increase (Decrease) in Deposits and Reserves	(3,225.60)	(4,825.57)
Increase (Decrease) in Construction Contracts Payable	560,891.40	(221,897.13)
Increase (Decrease) in Compensated Absences	62,990.58	4,307.25
Net Cash Provided by Operating Activities	<u><u>\$ 5,290,760.47</u></u>	<u><u>\$ 4,334,129.67</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Notes to Financial Statements  
For the Fiscal Years Ended November 30, 2016 and 2015

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**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Township of Lower Municipal Utilities Authority (the "Authority") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

**Reporting Entity**

The Township of Lower Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey and was originally created by an ordinance duly adopted on July 24, 1968 by the governing body of the Township of Lower (the "Township"), in the County of Cape May, State of New Jersey.

The Authority was created for the purpose of acquiring, constructing, maintaining, and operating water facilities for accumulating, supplying and distributing water, and acquiring, constructing, maintaining, improving, and operating sewage facilities for collecting, treating, purifying and disposing of sewage and other wastes.

**Component Unit**

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units and is a component unit of the Township of Lower, in the County of Cape May, State of New Jersey.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Basis of Presentation**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The transactions of the Authority are divided into two separate activities (water and sewer) within the enterprise fund type. Each activity is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflow of resources, net position, revenues and expenditures.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

**Revenues -- Exchange and Non-Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. Water and sewer service charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that water distribution and sewage collection services are being provided to the properties.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

**Expenses** - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**Budgets and Budgetary Accounting**

The Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. N.J.A.C. 5:31-2 requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt not later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal. Depreciation expense, bond issue costs, bond discounts, and deferred loss on defeasance are not included in the budget appropriations.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Budgets and Budgetary Accounting (Cont'd)**

The legal level of budgetary control is established at the detail shown on the statements of revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended. The Authority adopted an amending budget resolution during the year.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statements of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or bonds or other obligations of school district of which the local unit is a part or within which the school district is located, bonds or other obligations approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Additionally, 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. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.



**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Inventories**

Inventory consists principally of chemicals for the treatment of water, sewerage and sludge and is valued at cost. The Authority has determined that the inventories are immaterial and are not recorded in the financial statements.

**Prepaid Expenses**

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the applicable fiscal year end.

**Capital Assets**

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at actual cost. Donated capital assets are recorded at their fair market value as of the date received.

Expenditures, which enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the capital asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized. Costs incurred during construction of an asset are recorded as construction in progress. In the year that the project is completed, these costs are transferred to Capital Assets - Completed. Interest costs incurred during construction are capitalized into the cost of the asset.

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$2,500.00 or more
- 2) Useful life of more than one year
- 3) Asset is not affected by consumption

**Depreciation**

Depreciation is provided using the straight-line method over the following estimated useful life of the assets:

Land and Improvements	20 years
Buildings and Improvements	50 years
Machinery and Equipment	5 to 15 years
Infrastructure	50 years
Other	5 to 15 years

**Bond Discounts / Bond Premiums**

Bond discounts / bond premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in a systematic and rational method, from the issue date to maturity as a component of interest expense. Bond discounts / bond premiums are presented as an adjustment of the face amount on the bonds.

**Deferred Outflows of Resources**

The Authority reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. The only deferred outflows of resources reported in this year's financial statements are a deferred amount arising from a loss on refunding of general obligation bonds and a deferred outflow of resources for contributions made to the Authority's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the Authority's fiscal year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Deferred Inflows of Resources**

The Authority's statements of net position report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future periods. Deferred inflows of resources are reported in the Authority's statements of net position for a deferred amount arising from a gain on refunding of general obligation bonds and for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of five (5) fiscal years, including the current fiscal year.

**Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Authority and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

**Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and is recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

**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 Public Employees' Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Net Position**

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"*, the Authority has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Net Investment in Capital Assets** - This component of net position consists of capital assets, net of accumulated depreciation, reduced, by the outstanding balances of any bonds, notes or other 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 should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

**Restricted** - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Net Position (Cont'd)**

**Unrestricted** - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." This component includes net position that may be allocated for specific purposes by the Board.

**Income Taxes**

The Authority operates as defined by the Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

**Operating and Non-Operating Revenues and Expenses**

Operating revenues include all revenues derived from water treatment and sewer collection facilities (i.e., water and sewer rents and connection fees) and other revenue sources. Non-operating revenues principally consist of water tower leases and amortization of bond premium.

Operating expenses include expenses associated with the operation, maintenance and repair of the water treatment and sewer collection facilities and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt and appropriations to the Township of Lower.

**Allowance for Doubtful Accounts**

Consumer accounts receivable are stated net of an allowance for doubtful accounts. Prior to 2016, the Authority estimated the allowance based on actual year end outstanding balances of terminated accounts and accounts that were in bankruptcies and municipal lien. As terminated accounts were usually collected during annual tax sale, during 2016, the Authority changed the estimate to exclude outstanding balances of terminated accounts. This change resulted in a \$89,403.77 increase in the change in net position for the statements of revenues, expenses and change in net position for the year ended November 30, 2016. The allowance for doubtful consumer accounts was \$29,655.19 and \$118,697.42 at November 30, 2016 and 2015, respectively.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Recently Issued and Adopted Accounting Pronouncements**

For the fiscal year ended November 30, 2016, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption this Statement had no impact on the Authority's financial statements.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Recently Issued and Adopted Accounting Pronouncements (Cont'd)**

The Authority adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

The Authority adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption this Statement had no impact on the Authority's financial statements.

The Authority adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The adoption of this Statement had no impact on the Authority's financial statements.

**Recently Issued Accounting Pronouncements**

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the Authority in the year ending November 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the basic financial statements of the Authority.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Recently Issued Accounting Pronouncements (Cont'd)**

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement will become effective for the Authority in the year ending November 30, 2017. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement will become effective for the Authority in the year ending November 30, 2019. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement will become effective for the Authority in the year ending November 30, 2019. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement will become effective for the Authority in the year ending November 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Compliance with Finance Related Legal and Contractual Provisions**

Management of the Authority is unaware of any material violations of finance related legal and contractual provisions.

**General Bond Resolution**

The Authority is subject to the provisions and restrictions of the General Bond Resolution adopted December 4, 1972, as amended and supplemented (collectively the "Bond Resolution"). A summary of the activities of each account created by the Bond Resolution is covered below.

**Revenue Fund** - All money collected by the Authority for service charges or from any other source for operating, maintaining or repairing the system is deposited in this account. The Trustee, on the first day of each month in any fiscal year and within ten days thereafter, after reserving the amount shown by the annual budget to be required for operating expenses for the period of three consecutive calendar months beginning on said date, shall make payments into the other accounts to satisfy bond resolution or operating requirements.

**Bond Service Account** - The balance on deposit must be sufficient to enable the Trustee to withdraw amounts equal to interest due on bonds and principal amount maturing on bonds.

**Sinking Fund** - The amount of funds on deposit must be sufficient to meet the aggregate amount of all sinking fund installments payable during the next ensuing fiscal year.

**Bond Reserve Account** - The amount of funds on deposit must be maintained at a level equal to the Maximum Debt Service to ensure funds are available for payment of Debt Service.

**General Account** - All excess funds of the Authority are recorded in the General Account. If the Authority is not in default in the payment of bond principal or interest and all fund requirements are satisfied, the Authority may use the excess funds for any lawful purpose.

**Construction Account** - The Construction Fund is held by the Trustee and is used to pay the cost of the project and is pledged, pending application to such costs, for the security of the payment of principal and interest on the Revenue Bonds.

**Note 3: DETAIL NOTES - ASSETS****Cash and Cash Equivalents**

**Custodial Credit Risk Related to Deposits** - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below.

As of November 30, 2016, the Authority's bank balances of \$16,058,973.88 were exposed to custodial credit risk as follows: \$500,000.00 is insured by FDIC and \$5,295,616.55 is covered under GUDPA as described above. The balance in the amount of \$10,263,357.33 is invested in Goldman Sachs Money Market Funds, which is a triple A Government Money Market Fund.

As of November 30, 2015, the Authority's bank balances of \$13,717,276.78 were exposed to custodial credit risk as follows: \$500,000.00 is insured by FDIC and \$7,830,159.96 is covered under GUDPA as described above. The balance in the amount of \$5,387,116.82 is invested in Goldman Sachs Money Market Funds, which is a triple A Government Money Market Fund.

**Note 3: DETAIL NOTES – ASSETS (CONT'D)****Service Fees**

The following is a two-year comparison of service charge billings and collections for all types of accounts maintained by the Authority:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Billings</u>	<u>Total Collections</u>	<u>Percentage of Collections</u>
2016	\$ 680,178.44	\$ 8,411,214.78	\$ 8,269,796.72	90.96%
2015	851,512.36	8,395,516.02	8,566,849.94	92.64%

**Capital Assets**

During the fiscal year ended November 30, 2016, the following changes in Capital Assets occurred:

	<u>Balance Dec. 1, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance Nov. 30, 2016</u>
Capital Assets, not being depreciated:					
Land and Improvements	\$ 97,234.00				\$ 97,234.00
Construction in Progress	288,988.50	\$ 3,667,676.43	\$ (1,537,187.64)		2,419,477.29
Total Capital Assets not being depreciated	386,222.50	3,667,676.43	(1,537,187.64)	\$ -	2,516,711.29
Capital Assets, being depreciated:					
Buildings and Improvements	13,334,002.49				13,334,002.49
Machinery and Equipment	4,807,674.33	225,355.75			5,033,030.08
Infrastructure	54,485,684.06	6,199.84	1,537,187.64		56,029,071.54
Other	14,835.00				14,835.00
Total Capital Assets being depreciated	72,642,195.88	231,555.59	1,537,187.64	-	74,410,939.11
Less Accumulated Depreciation	38,883,629.94	1,438,877.74			40,322,507.68
Total Capital Assets being depreciated, Net	33,758,565.94	(1,207,322.15)	1,537,187.64	-	34,088,431.43
Total Capital Assets, Net	\$34,144,788.44	\$ 2,460,354.28	\$ -	\$ -	\$36,605,142.72

**Note 3: DETAIL NOTES – ASSETS (CONT'D)****Capital Assets (Cont'd)**

During the fiscal year ended November 30, 2015, the following changes in Capital Assets occurred:

	<u>Balance</u> <u>Dec. 1, 2014</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>Nov. 30, 2015</u>
Capital Assets, not being depreciated:					
Land and Improvements	\$ 97,234.00				\$ 97,234.00
Construction in Progress	357,175.63	\$ 288,718.50	\$ (356,905.63)		288,988.50
Total Capital Assets not being depreciated	454,409.63	288,718.50	(356,905.63)	\$ -	386,222.50
Capital Assets, being depreciated:					
Buildings and Improvements	13,334,002.49				13,334,002.49
Machinery and Equipment	4,409,615.98	432,312.89		(34,254.54)	4,807,674.33
Infrastructure	54,128,778.43		356,905.63		54,485,684.06
Other	14,835.00				14,835.00
Total Capital Assets being depreciated	71,887,231.90	432,312.89	356,905.63	(34,254.54)	72,642,195.88
Less Accumulated Depreciation	37,487,924.54	1,427,974.38		(32,268.98)	38,883,629.94
Total Capital Assets being depreciated, Net	34,399,307.36	(995,661.49)	356,905.63	(1,985.56)	33,758,565.94
Total Capital Assets, Net	\$34,853,716.99	\$ (706,942.99)	\$ -	\$ (1,985.56)	\$34,144,788.44

Depreciation expense by major class of capital assets is:

	<u>Fiscal Year Ended</u>	
	<u>Nov. 30, 2016</u>	<u>Nov. 30, 2015</u>
Buildings and Improvements	\$ 189,358.40	\$ 189,975.87
Machinery and Equipment	172,492.32	164,810.73
Infrastructure	1,076,014.77	1,072,175.53
Other	1,012.25	1,012.25
	<u>\$ 1,438,877.74</u>	<u>\$ 1,427,974.38</u>

**Note 4: DETAIL NOTES – DEFERRED OUTFLOWS OF RESOURCES****Deferred Loss of Defeasance of Debt**

On May 3, 2012, the Authority issued Revenue Refunding Bonds in the amount of \$3,725,000.00 to advance refund outstanding principal amount of \$3,520,000.00 of the Revenue Bonds Series 2003B. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$122,121.20. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations as a component of interest expense over the life of the refunding bonds using the bonds outstanding method.



**Note 5: DETAIL NOTES – LIABILITIES****Long-term Liabilities**

During the fiscal year ended November 30, 2016, the following changes occurred in long-term obligations:

	<u>Balance</u> <u>Dec. 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Nov. 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
<b>Bonds and Loans Payable:</b>					
Revenue Refunding Bonds, Series 2012	\$ 3,435,000.00		\$ 145,000.00	\$ 3,290,000.00	\$ 150,000.00
Revenue Refunding Bonds, Series 2014	2,780,000.00		1,285,000.00	1,495,000.00	1,345,000.00
USDA Loan - 2010	1,757,037.55		24,347.61	1,732,689.94	25,331.00
USDA Loan - 2013	7,901,625.33		136,954.19	7,764,671.14	139,879.92
Obligations Capital Lease		\$ 9,590.00	1,564.90	8,025.10	1,799.51
Add:					
Premiums on Bonds	63,015.11		36,612.85	26,402.26	
<b>Total Bonds and Loans Payable</b>	<b>15,936,677.99</b>	<b>9,590.00</b>	<b>1,629,479.55</b>	<b>14,316,788.44</b>	<b>1,662,010.43</b>
<b>Other Liabilities:</b>					
Compensated Absences	102,103.48	62,990.58		165,094.06	
Net Pension Liability	3,322,008.00	1,489,982.00	1,347,590.00	3,464,400.00	
Accrued Liability - Related to Pensions	53,012.08	43,299.00	53,012.08	43,299.00	
<b>Total Other Liabilities</b>	<b>3,477,123.56</b>	<b>1,596,271.58</b>	<b>1,400,602.08</b>	<b>3,672,793.06</b>	<b>-</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 19,413,801.55</b>	<b>\$ 1,605,861.58</b>	<b>\$ 3,030,081.63</b>	<b>\$ 17,989,581.50</b>	<b>\$ 1,662,010.43</b>

During the fiscal year ended November 30, 2015, the following changes occurred in long-term obligations:

	<u>(Restated)</u> <u>Balance</u> <u>Dec. 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Nov. 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
<b>Bonds and Loans Payable:</b>					
Revenue Refunding Bonds, Series 2012	\$ 3,580,000.00		\$ 145,000.00	\$ 3,435,000.00	\$ 145,000.00
Revenue Refunding Bonds, Series 2014	4,400,000.00		1,620,000.00	2,780,000.00	1,285,000.00
USDA Loan - 2010	1,780,439.55		23,402.00	1,757,037.55	24,347.00
USDA Loan - 2013	8,035,714.98		134,089.65	7,901,625.33	136,954.19
Add:					
Premiums on Bonds	120,554.23		57,539.12	63,015.11	
<b>Total Bonds and Loans Payable</b>	<b>17,916,708.76</b>	<b>\$ -</b>	<b>1,980,030.77</b>	<b>15,936,677.99</b>	<b>1,591,301.19</b>
<b>Other Liabilities:</b>					
Compensated Absences	97,796.23	4,307.25		102,103.48	
Net Pension Liability	3,137,703.00	844,619.00	660,314.00	3,322,008.00	
Accrued Liability - Related to Pensions	53,012.08	53,012.08	53,012.08	53,012.08	
<b>Total Other Liabilities</b>	<b>3,288,511.31</b>	<b>901,938.33</b>	<b>713,326.08</b>	<b>3,477,123.56</b>	<b>-</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 21,205,220.07</b>	<b>\$ 901,938.33</b>	<b>\$ 2,693,356.85</b>	<b>\$ 19,413,801.55</b>	<b>\$ 1,591,301.19</b>

**Revenue Refunding Bonds Payable**

At November 30, 2016, the Authority has the following bonds payable:

Revenue Refunding Bonds, Series 2012 – On May 30, 2012, the Authority issued \$3,725,000.00 in Revenue Refunding Bonds, with interest rates ranging from 2.375% to 3.000%. The purpose of the bonds is to provide funds to advance refund all or a portion of the outstanding principal amount of Revenue Bonds, Series 2003B and to pay for the costs of issuance. The final maturity of the bonds is December 1, 2032. The balance remaining at November 30, 2016 is \$3,290,000.00.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Long-term Liabilities (Cont'd)****Revenue Refunding Bonds Payable (Cont'd)**

Revenue Refunding Bonds, Series 2014 – On March 14, 2014, the Authority issued \$4,400,000.00 in Revenue Refunding Bonds, with interest rates ranging from 2% to 3%. The purpose of the bonds is to provide funds to currently refund all or a portion of the Revenue Bonds, Series 2003 C&D and to pay the costs of issuance. The final maturity of the bonds is December 1, 2017. The balance remaining at November 30, 2016 is \$1,495,000.00.

**USDA Loans Payable**

\$1,875,000.00 principal amount of USDA Loans dated 2010, due in semi-annual installments beginning August 25, 2010, through February 25, 2050, bearing interest rate at a rate of 4% per annum. The balance remaining as of November 30, 2016 is \$1,732,689.94.

\$8,167,000.00 principal amount of USDA Loans dated 2013, due in semi-annual installments beginning March 19, 2014, through September 19, 2053, bearing interest rate at a rate of 2.125% per annum. The balance remaining as of November 30, 2016 is \$7,764,671.14.

The following schedule reflects the Debt Requirements until 2053.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,660,210.92	\$ 359,816.92	\$ 2,020,027.84
2018	474,222.16	328,805.30	803,027.46
2019	333,339.24	317,713.52	651,052.76
2020	342,563.52	309,129.15	651,692.67
2021	346,900.39	300,667.82	647,568.21
2022-2026	1,903,676.13	1,352,758.57	3,256,434.70
2027-2031	2,185,770.87	1,062,181.64	3,247,952.51
2032-2036	1,740,976.66	758,367.27	2,499,343.93
2037-2041	1,417,173.38	575,464.96	1,992,638.34
2042-2046	1,607,751.29	384,885.51	1,992,636.80
2047-2051	1,678,692.80	168,979.98	1,847,672.78
2052-2053	591,083.70	15,761.01	606,844.71
	14,282,361.06	\$ 5,934,531.65	\$ 20,216,892.71
Current Maturities	(1,660,210.92)		
Premium on Bonds	26,402.26		
	<u>\$ 12,648,552.40</u>		

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Obligations under Capital Lease**

The Authority is leasing a copier totaling \$9,590.00 under capital lease. The capital lease is for a term of five years. Capital leases are depreciated in a manner consistent with the Authority's depreciation policy for owned assets.

The following is a schedule of future minimum lease payments under the capital lease, and the present value of the net minimum lease payments at November 30, 2016.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,799.51	\$ 404.53	\$ 2,204.04
2018	1,903.11	300.93	2,204.04
2019	2,012.67	191.37	2,204.04
2020	2,128.54	75.50	2,204.04
2021	182.82	0.85	183.67
Total	\$ 8,026.65	\$ 973.18	\$ 8,999.83

**Operating Lease Obligations**

At November 30, 2016, the Authority had operating lease agreements in effect for the following:

Pitney Bowes Mailing Machine  
Lease of a Parcel of Land

Operating Leases – Future minimum rental payments under operating lease agreements are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 6,160.00
2018	2,160.00
2019	2,160.00
2020	2,160.00
2021	2,160.00
2022-2026	10,800.00
2027-2029	5,220.00

Rental payments for the lease of a parcel of land are subject to increase in accordance with the percentage increase in the Philadelphia-Wilmington-Trenton consumer price index.

Current Year payments under operating leases totaled \$8,489.28.

**Compensated Absences**

Authority employees earn sick and vacation time depending on their length of service. Employees are permitted to carryover the earned and unused sick and vacation time to future periods and upon termination may receive payment for any accrued time. Employees are compensated for accumulated sick leave upon retirement or resignation at their then current hourly rate of pay times the number of days accumulated, up to a maximum of \$15,000. Vacation days not used during the year may be carried forward for one year. Upon separation from the Authority, the employee will be paid for all accrued vacation time at their then current hourly rate. The accrued liability for accumulated sick leave and vacation time at November 30, 2016 and 2015 is estimated at \$165,094.06 and \$102,103.48, respectively.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Net Pension Liability**

For details on the net pension liability, see the Pension Plans section below. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

**Pension Plans**

A substantial number of Authority employees participate in the Public Employees' Retirement System ("PERS"), a defined benefit pension plan, which is administered by the New Jersey Division of Pensions and Benefits ("the Division"). In addition, Authority employees may participate in the Defined Contribution Retirement Program ("DCRP"), which is a defined contribution pension plan. This plan is administered by Prudential Financial for the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey  
Division of Pensions and Benefits  
P.O. Box 295  
Trenton, New Jersey 08625-0295  
<http://www.nj.gov/treasury/pensions>

**General Information about the Pension Plans****Plan Descriptions**

**Public Employees' Retirement System** - The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A. The PERS's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the PERS is mandatory for substantially all full-time employees of the Authority, provided the employee is not required to be a member of another state-administered retirement system or other state pensions fund or local jurisdiction's pension fund. The PERS's Board of Trustees is primarily responsible for the administration of the PERS.

**Defined Contribution Retirement Program** - The Defined Contribution Retirement Program is a multiple-employer defined contribution pension fund established on July 1, 2007 under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) § 401(a) et seq., and is a "governmental plan" within the meaning of IRC § 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in PERS after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010 who do not work the minimum number of hours per week required for tiers 4 or 5 enrollment, but who earn salary of at least \$5,000.00 annually.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions**

**Public Employees' Retirement System** - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. 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:

<b><u>Tier</u></b>	<b><u>Definition</u></b>
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 21, 2010
4	Members who were eligible to enroll after May 21, 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 tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, 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 member 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 55 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.

**Defined Contribution Retirement Program** - Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

**Contributions**

**Public Employees' Retirement System** - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Authority's contribution amounts are based on an actuarially determined rate which included the normal cost and unfunded accrued liability.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****General Information about the Pension Plans (Cont'd)****Contributions (Cont'd)**

**Public Employees' Retirement System (Cont'd)** - The Authority's contractually required contribution rates for the fiscal years ended November 30, 2016 and 2015 were 10.71% and 15.67% of the Authority's covered payroll. These amount were actuarially determined as the amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2016, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2016 is \$103,917.00, and is payable by April 1, 2017. Based on the PERS measurement date of June 30, 2015, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2015 was \$127,229.00, which was paid on April 1, 2016. Employee contributions to the Plan during the fiscal year ended November 30, 2016 were \$69,079.73.

Based on the PERS measurement date of June 30, 2015, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2015 was \$127,229.00, and was payable by April 1, 2016. Based on the PERS measurement date of June 30, 2014, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2014 (June 30, 2015) was \$138,157.00, which was paid on April 1, 2015. Employee contributions to the Plan during the fiscal year ended November 30, 2015 were \$59,107.16.

**Defined Contribution Retirement Program** - The contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Authority's contribution amounts for each pay period, 3% of the employees' base salary, are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

For the fiscal years ended November 30, 2016 and 2015, there were no employees participating in DCRP.

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

The following information relates only to the Public Employees' Retirement System ("PERS"), which is a cost-sharing multiple-employer defined benefit pension plan.

The Authority reported a liability of \$3,464,400.00 and \$3,322,008.00 for its proportionate share of the net pension liability for the fiscal years ended November 30, 2016 and 2015, respectively.

The net pension liability reported at November 30, 2016 was measured by the PERS plan as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. 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 employers, actuarially determined. For the June 30, 2016 measurement date, the Authority's proportion was .0116972840%, which was a decrease of .0031014008% from its proportion measured as of June 30, 2015.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

The net pension liability reported at November 30, 2015 was measured by the PERS plan as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. 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 employers, actuarially determined. For the June 30, 2015 measurement date, the Authority's proportion was .0147986848%, which was a decrease of .0019600994% from its proportion measured as of June 30, 2014.

For the fiscal years ended November 30, 2016 and 2015, the Authority recognized pension expense of \$166,999.00 and \$164,764.00, respectively. These amounts were based on the plan's June 30, 2016 and 2015 measurement dates, respectively.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At November 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>November 30, 2016</u>		<u>November 30, 2015</u>	
	<u>Measurement Date</u> <u>June 30, 2016</u>		<u>Measurement Date</u> <u>June 30, 2015</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between Expected and Actual Experience	\$ 64,427.00		\$ 79,251.00	
Changes of Assumptions	717,639.00		356,757.00	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	132,101.00			\$ 53,412.00
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	44,049.00	\$ 750,811.00	56,854.00	311,350.00
Authority Contributions Subsequent to the Measurement Date	43,299.00		53,012.00	
	<u>\$ 1,001,515.00</u>	<u>\$ 750,811.00</u>	<u>\$ 545,874.00</u>	<u>\$ 364,762.00</u>

The deferred outflows of resources related to pensions totaling \$43,299.00 and \$53,012.00 will be included as a reduction of the net pension liability in the fiscal years ended November 30, 2017 and 2016.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)****Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd)**

Other amounts included as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future periods as follows:

<b>Fiscal Year Ending November 30,</b>		
2017	\$	42,061.00
2018		42,061.00
2019		74,690.00
2020		47,873.00
2021		720.00
		<hr/>
	\$	207,405.00
		<hr/>

The amortization of the other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57



**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Actuarial Assumptions**

The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016 and 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	<b>Measurement Date <u>June 30, 2016</u></b>	<b>Measurement Date <u>June 30, 2015</u></b>
Inflation	3.08%	3.04%
Salary Increases:		
2012-2021		2.15% - 4.40% Based on Age
Through 2026	1.65% - 4.15% Based on Age	
Thereafter	2.65% - 5.15% Based on Age	3.15% - 5.40% Based on Age
Investment Rate of Return	7.65%	7.90%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience		
Study upon which Actuarial		
Assumptions were Based	July 1, 2011 - June 30, 2014	July 1, 2008 - June 30, 2011

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016 and 7.90% at June 30, 2015) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 and 2015 are summarized in the table on the following page:

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Actuarial Assumptions (Cont'd)**

<u>Asset Class</u>	<u>Measurement Date</u> <u>June 30, 2016</u>		<u>Measurement Date</u> <u>June 30, 2015</u>	
	<u>Target</u> <u>Allocation</u>	<u>Long-Term</u> <u>Expected Real</u> <u>Rate of Return</u>	<u>Target</u> <u>Allocation</u>	<u>Long-Term</u> <u>Expected Real</u> <u>Rate of Return</u>
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad U.S. Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equity	9.00%	12.40%	9.25%	12.41%
Hedge Funds / Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex U.S.	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%
	<u>100.00%</u>		<u>100.00%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015 measurement dates, respectively. The respective single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, 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 rates assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 for PERS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Sensitivity of Authority's Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

The following presents the Authority's proportionate share of the net pension liability at November 30, 2016 calculated using a discount rate of 3.98%, 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% lower or 1% higher than the current rates used:

	<b>1% Decrease (2.98%)</b>	<b>Current Discount Rate (3.98%)</b>	<b>1% Increase (4.98%)</b>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 4,245,218.00</u>	<u>\$ 3,464,400.00</u>	<u>\$ 2,819,767.00</u>

The following presents the Authority's proportionate share of the net pension liability at November 30, 2015 using a discount rate of 4.90%, 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% lower or 1% higher than the current rates used:

	<b>1% Decrease (3.90%)</b>	<b>Current Discount Rate (4.90%)</b>	<b>1% Increase (5.90%)</b>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 4,128,850.00</u>	<u>\$ 3,322,008.00</u>	<u>\$ 2,645,558.00</u>

**Pension Plan Fiduciary Net Position**

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 respective fiduciary net position of the PERS and additions to/deductions from PERS' respective fiduciary net position have been determined on the same basis as they are reported by PERS. Accordingly, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For additional information about PERS, please refer to the plan's Comprehensive Annual Financial Report (CAFR) which can be found at [www.nj.gov/treasury/pensions](http://www.nj.gov/treasury/pensions).

**Note 5: DETAIL NOTES – LIABILITIES (CONT'D)****Post-Employment Benefits**

**Plan Description** - The Authority contributes to the State Health Benefits Program ("SHBP"), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. The Authority provides postemployment health care benefits, at its cost, to all Authority retirees who at the date of retirement have not less than twenty-five (25) years of service credit in a State locally administered retirement system or who retire upon or after the age of 62 with fifteen (15) or more years of service credits. Benefits provided include health insurance, dental coverage, and prescription coverage for retirees and their dependents only during the retired employees' life.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at [www.state.nj.us/treasury/pensions/](http://www.state.nj.us/treasury/pensions/).

**Funding Policy** - Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority funds these benefits on a pay-as-you-go basis.

The Authority's contribution to SHBP for the fiscal year ended November 30, 2016 and 2015 were \$290,013.12 and \$277,641.00, which equaled the required contributions for each year. As of November 30, 2016 and 2015, there were 13 and 12 retirees eligible for postemployment medical benefits, respectively.

**Note 6: DETAIL NOTES – DEFERRED INFLOWS OF RESOURCES****Deferred Gain on Defeasance of Debt**

On February 26, 2014, the Authority issued Revenue Refunding Bonds in the amount of \$4,400,000.00 to currently refund outstanding principal amount of \$4,750,000.00 of the Revenue Bonds Series 2003C and 2003D. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18,870.06. This difference, reported in the accompanying financial statements as a deferred inflow of resources, is being charged to operations as a component of interest expense over the life of the refunding bonds using the bonds outstanding method.

**Note 7: DETAIL NOTES – NET POSITION****Net Position Appropriated**

As of November 30, 2016, the Authority had an unrestricted net position balance of \$7,683,928.47; however, \$2,456,150.00 has been appropriated and included as support in the operating budgets for the fiscal year ending November 30, 2017.

**Note 7: DETAIL NOTES – NET POSITION (CONT'D)****Net Position Appropriated (Cont'd)**

As of November 30, 2015, the Authority had an unrestricted net position balance of \$7,113,740.29; however, \$943,537.00 has been appropriated and included as support in the operating budgets for the fiscal year ending November 30, 2016.

**Net Position Designated**

As of November 30, 2016 and 2015, \$3,794,845.25 and \$4,199,832.00, respectively, of the balance in unrestricted net position has been designated for Capital Improvements.

**Unrestricted/Undesignated Net Position**

The balance of unrestricted net position as of November 30, 2016 and 2015 is comprised of the following:

	<u><b>2016</b></u>	<u><b>2015</b></u>
Unrestricted and Undesignated Net Position	\$ 4,793,845.22	\$ 5,291,508.29
Amount Related to Pensions (GASB 68 and 71)	(3,360,912.00)	(3,321,137.00)
Net Position Designated for Capital Improvements	3,794,845.25	4,199,832.00
Appropriated in the Subsequent Year's Budget	<u>2,456,150.00</u>	<u>943,537.00</u>
Unrestricted Net Position	<u><u>\$ 7,683,928.47</u></u>	<u><u>\$ 7,113,740.29</u></u>

**Note 8: INTERGOVERNMENTAL CONTRACTS****Township of Lower Service Contract**

A Service Contract was entered into on November 19, 1968 between the Authority and the Township. Under the Service Contract, the Township agrees to pay any shortfall the Authority may encounter in making payments for either Operating Expenses and/or Debt Service (Annual Charges).

The purpose of this contract is to grant temporary relief to the Authority should it experience difficulty in meeting its obligations. The contract calls for the Township to be reimbursed for any Annual Charges paid by the Township when the Authority's operations permit. Ultimately, all Operating Expenses and Debt Service of the Authority are borne by revenues of the system.

**Note 9: COMMITMENTS**

The Authority had one outstanding construction project as of November 30, 2016. This project is evidenced by contractual commitment with the contractor and includes:

<u>Project</u>	<u>Awarded</u>	<u>Commitment Remaining</u>
East Villas Water Project – Phase I	\$ 2,955,600.80	\$ 1,035,030.32

**Note 10: DEFERRED COMPENSATION**

The Authority offers its employees a Deferred Compensation Plan in accordance with Internal Revenue Code Section 457 which has been approved by the Director of the Division of Local Government Services. The Plan, available to all full time employees at their option, permits employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Authority or its creditors. Since the Authority does not have a fiduciary relationship with the Plan, the balances and activities of the Plan are not reported in the Authority's financial statements.

**Note 11: RISK MANAGEMENT**

The Authority is a member of New Jersey Utility Authorities Joint Insurance Fund. The Fund provides the Authority with the following coverage:

Property and Physical Damage  
Workers Compensation  
Excess Liability  
Boiler and Machinery  
General and Automobile Liability

Contributions to the Fund, including a reserve for contingencies are payable in an annual premium and is based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. The Authority's agreement with the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of \$500,000 for each insured event.

The Fund publishes its own financial report for the year ended December 31, 2016, which can be obtained from:

New Jersey Utility Authorities Joint Insurance Fund  
9 Campus Drive, Suite 16  
Parsippany, New Jersey 07054-4412

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
 Required Supplementary Information  
 Schedule of the Authority's Proportionate Share of the Net Pension Liability  
 Public Employees' Retirement System (PERS)  
 Last Four Fiscal Years

	<b>Measurement Date Ending June 30,</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Authority's Proportion of the Net Pension Liability	0.0116972840%	0.0147986848%	0.0167587842%	0.0163273172%
Authority's Proportionate Share of the Net Pension Liability	\$ 3,464,400.00	\$ 3,322,008.00	\$ 3,137,703.00	\$ 3,120,475.00
Authority's Covered Payroll (Plan Measurement Period)	\$ 815,052.00	\$ 1,011,664.00	\$ 1,158,336.00	\$ 1,126,292.00
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	425.05%	328.37%	270.88%	277.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40.14%	47.93%	52.08%	47.72%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.



**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Required Supplementary Information  
Schedule of the Authority Contributions  
Public Employees' Retirement System (PERS)  
Last Four Fiscal Years

	<b>Fiscal Year Ended November 30,</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Authority's Contractually Required Contribution	\$ 103,917.00	\$ 127,229.00	\$ 138,157.00	\$ 123,023.00
Authority's Contribution in Relation to the Contractually Required Contribution	<u>(103,917.00)</u>	<u>(127,229.00)</u>	<u>(138,157.00)</u>	<u>(123,023.00)</u>
Authority's Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll (Calendar Year)	\$ 970,590.00	\$ 811,920.00	\$ 973,028.00	\$ 1,151,898.00
Authority's Contributions as a Percentage of its Covered Payroll	10.71%	15.67%	14.20%	10.68%

Note: This schedule is presented to illustrate the requirement to show information for 10 years.  
However, until a full 10-year trend is compiled, this presentation will only include information  
for those years for which information is available.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Notes to Required Supplementary Information  
For the Fiscal Years Ended November 30, 2016 and 2015

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**Note 1: POSTEMPLOYMENT BENEFITS - PENSION****Public Employees' Retirement System (PERS)**

*Changes in Benefit Terms* - None

*Changes in Assumptions* - For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65%, demographic assumptions were revised in accordance with the results of the July 1, 2011 - June 30, 2014 experience study and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale. Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal year 2026 and 2.65% and 5.15% (based on age) for each fiscal year thereafter. For 2015, the discount rate changed to 4.90%. In addition, the social security wage base was set at \$118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at \$265,000 for 2015, increasing 3.00% per annum, compounded annually. For 2014, the discount rate was 5.39%.

## **SUPPLEMENTARY SCHEDULES**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Operations -- Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared to Budget--Budgetary Basis  
Water Division  
For the Fiscal Year Ended November 30, 2016

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:					
Service Charges	\$ 3,513,135.00	\$ -	\$ 3,513,135.00	\$ 3,330,838.44	\$ (182,296.56)
Connection Fees	16,000.00	-	16,000.00	629,980.00	613,980.00
Other Operating Revenues	157,000.00	-	157,000.00	91,939.58	(65,060.42)
Total Operating Revenues	3,686,135.00	-	3,686,135.00	4,052,758.02	366,623.02
Non-Operating Revenues:					
Investment Income	500.00	-	500.00	(832.66)	(1,332.66)
Water Tower Leases	-	-	-	144,814.96	144,814.96
Total Anticipated Revenues	3,686,635.00	-	3,686,635.00	4,196,740.32	510,105.32
Operating Appropriations:					
Administration:					
Salaries and Wages	156,185.00	-	156,185.00	155,139.83	1,045.17
Fringe Benefits	174,250.00	-	174,250.00	114,581.19	59,668.81
Other Expenses:					
Professional Services	173,000.00	-	173,000.00	88,175.57	84,824.43
Meter Reading, Billing & Collections	22,500.00	-	22,500.00	18,447.93	4,052.07
Insurance	58,000.00	-	58,000.00	50,181.06	7,818.94
Equipment Rental	4,000.00	-	4,000.00	3,033.77	966.23
Other Employee Expenses	500.00	-	500.00	150.15	349.85
Dues and Memberships	1,500.00	-	1,500.00	3,909.00	(2,409.00)
Conferences & Seminars	2,500.00	-	2,500.00	1,589.67	910.33
Office Expense	5,000.00	-	5,000.00	1,193.66	3,806.34
Public Advertising	9,500.00	-	9,500.00	6,399.30	3,100.70
Printing	9,000.00	-	9,000.00	6,925.45	2,074.55
Postage	30,000.00	-	30,000.00	29,128.94	871.06
Computer Maintenance & Upgrade	20,000.00	-	20,000.00	9,102.67	10,897.33
Software Licenses and Internet/Website	8,500.00	-	8,500.00	7,255.74	1,244.26
Miscellaneous	7,000.00	-	7,000.00	4,371.45	2,628.55
Other Expenses	351,000.00	-	351,000.00	229,864.36	121,135.64
Total Administration	681,435.00	-	681,435.00	499,585.38	181,849.62

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Operations -- Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared to Budget--Budgetary Basis  
Water Division  
For the Fiscal Year Ended November 30, 2016

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Appropriations (Cont'd):					
Cost of Providing Service:					
Operations:					
Salaries and Wages	\$ 485,800.00	\$ -	\$ 485,800.00	\$ 484,176.76	\$ 1,623.24
Fringe Benefits	464,250.00	-	464,250.00	390,803.81	73,446.19
Other Expenses:					
Chemical Costs - Treatment Plant	60,500.00	-	60,500.00	32,935.11	27,564.89
Utility Costs	162,500.00	-	162,500.00	160,608.84	1,891.16
Lease Agreement	3,000.00	-	3,000.00	2,489.28	510.72
Water Distribution Supplies	250,000.00	-	250,000.00	129,492.67	120,507.33
Well Parts & Supplies	40,000.00	-	40,000.00	17,090.25	22,909.75
Maintenance - Well / Tank	25,000.00	-	25,000.00	7,646.39	17,353.61
Laboratory Analysis	10,000.00	-	10,000.00	5,904.75	4,095.25
Transportation - Gasoline and Diesel	85,000.00	-	85,000.00	16,189.47	68,810.53
Permits and Other Fees	25,000.00	-	25,000.00	23,803.94	1,196.06
Safety	3,000.00	-	3,000.00	3,000.00	-
Tools	2,000.00	-	2,000.00	2,972.40	(972.40)
Training and Seminars	5,000.00	-	5,000.00	4,143.50	856.50
Uniforms	5,000.00	-	5,000.00	3,993.25	1,006.75
Miscellaneous	2,000.00	-	2,000.00	535.40	1,464.60
Total Other Expenses	678,000.00	-	678,000.00	410,805.25	267,194.75
Total Cost of Providing Service	1,628,050.00	-	1,628,050.00	1,285,785.82	342,264.18
Principal Payments on Debt Service in Lieu of Depreciation	1,062,202.00	-	1,062,202.00	1,062,201.80	0.20
Total Operating Appropriations	3,371,687.00	-	3,371,687.00	2,847,573.00	524,114.00
Non-Operating Appropriations:					
Interest on Debt	340,515.00	-	340,515.00	344,478.10	(3,963.10)
Renewal & Replacement Reserves	462,000.00	-	462,000.00	462,000.00	-
Municipal Appropriation	-	90,000.00	90,000.00	90,000.00	-
Total Non-Operating Appropriations	802,515.00	90,000.00	892,515.00	896,478.10	(3,963.10)
Net Total Appropriations	4,174,202.00	90,000.00	4,264,202.00	3,744,051.10	520,150.90
Excess (Deficit) in Anticipated Revenues Over Operating, Principal Payments and Non-Operating Appropriations	\$ (487,567.00)	\$ (90,000.00)	\$ (577,567.00)	\$ 452,689.22	\$ 1,030,256.22

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Operations -- Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared to Budget--Budgetary Basis  
Sewer Division  
For the Fiscal Year Ended November 30, 2016

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:					
Service Charges	\$ 4,663,677.00	\$ -	\$ 4,663,677.00	\$ 4,962,022.41	\$ 298,345.41
Connection Fees	4,800.00	-	4,800.00	21,000.00	16,200.00
Other Operating Revenues	35,000.00	-	35,000.00	62,854.31	27,854.31
Total Operating Revenues	4,703,477.00	-	4,703,477.00	5,045,876.72	342,399.72
Non-Operating Revenues:					
Investment Income	500.00	-	500.00	(832.65)	(1,332.65)
Total Anticipated Revenues	4,703,977.00	-	4,703,977.00	5,045,044.07	341,067.07
Operating Appropriations:					
Administration:					
Salaries and Wages	156,185.00	-	156,185.00	155,139.83	1,045.17
Fringe Benefits	174,250.00	-	174,250.00	115,843.94	58,406.06
Other Expenses:					
Professional Services	148,000.00	-	148,000.00	91,652.63	56,347.37
Meter Reading, Billing & Collections	15,000.00	-	15,000.00	13,928.25	1,071.75
Insurance	87,000.00	-	87,000.00	62,317.86	24,682.14
Equipment Rental	7,000.00	-	7,000.00	6,378.78	621.22
Other Employee Expenses	3,000.00	-	3,000.00	150.15	2,849.85
Dues and Memberships	2,000.00	-	2,000.00	2,630.00	(630.00)
Conferences & Seminars	5,000.00	-	5,000.00	1,689.67	3,310.33
Office Expense	6,000.00	-	6,000.00	1,990.66	4,009.34
Public Advertising	9,500.00	-	9,500.00	5,337.00	4,163.00
Printing	3,000.00	-	3,000.00	2,671.50	328.50
Postage	20,000.00	-	20,000.00	14,110.00	5,890.00
Computer Maintenance & Upgrade	20,000.00	-	20,000.00	2,691.74	17,308.26
Software Licenses and Internet/Website	10,000.00	-	10,000.00	6,977.29	3,022.71
Miscellaneous	7,500.00	-	7,500.00	4,412.84	3,087.16
Total Other Expenses	343,000.00	-	343,000.00	216,938.37	126,061.63
Total Administration	673,435.00	-	673,435.00	487,922.14	185,512.86

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Operations -- Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared to Budget--Budgetary Basis  
Sewer Division  
For the Fiscal Year Ended November 30, 2016

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Appropriations (Cont'd):					
Cost of Providing Service:					
Operations:					
Salaries and Wages	\$ 513,500.00	\$ -	\$ 513,500.00	\$ 505,379.92	\$ 8,120.08
Fringe Benefits	466,250.00	-	466,250.00	388,358.09	77,891.91
Other Expenses:					
Cape May County MUA Agreement	700,000.00	-	700,000.00	451,889.00	248,111.00
Cape May County MUA Settlement	50,000.00	-	50,000.00	50,000.00	-
Chemical Costs - Treatment Plant	90,000.00	-	90,000.00	63,568.50	26,431.50
Buildings and Grounds	23,500.00	-	23,500.00	22,277.27	1,222.73
Utility Costs	306,500.00	-	306,500.00	193,410.20	113,089.80
Collection Materials & Supplies	200,000.00	-	200,000.00	103,366.15	96,633.85
Sludge Handling and Disposal	180,000.00	-	180,000.00	162,786.38	17,213.62
Laboratory Analysis	20,000.00	-	20,000.00	13,501.50	6,498.50
Laboratory Operations	12,000.00	-	12,000.00	7,284.77	4,715.23
Materials and Supplies	200,000.00	-	200,000.00	65,417.32	134,582.68
Permits and Other Fees	45,000.00	-	45,000.00	27,292.19	17,707.81
Safety	15,000.00	-	15,000.00	11,692.96	3,307.04
Tools	15,000.00	-	15,000.00	9,359.12	5,640.88
Fuel and Transportation	100,000.00	-	100,000.00	36,304.91	63,695.09
Training and Seminars	5,000.00	-	5,000.00	3,509.00	1,491.00
Uniforms	5,000.00	-	5,000.00	3,987.05	1,012.95
Miscellaneous	3,000.00	-	3,000.00	544.00	2,456.00
Total Other Expenses	1,970,000.00	-	1,970,000.00	1,226,190.32	743,809.68
Total Cost of Providing Service	2,949,750.00	-	2,949,750.00	2,119,928.33	829,821.67
Principal Payments on Debt Service in Lieu of Depreciation	529,100.00	-	529,100.00	529,100.00	-
Total Operating Appropriations	4,152,285.00	-	4,152,285.00	3,136,950.47	1,015,334.53
Non-Operating Appropriations:					
Interest on Debt	60,662.00	-	60,662.00	54,951.71	5,710.29
Renewal & Replacement Reserves	742,000.00	-	742,000.00	742,000.00	-
Municipal Appropriation	-	115,000.00	115,000.00	115,000.00	-
Total Non-Operating Appropriations	802,662.00	115,000.00	917,662.00	911,951.71	5,710.29
Net Total Appropriations	4,954,947.00	115,000.00	5,069,947.00	4,048,902.18	1,021,044.82
Excess (Deficit) in Anticipated Revenues Over Operating, Principal Payments and Non-Operating Appropriations	\$ (250,970.00)	\$ (115,000.00)	\$ (365,970.00)	\$ 996,141.89	\$ 1,362,111.89

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Operations -- Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared to Budget--Budgetary Basis  
For the Fiscal Year Ended November 30, 2016

**Reconciliation of Excess (Deficit) Anticipated Revenues  
Over Operating, Principal Payments and Non-Operating  
Appropriations to Operating Income**

	<u>Water Division</u>	<u>Sewer Division</u>	<u>Total</u>
Excess in Anticipated Revenues Over Operating, Principal Payments and Non-Operating Appropriations	\$ 452,689.22	\$ 996,141.89	\$ 1,448,831.11
Add:			
Water Tower Leases	(144,814.96)		(144,814.96)
Investment Income	832.66	832.65	1,665.31
Debt Service Principal Payments	1,062,201.80	529,100.00	1,591,301.80
Interest on Debt	344,478.10	54,951.71	399,429.81
Renewal and Replacement Reserves	462,000.00	742,000.00	1,204,000.00
Contribution to Lower Township Per N.J.S.A. 40A:5A-1	90,000.00	115,000.00	205,000.00
	<u>2,267,386.82</u>	<u>2,438,026.25</u>	<u>4,705,413.07</u>
Less:			
Depreciation			1,438,877.74
Difference of GAAP Pension Expense vs. Budgetary Basis			39,775.00
			<u>1,478,652.74</u>
Operating Income (Exhibit B)			<u>\$ 3,226,760.33</u>



**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Revenue Bonds Payable  
For the Fiscal Year Ended November 30, 2016

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2015</u>	<u>Paid or Amortized</u>	<u>Balance Nov. 30, 2016</u>
			<u>Date</u>	<u>Amount</u>				
Revenue Refunding Bonds, Series 2012	05/30/12	\$ 3,725,000.00	12/01/16	\$ 150,000.00	3.000%			
			12/01/17	155,000.00	3.000%			
			12/01/18	160,000.00	3.000%			
			12/01/19	165,000.00	2.375%			
			12/01/20	165,000.00	2.625%			
			12/01/21	175,000.00	2.875%			
			12/01/22	180,000.00	3.250%			
			12/01/23	185,000.00	3.250%			
			12/01/24	190,000.00	3.250%			
			12/01/25	195,000.00	3.250%			
			12/01/26	205,000.00	3.250%			
			12/01/27	210,000.00	3.250%			
			12/01/28	215,000.00	3.375%			
			12/01/29	220,000.00	3.375%			
			12/01/30	230,000.00	3.375%			
			12/01/31	240,000.00	3.375%			
			12/01/32	250,000.00	3.375%			
				<u>3,290,000.00</u>		\$ 3,435,000.00	\$ 145,000.00	\$ 3,290,000.00
Revenue Refunding Bonds, Series 2014	03/14/14	4,400,000.00	12/01/16	1,345,000.00	3.000%			
			12/01/17	150,000.00	3.000%			
				<u>1,495,000.00</u>		<u>2,780,000.00</u>	<u>1,285,000.00</u>	<u>1,495,000.00</u>
						6,215,000.00	1,430,000.00	4,785,000.00
Premium on Bonds						<u>63,015.11</u>	<u>36,612.85</u>	<u>26,402.26</u>
						<u>\$ 6,278,015.11</u>	<u>\$ 1,466,612.85</u>	<u>\$ 4,811,402.26</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of USDA Loans  
For the Fiscal Year Ended November 30, 2016

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal Payments</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2015</u>	<u>Paid</u>	<u>Balance Nov. 30, 2016</u>
			<u>Date</u>	<u>Amount</u>				
USDA Loan - 2010	01/15/10	\$ 1,875,000.00	02/25/17	\$ 12,540.00	4.000%			
			08/25/17	12,791.00	4.000%			
			02/25/18	13,047.00	4.000%			
			08/25/18	13,307.00	4.000%			
			02/25/19	13,574.00	4.000%			
			08/25/19	13,845.00	4.000%			
			02/25/20	14,122.00	4.000%			
			08/25/20	14,404.00	4.000%			
			02/25/21	14,693.00	4.000%			
			08/25/21	14,986.00	4.000%			
			02/25/22	15,286.00	4.000%			
			08/25/22	15,592.00	4.000%			
			02/25/23	15,904.00	4.000%			
			08/25/23	16,222.00	4.000%			
			02/25/24	16,546.00	4.000%			
			08/25/24	16,877.00	4.000%			
			02/25/25	17,215.00	4.000%			
			08/25/25	17,559.00	4.000%			
			02/25/26	17,910.00	4.000%			
			08/25/26	18,268.00	4.000%			
			02/25/27	18,634.00	4.000%			
			08/25/27	19,006.00	4.000%			
			02/25/28	19,386.00	4.000%			
			08/25/28	19,774.00	4.000%			
			02/25/29	20,170.00	4.000%			
			08/25/29	20,573.00	4.000%			
			02/25/30	20,985.00	4.000%			
			08/25/30	21,404.00	4.000%			
			02/25/31	21,832.00	4.000%			
			08/25/31	22,269.00	4.000%			
			02/25/32	22,714.00	4.000%			
			08/25/32	23,169.00	4.000%			
			02/25/33	23,632.00	4.000%			
			08/25/33	24,105.00	4.000%			
			02/25/34	24,587.00	4.000%			
			08/25/34	25,078.00	4.000%			

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of USDA Loans  
For the Fiscal Year Ended November 30, 2016

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal Payments</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2015</u>	<u>Paid</u>	<u>Balance Nov. 30, 2016</u>
			<u>Date</u>	<u>Amount</u>				
USDA Loan - 2010 (Continued)	01/15/10	\$ 1,875,000.00	02/25/35	\$ 25,580.00	4.000%			
			08/25/35	26,092.00	4.000%			
			02/25/36	26,613.00	4.000%			
			08/25/36	27,146.00	4.000%			
			02/25/37	27,689.00	4.000%			
			08/25/37	28,242.00	4.000%			
			02/25/38	28,807.00	4.000%			
			08/25/38	29,383.00	4.000%			
			02/25/39	29,971.00	4.000%			
			08/25/39	30,571.00	4.000%			
			02/25/40	31,182.00	4.000%			
			08/25/40	31,806.00	4.000%			
			02/25/41	32,442.00	4.000%			
			08/25/41	33,091.00	4.000%			
			02/25/42	33,752.00	4.000%			
			08/25/42	34,427.00	4.000%			
			02/25/43	35,116.00	4.000%			
			08/25/43	35,818.00	4.000%			
			02/25/44	36,535.00	4.000%			
			08/25/44	37,265.00	4.000%			
			02/25/45	38,011.00	4.000%			
			08/25/45	38,771.00	4.000%			
			02/25/46	39,546.00	4.000%			
			08/25/46	40,337.00	4.000%			
			02/25/47	41,144.00	4.000%			
			08/25/47	41,967.00	4.000%			
			02/25/48	42,806.00	4.000%			
			08/25/48	43,662.00	4.000%			
			02/25/49	44,535.00	4.000%			
			08/26/49	45,426.00	4.000%			
			02/25/50	42,950.94	4.000%			
				<u>1,732,689.94</u>		\$ 1,757,037.55	\$ 24,347.61	\$ 1,732,689.94

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of USDA Loans  
For the Fiscal Year Ended November 30, 2016

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal Payments</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2015</u>	<u>Paid</u>	<u>Balance Nov. 30, 2016</u>
			<u>Date</u>	<u>Amount</u>				
USDA Loan - 2013	09/19/13	\$ 8,167,000.00	03/19/17	\$ 69,570.37	2.125%			
			09/19/17	70,309.55	2.125%			
			03/19/18	71,056.59	2.125%			
			09/19/18	71,811.57	2.125%			
			03/19/19	72,574.57	2.125%			
			09/19/19	73,345.67	2.125%			
			03/19/20	74,124.97	2.125%			
			09/19/20	74,912.55	2.125%			
			03/19/21	75,708.49	2.125%			
			09/19/21	76,512.90	2.125%			
			03/19/22	77,325.85	2.125%			
			09/19/22	78,147.43	2.125%			
			03/19/23	78,977.75	2.125%			
			09/19/23	79,816.89	2.125%			
			03/19/24	80,664.94	2.125%			
			09/19/24	81,522.01	2.125%			
			03/19/25	82,388.18	2.125%			
			09/19/25	83,263.55	2.125%			
			03/19/26	84,148.23	2.125%			
			09/19/26	85,042.30	2.125%			
			03/19/27	85,945.88	2.125%			
			09/19/27	86,859.06	2.125%			
			03/19/28	87,781.93	2.125%			
			09/19/28	88,714.61	2.125%			
			03/19/29	89,657.21	2.125%			
			09/19/29	90,609.81	2.125%			
			03/19/30	91,572.54	2.125%			
			09/19/30	92,545.50	2.125%			
			03/19/31	93,528.80	2.125%			
			09/19/31	94,522.54	2.125%			
			03/19/32	95,526.84	2.125%			
			09/19/32	96,541.82	2.125%			
			03/19/33	97,567.57	2.125%			
			09/19/33	98,604.23	2.125%			
			03/19/34	99,651.90	2.125%			
			09/19/34	100,710.70	2.125%			

(Continued)

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of USDA Loans  
For the Fiscal Year Ended November 30, 2016

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal Payments</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2015</u>	<u>Paid</u>	<u>Balance Nov. 30, 2016</u>
			<u>Date</u>	<u>Amount</u>				
USDA Loan - 2013 (Continued)	09/19/13	\$ 8,167,000.00	03/19/35	\$ 101,780.75	2.125%			
			09/19/35	102,862.17	2.125%			
			03/19/36	103,955.08	2.125%			
			09/19/36	105,059.60	2.125%			
			03/19/37	106,175.86	2.125%			
			09/19/37	107,303.98	2.125%			
			03/19/38	108,444.09	2.125%			
			09/19/38	109,596.30	2.125%			
			03/19/39	110,760.76	2.125%			
			09/19/39	111,937.60	2.125%			
			03/19/40	113,126.93	2.125%			
			09/19/40	114,328.91	2.125%			
			03/19/41	115,543.65	2.125%			
			09/19/41	116,771.30	2.125%			
			03/19/42	118,012.00	2.125%			
			09/19/42	119,265.88	2.125%			
			03/19/43	120,533.08	2.125%			
			09/19/43	121,813.74	2.125%			
			03/19/44	123,108.01	2.125%			
			09/19/44	124,416.03	2.125%			
			03/19/45	125,737.96	2.125%			
			09/19/45	127,073.92	2.125%			
			03/19/46	128,424.08	2.125%			
			09/19/46	129,788.59	2.125%			
			03/19/47	131,167.59	2.125%			
			09/19/47	132,561.25	2.125%			
			03/19/48	133,969.71	2.125%			
			09/19/48	135,393.14	2.125%			
			03/19/49	136,831.69	2.125%			
			09/19/49	138,285.53	2.125%			
			03/19/50	139,754.81	2.125%			
			09/19/50	141,239.71	2.125%			
			03/19/51	142,740.38	2.125%			
			09/19/51	144,256.99	2.125%			
			03/19/52	145,789.72	2.125%			
			09/19/52	147,338.74	2.125%			
			03/19/53	148,904.21	2.125%			
			09/19/53	149,052.10	2.125%			
				<u>7,764,671.14</u>		\$ 7,901,625.33	\$ 136,954.19	\$ 7,764,671.14
						<u>\$ 9,658,662.88</u>	<u>\$ 161,301.80</u>	<u>\$ 9,497,361.08</u>

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY**

**PART II**

**SINGLE AUDIT SECTION**

**FOR THE FISCAL YEAR ENDED  
NOVEMBER 30, 2016**

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

The Chairman and Members of  
The Board of Commissioners of the  
Township of Lower Municipal Utilities Authority  
Villas, New Jersey

***Report on Compliance for Each Major Federal Program***

We have audited the Township of Lower Municipal Utilities Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the fiscal year ended November 30, 2016. The Authority's major federal program is identified in the *Summary of Auditor's Results* section of the accompanying *Schedule of Findings and Questioned Costs*.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended November 30, 2016.

**Report on Internal Control Over Compliance**

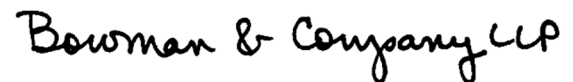
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

Voorhees, New Jersey  
May 25, 2017



## TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended November 30, 2016

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Program or Award Amount	Matching Contri- bution	Grant Period		Balance Nov. 30, 2015	Receipts or Revenues Recognized	Disbursed/ Expended	Passed Through to Subrecipients	Balance Nov. 30, 2016	Memo Only	
					From	To						Cash Collected	Accumulated Expenditures
Direct Federal Funding													
U.S. Department of Agriculture													
Water and Waste Disposal Systems													
For Rural Communities	10.760	N/A	\$3,724,000.00	\$176,000.00	1/1/15	Completion	(\$177,011.50)	\$ -	(\$2,149,510.39)	\$ -	(\$2,326,521.89)	\$ -	(\$2,326,521.89)

The accompanying Notes to Financial Statements and Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended November 30, 2016

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**Note 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes federal award activity of the Township of Lower Municipal Utilities Authority (hereafter referred to as the "Authority"). The Authority is defined in note 1 to the Authority's basic financial statements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule of expenditures of federal awards. Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position and changes in operations of the Authority.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. This basis of accounting is described in note 1 to the Authority's basic financial statements. Such expenditures are recognized following, the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

**Note 3: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Amounts reported in the accompanying schedule agrees with amounts reported in the Authority's basic financial statements.

**Note 4: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agrees with the amounts reported in the related federal financial reports.

**Note 5: MAJOR PROGRAMS**

The major program is identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY**

**PART III**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED  
NOVEMBER 30, 2016**

## TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY

## Schedule of Findings and Questioned Costs

### For the Fiscal Year Ended November 30, 2016

## Section 1- Summary of Auditor's Results

## **Financial Statements**

Type of auditor's report issued	Unmodified
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Internal control over financial reporting:

Material weakness(es) identified? yes   X   no

Significant deficiency(ies) identified?                      yes    X    none reported

Noncompliance material to financial statements noted? yes X no

## Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes   X   no

Significant deficiency(ies) identified?                                      yes    X    none reported

Type of auditor's report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 516 of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)?

Identification of major programs:

**CFDA Number(s)****Name of Federal Program or Cluster**

10.760

## Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to determine Type A programs	\$	750,000.00
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Auditee qualified as low-risk auditee? yes   X   no

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**

Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended November 30, 2016

**Section 1- Summary of Auditor's Results (Cont'd)****State Financial Assistance****Not Applicable**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_ yes \_\_\_\_ no

Significant deficiency(ies) identified?

\_\_\_\_ yes \_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs

\_\_\_\_\_

Any audit findings disclosed that are required to be reported in  
accordance with New Jersey Circular 15-08-OMB?

\_\_\_\_ yes \_\_\_\_ no

Identification of major programs:

**GMIS Number(s)****Name of State Program**

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\_\_\_\_\_

\_\_\_\_\_

Dollar threshold used to determine Type A programs

\_\_\_\_\_

Auditee qualified as low-risk auditee?

\_\_\_\_ yes \_\_\_\_ no

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended November 30, 2016

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***Section 2- Schedule of Financial Statement Findings***

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements as prescribed by the Bureau of Authority Regulations, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**None**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended November 30, 2016

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***Section 3 - Schedule of Federal Award Findings and Questioned Costs***

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major Federal programs, 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).

**None**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended November 30, 2016

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***Section 4 - Schedule of State Financial Assistance Findings and Questioned Costs***

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major State programs, as required by State of New Jersey Circular 15-08-OMB.

**Not Applicable**



**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
Summary Schedule of Prior Year Audit Findings  
And Recommendations as Prepared by Management

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This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**FINANCIAL STATEMENT FINDINGS**

None.

30300

**APPRECIATION**

We express our appreciation for the assistance and courtesies rendered by the Authority officials during the course of the audit.

Respectfully submitted,

*Bowman & Company LLP*

BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

