

**TOWNSHIP OF LOWER
MUNICIPAL UTILITIES AUTHORITY**

REPORT OF AUDIT

**WITH
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
NOVEMBER 30, 2017 AND 2016**

Township of Lower Municipal Utilities Authority
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**Township of Lower Municipal Utilities Authority
Roster of Officials
As of November 30, 2017**

AUTHORITY COMMISSIONERS

Brian O'Connor
Jacqueline U. Henderson
Harrison A. Bitting
Stephen W. Sheftz
John Young

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, 2017 AND 2016**

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, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 as of November 30, 2017 and 2016, 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also 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 June 19, 2018 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
June 19, 2018

**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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 19, 2018.

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 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

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
June 19, 2018

**TOWNSHIP OF LOWER
MUNICIPAL UTILITIES AUTHORITY**
Management's Discussion and Analysis (MD&A)
November 30, 2017 and 2016
(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 2017 were:

- Service charges and connection fee revenues in fiscal year 2017 amounted to \$8,339,672.53 and \$465,020.00, respectively.
- Operating expenses were \$6,180,490.70, versus \$5,871,874.41 in 2016 and \$6,045,411.97 in 2015. The increase in 2017 versus the prior fiscal year is primarily the result of filling needed positions, professional fees and other costs associated with the long term operating and capital plan, and increased depreciation expense.
- Consumer accounts receivable as of November 30, 2017, 2016 and 2015 were \$804,277.58, \$821,596.50 and \$680,178.44, respectively, with the decrease in 2017 primarily the result of an increase in the estimated allowance for uncollectible accounts.
- Restricted net position at November 30, 2017 was \$809,000.00, a decrease of \$2,434,000.00 from the prior fiscal year. This decrease is the result of reduced bond service and bond service reserve requirements due to paying down of long-term debt.
- At year-end, total assets were \$55,863,690.00; deferred outflows were \$1,361,298.57; liabilities were \$20,612,357.93; and deferred inflows were \$1,236,807.74. The resultant net position at year-end was \$35,375,822.90.

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.

Management's Discussion and Analysis (MD&A) (Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net position was \$35,375,822.90 on November 30, 2017. Total assets, deferred outflows of resources, total liabilities, deferred inflows of resources, and total net position are detailed below.

A significant portion of the Authority's net position represents its investment in capital assets (i.e. water and sewer infrastructures, buildings, improvements and equipment); less the related debt outstanding used to acquire those capital assets. Although the Authority's investments in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the Authority's net position represents resources that are subject to external restrictions on how they can be used under the Bond Resolution covenants. The remaining portion of the Authority's net position is in unrestricted net position.

Township of Lower Municipal Utilities Authority

Net Position As of November 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Unrestricted Assets	\$ 13,726,728.09	\$ 8,731,535.11	\$ 6,062,094.31
Total Restricted Assets	3,695,134.12	8,854,963.00	8,866,885.81
Capital Assets	37,524,342.75	36,605,142.72	34,144,788.44
Other Assets	<u>917,485.04</u>	<u>894,230.54</u>	<u>1,013,480.15</u>
Total Assets	<u>55,863,690.00</u>	<u>55,085,871.37</u>	<u>50,087,248.71</u>
Total Deferred Outflows of Resources	<u>1,361,298.57</u>	<u>1,078,541.14</u>	<u>631,289.95</u>
Total Current Liabilities			
Payable from Current Assets	682,915.83	665,635.97	619,293.59
Payable from Restricted Assets	759,407.25	5,456,151.97	1,830,847.27
Long-Term Obligations	<u>19,170,034.85</u>	<u>16,327,571.07</u>	<u>17,822,500.36</u>
Total Liabilities	<u>20,612,357.93</u>	<u>22,449,359.01</u>	<u>20,272,641.22</u>
Total Deferred Inflows of Resources	<u>1,236,807.74</u>	<u>753,626.54</u>	<u>372,335.70</u>
Net Position			
Net Investment in Capital Assets	21,743,351.76	22,034,498.49	19,744,371.45
Restricted	809,000.00	3,243,000.00	3,215,450.00
Unrestricted	<u>12,823,471.14</u>	<u>7,683,928.47</u>	<u>7,113,740.29</u>
Total Net Position	<u>\$ 35,375,822.90</u>	<u>\$ 32,961,426.96</u>	<u>\$ 30,073,561.74</u>

Management's Discussion and Analysis (MD&A) (Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONTINUED)

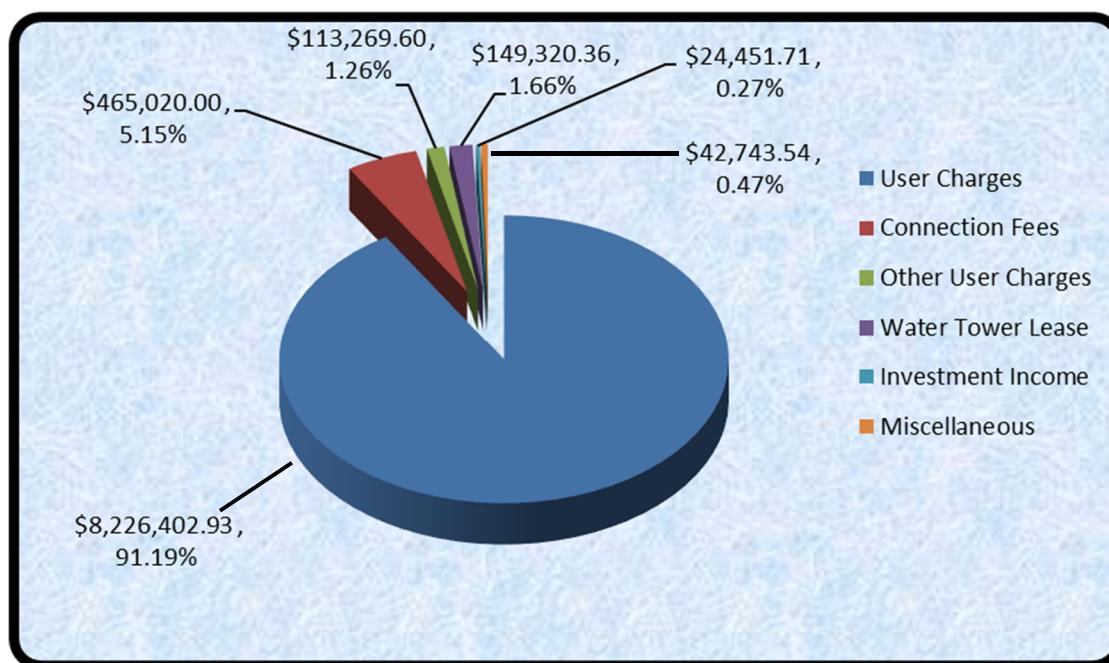
The Authority realized operating income of \$2,657,359.68 for the current fiscal year. Combined with non-operating revenues (expenses) of \$242,963.74, the Authority's total change in net position for the current fiscal year was an increase of \$2,414,395.94. Major components of this activity are detailed below.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Operating Revenues	\$ 8,837,850.38	\$ 9,098,634.74	\$ 9,160,165.16
Total Operating Expenses	<u>(6,180,490.70)</u>	<u>(5,871,874.41)</u>	<u>(6,045,411.97)</u>
Operating Income	2,657,359.68	3,226,760.33	3,114,753.19
Non Operating Revenues / (Expenses)	<u>(242,963.74)</u>	<u>(338,895.11)</u>	<u>(443,652.56)</u>
Increase in Net Position	2,414,395.94	2,887,865.22	2,671,100.63
Net Position - December 1	<u>32,961,426.96</u>	<u>30,073,561.74</u>	<u>27,402,461.11</u>
Net Position - November 30	<u><u>\$ 35,375,822.90</u></u>	<u><u>\$ 32,961,426.96</u></u>	<u><u>\$ 30,073,561.74</u></u>

TOTAL REVENUES

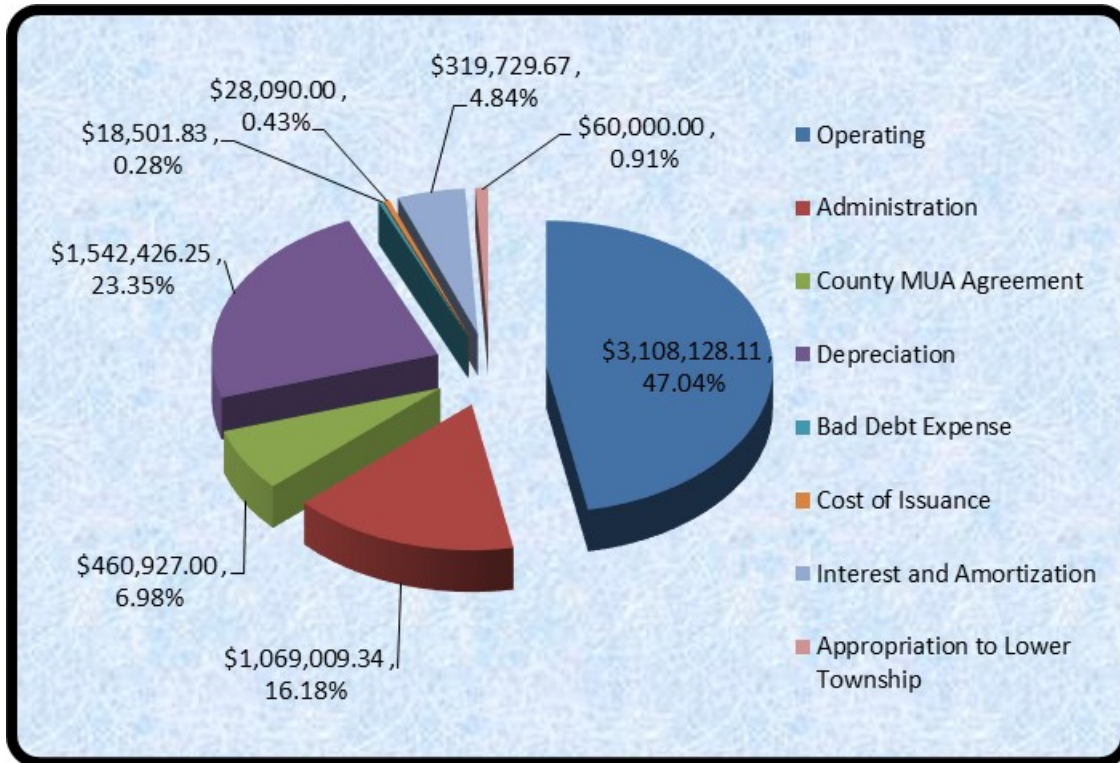
Following is a breakdown of total revenue for the fiscal year ended November 30, 2017.



Management's Discussion and Analysis (MD&A) (Continued)

TOTAL EXPENSES

Following is a breakdown of total expenses for the fiscal year ended November 30, 2017.



OVERALL ANALYSIS

The Authority's overall financial position is firm. From 2016 to 2017 the Authority experienced a 0.85% decrease in service charge revenues. This minor decrease is the result of fluctuations in water and sewer usage by customers. The rate structure approved in January, 2011 resulted in a minimum water rate of \$62.48/quarter and the sewer rate \$320.00/year, which has remained unchanged.

Connection fee revenue in the 2017 was \$465,020.00 compared to \$650,980.00 in 2016 and \$748,842.64 in 2015. The bulk of the 2015 connections were the result of the Townbank water project which expanded the water system to new users. The bulk of the 2016 and 2017 connection fees were the result of the East Villas Phase I water expansion project which took two years to construct. The \$185,960.00 decrease in connection fees from 2016 to 2017 was the result of the final users from the East Villas Phase I project connecting to the water system. Phase II, which will begin construction in fiscal year 2018 will result in additional users and the connections are expected to begin in fiscal year 2019.

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 \$2,414,395.94 in 2017, \$2,887,865.22 in 2016 and \$2,671,100.63 in 2015. The increase in net position is consistent with the Authority's plan to reinvest those gains into capital projects, which do not show as expenditures in GAAP financial statements. The Authority expended over \$2,000,000.00 on capital projects in fiscal year 2017. These capital expenditures will be recorded as expenses over the next few decades as they are depreciated. The water and sewer service charges have been very stable and there are no expected changes during the next few years. Further, the recent and planned service extensions have allowed the Authority to increase its customers with only minimal increases in service costs. This has allowed the Authority to reinvest into its infrastructure without increasing service rates. Also, the residential and public sectors, the most stable when considering the volatility of a billing base, comprise approximately 95% of the Authority's water and sewer customers. 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.

Management's Discussion and Analysis (MD&A) (Continued)

BUDGET VARIANCES

The actual Water Division revenues exceeded the anticipated revenues by \$355,981.68 in 2017 [\$3,679,033.00 budgeted vs. \$4,035,014.68 actual] and \$510,105.32 in 2016 [\$3,686,635.00 budgeted vs. \$4,196,740.33 actual]. The actual Sewer Division revenues also exceeded the anticipated revenues by \$274,880.78 in 2017 [\$4,701,727.00 budgeted vs. \$4,976,607.78 actual] and \$341,067.07 in 2016 [\$4,703,977.00 budgeted vs. \$5,045,044.07 actual].

Connection fee revenues of \$76,800.00 were budgeted for in 2017 and \$20,800.00 were budgeted in 2016. Actual revenues realized for connection fees totaled \$465,020.00 in 2017 which was more than budgeted and \$650,980.00 in 2016. 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 2017 in the amount of \$419,169.22 (Water Division) and \$660,506.47 (Sewer Division); as compared to 2016 the amount of \$524,114.00 (Water Division) and \$1,015,334.53 (Sewer Division).

During fiscal years 2017 and 2016, 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 2017 and 2016 were \$60,000.00 and \$205,000.00, respectively.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During the current fiscal year, the Authority added \$4,635,889.78 in capital assets, which included completed construction in progress amounts totaling \$3,908,412.67.

The Authority continues to maintain a proactive maintenance philosophy for its capital facilities. The Authority's 2017-18 budget includes \$4,199,000.00 in Sewer Capital and \$7,122,225.00 in Water Capital construction projects and equipment purchases funded through the budget, Renewal and Replacement Fund and Long Term Debt issues. The major projects in the 2017-18 Capital Program include the following:

1. Sewer Treatment Plan Improvements
2. Rehabilitation of Pumping Stations
3. Water Main Installation and Expansion
4. Rehabilitation of Wells
5. Sewer Main Replacement
6. Purchase of Various Operating Equipment and Vehicles

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.

\$1,495,000.00 of debt service principal payments scheduled in 2017 were paid on two series of Revenue Refunding Bonds and \$165,209.86 of debt service principal payments scheduled in 2017 were paid on two series of USDA Loans.

In October 2017, the Authority closed on a USDA loan in the total principal amount of \$3,526,000.00. Proceeds of the loan was used to pay off Project Notes issued in September 2016 in connection with East Villas Water Main Improvements Phase I Project and to pay debt issuance costs.

The Authority anticipates closing on a loan from the New Jersey Infrastructure Bank in 2018 for the construction of the East Villas Phase II water extension project. The construction cost for Phase II is budgeted at \$2,958,000.00.

Management's Discussion and Analysis (MD&A) (Continued)

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 12,774,272.22	\$ 7,316,595.23
Consumer Accounts Receivable, Net of Allowance of \$48,157.02 and \$29,655.19, respectively	804,277.58	821,596.50
Connection Fees Receivable	137,431.10	536,142.37
Prepaid Expenses	10,747.19	57,201.01
Total Unrestricted Assets	13,726,728.09	8,731,535.11
Restricted Assets:		
Cash and Cash Equivalents	3,695,134.12	8,854,963.00
Total Current Assets	17,421,862.21	17,586,498.11
Noncurrent Assets:		
Capital Assets:		
Land	97,234.00	97,234.00
Completed (Net of Accumulated Depreciation)	37,168,432.65	34,088,431.43
Construction in Progress	258,676.10	2,419,477.29
Total Capital Assets	37,524,342.75	36,605,142.72
Unrestricted Assets:		
Connection Fees Receivable	917,485.04	894,230.54
Total Noncurrent Assets	38,441,827.79	37,499,373.26
Total Assets	55,863,690.00	55,085,871.37
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	1,292,308.00	1,001,515.00
Deferred Loss on Defeasance of Debt	68,990.57	77,026.14
Total Deferred Outflows of Resources	1,361,298.57	1,078,541.14

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY

Statements of Net Position
As of November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 512,227.28	\$ 541,896.90
Accounts Payable - Related to Pensions	131,308.00	103,917.00
Payroll Deductions Payable	919.85	
Overpayments	36,557.59	17,777.88
Capital Lease	1,903.11	1,799.51
Deposits and Reserves		244.68
	<hr/>	<hr/>
Total Current Liabilities Payable from Unrestricted Assets	682,915.83	665,635.97
Current Liabilities Payable from Restricted Assets:		
Construction Contracts Payable	104,340.82	646,130.40
Deposits and Reserves	12,300.71	12,300.71
Accrued Interest on Bonds and Loans Payable	111,861.53	137,509.94
Bond Anticipation Notes		3,000,000.00
Revenue Bonds Payable - Current Portion	305,000.00	1,495,000.00
USDA Loans Payable - Current Portion	225,904.19	165,210.92
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets	759,407.25	5,456,151.97
Long-term Liabilities:		
Compensated Absences	187,760.41	165,094.06
Net Pension Liability	3,299,506.00	3,464,400.00
Accrued Liability - Related to Pensions	54,712.00	43,299.00
Capital Lease	4,324.02	6,225.59
Revenue Bonds Payable	2,991,485.39	3,316,402.26
USDA Loans Payable	12,632,247.03	9,332,150.16
	<hr/>	<hr/>
Total Long-Term Liabilities	19,170,034.85	16,327,571.07
Total Liabilities	<hr/>	<hr/>
	20,612,357.93	22,449,359.01
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to Pensions	1,236,551.00	750,811.00
Deferred Gain on Defeasance of Debt	256.74	2,815.54
	<hr/>	<hr/>
Total Deferred Inflows of Resources	1,236,807.74	753,626.54
<u>NET POSITION</u>		
Net Investment in Capital Assets	21,743,351.76	22,034,498.49
Restricted:		
Bond Service Fund	404,500.00	1,621,500.00
Bond Service Reserve Fund	404,500.00	1,621,500.00
Unrestricted	12,823,471.14	7,683,928.47
	<hr/>	<hr/>
Total Net Position	\$ 35,375,822.90	\$ 32,961,426.96

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
User Charges, Service Agreements, Fees, Penalties and Provision for Doubtful Accounts	\$ 8,339,672.53	\$ 8,411,214.78
Connection Fees	465,020.00	650,980.00
Other Operating Revenues	33,157.85	36,439.96
	<hr/>	<hr/>
Total Operating Revenues	8,837,850.38	9,098,634.74
	<hr/>	<hr/>
Operating Expenses:		
Administration:		
Salaries and Wages	335,383.25	310,279.66
Fringe Benefits	241,068.92	240,766.63
Other Expenses	492,557.17	446,802.73
Cost of Providing Services:		
Salaries and Wages	1,003,091.94	989,556.68
Fringe Benefits	802,617.33	808,595.40
Other Expenses	1,763,345.84	1,636,995.57
Depreciation	1,542,426.25	1,438,877.74
	<hr/>	<hr/>
Total Operating Expenses	6,180,490.70	5,871,874.41
	<hr/>	<hr/>
Operating Income	2,657,359.68	3,226,760.33
	<hr/>	<hr/>
Non-Operating Revenue / (Expenses):		
Water Tower Leases	149,320.36	144,814.96
Appropriations to Lower Township	(60,000.00)	(205,000.00)
Investment Income	24,451.71	(1,665.31)
Interest on Debt	(319,729.67)	(366,448.53)
Cost of Issuance	(28,090.00)	
Bad Debt Recaptured (Expense)	(18,501.83)	89,403.77
Gain on Disposal of Capital Assets	9,585.69	
	<hr/>	<hr/>
Total Non-Operating Revenue / (Expenses)	(242,963.74)	(338,895.11)
	<hr/>	<hr/>
Change in Net Position	2,414,395.94	2,887,865.22
	<hr/>	<hr/>
Net Position - Beginning	32,961,426.96	30,073,561.74
	<hr/>	<hr/>
Net Position - Ending	\$ 35,375,822.90	\$ 32,961,426.96
	<hr/>	<hr/>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 8,357,269.33	\$ 8,376,978.37
Receipts from Connection Fees	840,476.77	653,805.85
Payments for Other Goods or Services	(2,781,153.07)	(1,530,030.92)
Payments for Employee Services	(2,289,718.24)	(2,246,432.79)
Other Operating Receipts	<u>33,157.85</u>	<u>36,439.96</u>
Net Cash Provided by Operating Activities	<u>4,160,032.64</u>	<u>5,290,760.47</u>
Cash Flows from Non-Capital Financing Activities		
Water Tower Leases	149,320.36	144,814.96
Payment to the Township of Lower	<u>(60,000.00)</u>	<u>(205,000.00)</u>
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>89,320.36</u>	<u>(60,185.04)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Bonds	(1,495,000.00)	(1,430,000.00)
Principal Paid on Loans	(165,209.86)	(161,301.80)
Interest Paid on Bonds and Loans	(359,818.18)	(403,926.24)
Proceeds From USDA Loans Issued	3,526,000.00	
Payment of Bond Anticipation Notes	(3,000,000.00)	
Proceeds From Bond Anticipation Notes		3,000,000.00
Proceeds From Capital Lease		9,588.46
Payments of Bond Issuance Costs	(28,090.00)	
Payment of Capital Lease	(1,797.97)	(1,563.36)
Acquisitions of Capital Assets	<u>(2,452,040.59)</u>	<u>(3,899,232.02)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(3,975,956.60)</u>	<u>(2,886,434.96)</u>
Cash Flows from Investing Activities:		
Gain / Loss on Investment	<u>24,451.71</u>	<u>(1,665.31)</u>
Net Cash Provided by (Used in) Investing Activities	<u>24,451.71</u>	<u>(1,665.31)</u>
Net Change in Cash and Cash Equivalents	297,848.11	2,342,475.16
Cash and Cash Equivalents, December 1	<u>16,171,558.23</u>	<u>13,829,083.07</u>
Cash and Cash Equivalents, November 30	<u><u>\$ 16,469,406.34</u></u>	<u><u>\$ 16,171,558.23</u></u>

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities:		
Operating Income	\$ 2,657,359.68	\$ 3,226,760.33
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation Expense	1,542,426.25	1,438,877.74
Bad Debt Recaptured (Expense)	(18,501.83)	89,403.77
Pension Liability Expense - GASB 68	68,857.00	39,775.00
Changes in Assets and Liabilities:		
(Increase) Decrease in Consumer Accounts Receivable	17,318.92	(141,418.06)
(Increase) Decrease in Connection Fees Receivable	375,456.77	2,825.85
(Increase) Decrease in Prepaid Expense	46,453.82	(57,201.01)
Increase (Decrease) in Accounts Payable	(29,669.62)	53,302.59
Increase (Decrease) in Payroll Deductions Payable	919.85	
Increase (Decrease) in Overpayments	18,779.71	17,777.88
Increase (Decrease) in Deposits and Reserves	(244.68)	(3,225.60)
Increase (Decrease) in Construction Contracts Payable	(541,789.58)	560,891.40
Increase (Decrease) in Compensated Absences	22,666.35	62,990.58
Net Cash Provided by Operating Activities	<u><u>\$ 4,160,032.64</u></u>	<u><u>\$ 5,290,760.47</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, 2017 and 2016

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 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*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit 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 fiscal 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 premiums, 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 fiscal 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 fiscal 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 statement 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 fixed 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 fiscal 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 Premiums

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 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 deferred outflows of resources reported in this fiscal 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 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 fiscal 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, investment income, and gain on disposal of assets.

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, bond issuance costs, and appropriations to the Township of Lower.

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.

Reclassifications

Certain fiscal year 2016 amounts have been reclassified to conform to fiscal year 2017 presentation.

Impact of Recently Issued Accounting Policies**Recently Issued and Adopted Accounting Pronouncements**

For the fiscal year ended November 30, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) 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 adoption of this Statement had no impact on the Authority's financial statements.

In addition, the Authority adopted GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreement. The adoption of this Statement had no impact on the Authority's financial statements.

Next, the Authority adopted GASB 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 benefits pension plans and to state or local governmental employers whose employees are provided with such pensions. The adoption of 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)**

Also, the Authority adopted GASB 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 adoption of this Statement had no impact on the Authority's financial statements.

Lastly, the Authority adopted GASB 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 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. 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 fiscal year ending November 30, 2018. Management has not yet determined the impact of this Statement 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 fiscal year ending November 30, 2018. 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. A 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 fiscal 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 fiscal year ending November 30, 2020. Management does not expect this Statement will have an impact on the financial statements.

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

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 fiscal year ending November 30, 2018. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending November 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement will become effective for the Authority in the fiscal year ending November 30, 2021. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement will become effective for the Authority in the year ending November 30, 2019. 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, principal amount maturing on bonds.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**General Bond Resolution (Cont'd)**

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 insure 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, 2017, the Authority's bank balances of \$13,878,655.36 were exposed to custodial credit risk as follows: \$500,000.00 is insured by FDIC and \$580,210.92 is covered under GUDPA as described above. The balance in the amount of \$12,798,444.44 is invested in Goldman Sachs Money Market Funds, which is a triple A Government Money Market Fund.

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.

Service Fees

The following is a three-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>
2017	\$ 821,596.50	\$ 8,339,672.53	\$ 8,356,991.45	91.22%
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%

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

During the fiscal year ended November 30, 2017, the following changes in Capital Assets occurred:

	Balance Dec. 1, 2016	Additions	Transfers	Deletions	Balance Nov. 30, 2017
Capital Assets, not being depreciated:					
Land and Improvements	\$ 97,234.00				\$ 97,234.00
Construction in Progress	2,419,477.29	\$ 1,747,611.48	\$ (3,908,412.67)		258,676.10
Total Capital Assets not being depreciated	2,516,711.29	1,747,611.48	(3,908,412.67)	\$ -	355,910.10
Capital Assets, being depreciated:					
Buildings and Improvements	13,334,002.49				13,334,002.49
Machinery and Equipment	5,033,030.08	727,477.11		(169,465.34)	5,591,041.85
Infrastructure	56,029,071.54		3,908,412.67		59,937,484.21
Other	14,835.00				14,835.00
Total Capital Assets being depreciated	74,410,939.11	727,477.11	3,908,412.67	(169,465.34)	78,877,363.55
Less Accumulated Depreciation	40,322,507.68	1,542,426.25		(156,003.03)	41,708,930.90
Total Capital Assets being depreciated, Net	34,088,431.43	(814,949.14)	3,908,412.67	(13,462.31)	37,168,432.65
Total Capital Assets, Net	\$36,605,142.72	\$ 932,662.34	\$ -	\$ (13,462.31)	\$37,524,342.75

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

	Balance Dec. 1, 2015	Additions	Transfers	Deletions	Balance Nov. 30, 2016
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)**

Depreciation expense by major class of capital assets is:

	Fiscal Year Ended	
	<u>Nov. 30, 2017</u>	<u>Nov. 30, 2016</u>
Buildings and Improvements	\$ 200,165.04	\$ 189,358.40
Machinery and Equipment	189,358.40	172,492.32
Infrastructure	1,151,890.56	1,076,014.77
Other	<u>1,012.25</u>	<u>1,012.25</u>
	<u>\$ 1,542,426.25</u>	<u>\$ 1,438,877.74</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, 2017, the following changes occurred in long-term obligations:

	<u>Balance Dec. 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Nov. 30, 2017</u>	<u>Due Within One Year</u>
Bonds and Loans Payable:					
Revenue Refunding Bonds, Series 2012	\$ 3,290,000.00		\$ 150,000.00	\$ 3,140,000.00	\$ 155,000.00
Revenue Refunding Bonds, Series 2014	1,495,000.00		1,345,000.00	150,000.00	150,000.00
USDA Loan - 2010	1,732,689.94		25,329.94	1,707,360.00	26,354.00
USDA Loan - 2013	7,764,671.14		139,879.92	7,624,791.22	142,868.16
USDA Loan - 2017		\$ 3,526,000.00		3,526,000.00	56,682.03
Obligations Capital Lease	8,025.10		1,797.97	6,227.13	1,903.11
Add:					
Premiums on Bonds	<u>26,402.26</u>		<u>19,916.87</u>	<u>6,485.39</u>	
Total Bonds and Loans Payable	<u>14,316,788.44</u>	<u>3,526,000.00</u>	<u>1,681,924.70</u>	<u>16,160,863.74</u>	<u>532,807.30</u>
Other Liabilities:					
Compensated Absences	165,094.06	142,309.01	119,642.66	187,760.41	
Net Pension Liability	3,464,400.00	2,161,181.00	2,326,075.00	3,299,506.00	
Accrued Liability - Related to Pensions	<u>43,299.00</u>	<u>54,712.00</u>	<u>43,299.00</u>	<u>54,712.00</u>	
Total Other Liabilities	<u>3,672,793.06</u>	<u>2,358,202.01</u>	<u>2,489,016.66</u>	<u>3,541,978.41</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 17,989,581.50</u>	<u>\$ 5,884,202.01</u>	<u>\$ 4,170,941.36</u>	<u>\$ 19,702,842.15</u>	<u>\$ 532,807.30</u>

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

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

	Balance Dec. 1, 2015	Additions	Reductions	Balance Nov. 30, 2016	Due Within One Year
Bonds and Loans Payable:					
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	
Total Bonds and Loans Payable	15,936,677.99	9,590.00	1,629,479.55	14,316,788.44	1,662,010.43
Other Liabilities:					
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	
Total Other Liabilities	3,477,123.56	1,596,271.58	1,400,602.08	3,672,793.06	-
Total Long-Term Liabilities	\$ 19,413,801.55	\$ 1,605,861.58	\$ 3,030,081.63	\$ 17,989,581.50	\$ 1,662,010.43

Revenue Refunding Bonds Payable

At November 30, 2017, 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, 2017 is \$3,140,000.00.

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, 2017 is \$150,000.00.

The following schedule reflects the Debt Service maturities for Revenue Refunding Bonds Payable:

Fiscal Year	Principal	Interest	Total
2018	\$ 305,000.00	\$ 99,500.00	\$ 404,500.00
2019	160,000.00	92,525.00	252,525.00
2020	165,000.00	88,165.63	253,165.63
2021	165,000.00	84,040.63	249,040.63
2022	175,000.00	79,359.38	254,359.38
2023-2027	955,000.00	308,575.05	1,263,575.05
2028-2032	1,115,000.00	138,665.64	1,253,665.64
2033	250,000.00	4,218.75	254,218.75
	3,290,000.00	\$ 895,050.08	\$ 4,185,050.08
Current Maturities	(305,000.00)		
Premium on Bonds	6,485.39		
	<u>\$ 2,991,485.39</u>		

Note 5: DETAIL NOTES – LIABILITIES (CONT'D)**USDA Loans Payable**

At November 30, 2017, the Authority has the following 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 at a rate of 4% per annum. The balance remaining as of November 30, 2017 is \$1,707,360.00.

\$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 at a rate of 2.125% per annum. The balance remaining as of November 30, 2017 is \$7,624,791.22.

\$3,526,000.00 principal amount of USDA Loans dated 2017, due in semi-annual installments beginning April 13, 2018, through October 13, 2057, bearing interest at a rate of 2.125% per annum. The balance remaining as of November 30, 2017 is \$3,526,000.00.

The following schedule reflects the Debt Requirements until 2057.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 225,904.19	\$ 303,933.27	\$ 529,837.46
2019	231,232.16	298,605.60	529,837.76
2020	236,693.20	293,143.84	529,837.04
2021	242,293.26	287,544.32	529,837.58
2022	248,034.31	281,803.25	529,837.56
2023-2027	1,331,522.96	1,317,664.70	2,649,187.66
2028-2032	1,498,679.11	1,150,507.83	2,649,186.94
2033-2037	1,688,571.11	960,616.43	2,649,187.54
2038-2042	1,904,629.32	744,558.40	2,649,187.72
2043-2047	2,150,865.85	498,321.99	2,649,187.84
2048-2052	2,182,644.42	227,190.56	2,409,834.98
2053-2057	917,081.33	41,470.01	958,551.34
	12,858,151.22	\$ 6,405,360.20	\$ 19,263,511.42
Current Maturities	(225,904.19)		
	<u>\$ 12,632,247.03</u>		

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, 2017.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	182.81	0.85	183.66
Total	\$ 6,227.13	\$ 568.65	\$ 6,795.78

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

At November 30, 2017, 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>
2018	\$ 2,160.00
2019	2,160.00
2020	2,160.00
2021	2,160.00
2022	2,160.00
2023-2027	10,800.00
2028-2029	3,060.00

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 \$6,513.99.

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, 2017, 2016 and 2015 is estimated at \$187,760.41, \$165,094.06 and \$102,103.48, respectively.

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.state.nj.us/treasury/pensions/financial-reports.shtml>

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

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. The PERS provides retirement, death and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS.

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
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.

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

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 7.20% in State fiscal year 2017 and 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) was 10% in State fiscal year 2017. Employers' contribution are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The Authority's contractually required contribution rate for the fiscal years ended November 30, 2017 and 2016 was 11.27% and 10.71% of the Authority's covered payroll. These amounts were actuarially determined as an amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the fiscal year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2017, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2017 was \$131,308.00, and is payable by April 1, 2018. Based on the 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 was \$103,917.00, which was paid on April 1, 2017. Employee contributions to the Plan during the fiscal years ended November 30, 2017 and 2016 were \$85,121.42 and \$69,079.73, respectively.

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 contributes 3% of the employees' base salary, for each pay period, 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 year ended November 30, 2017 and 2016, there were no employees participating in DCRP.

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 – PERS**

At November 30, 2017, the Authority's proportionate share of the net pension liability was \$3,299,506.00. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2017. 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, 2017 measurement date, the Authority's proportion was 0.0141741109%, which was an increase of 0.0024768269% from its proportion measured as of June 30, 2016.

At November 30, 2016, the Authority's proportionate share of the net pension liability was \$3,464,400.00. The net pension liability was measured 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 . 0.0116972840%, which was a decrease of 0.0031014008% from its proportion measured as of June 30, 2015.

For the fiscal years ended November 30, 2017 and 2016, the Authority recognized pension expense of \$172,772.00 and \$166,999.00, respectively. These amounts were based on the plan's June 30, 2017 and 2016 measurement dates, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources - At November 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>November 30, 2017</u> <u>Measurement Date</u> <u>June 30, 2017</u>		<u>November 30, 2016</u> <u>Measurement Date</u> <u>June 30, 2016</u>	
	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Differences between Expected and Actual Experience	\$ 77,692.00	\$ -	\$ 64,427.00	\$ -
Changes of Assumptions	664,737.00	662,300.00	717,639.00	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	22,467.00	-	132,101.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	472,700.00	574,251.00	44,049.00	750,811.00
Authority Contributions Subsequent to the Measurement Date	54,712.00	-	43,299.00	-
	<u>\$ 1,292,308.00</u>	<u>\$ 1,236,551.00</u>	<u>\$ 1,001,515.00</u>	<u>\$ 750,811.00</u>

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 – PERS (Cont'd)**

Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd) - The deferred outflows of resources related to pensions totaling \$54,712.00 and \$43,299.00 will be included as a reduction of the net pension liability in the fiscal years ended November 30, 2018 and 2017, respectively. This amount is based on an estimated April 1, 2019 and April 1, 2018 contractually required contribution, prorated from the pension plans measurement date of June 30, 2017 and June 30, 2016 to the Authority's year end of November 30, 2017 and 2016.

The Authority will amortize the other deferred outflows of resources and deferred inflows of resources related to PERS over the following number of years:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
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	-
June 30, 2017	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
June 30, 2017	5.48	5.48

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 – PERS (Cont'd)**

Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd) - Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending November 30,		
2018	\$	12,458.00
2019		51,995.00
2020		17,107.00
2021		(58,964.00)
2022		(21,551.00)
		<u>1,045.00</u>
	\$	<u>1,045.00</u>

Actuarial Assumptions – PERS

The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 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, 2017 and 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	Measurement Date June 30, 2017	Measurement Date June 30, 2016
Inflation Rate	2.25%	3.08%
Salary Increases:		
Through 2026	1.65% - 4.15% Based on Age	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%	7.65%
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, 2011 - June 30, 2014

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

For the June 30, 2017 measurement date, preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, 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).

For the June 30, 2016 measurement date, preretirement 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 (7.00% at June 30, 2017 and 7.65% at June 30, 2016) 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, 2017 and 2016 are summarized in the table on the following page.

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

<u>Asset Class</u>	<u>Measurement Date</u> <u>June 30, 2017</u>		<u>Measurement Date</u> <u>June 30, 2016</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>
Absolute Return/Risk Mitigation	5.00%	5.51%	5.00%	0.87%
Cash Equivalents	5.50%	1.00%	1.50%	1.74%
U.S. Treasuries	3.00%	1.87%	8.00%	1.79%
Investment Grade Credit	10.00%	3.78%	2.00%	1.67%
Public High Yield	2.50%	6.82%	2.00%	4.56%
Global Diversified Credit	5.00%	7.10%	1.50%	3.44%
Credit Oriented Hedge Funds	1.00%	6.60%	26.00%	8.53%
Debt Related Private Equity	2.00%	10.63%	13.25%	6.83%
Debt Related Real Estate	1.00%	6.61%	6.50%	9.95%
Private Real Estate	2.50%	11.83%	9.00%	12.40%
Equity Related Real Estate	6.25%	9.23%	12.50%	4.68%
U.S. Equity	30.00%	8.19%	2.00%	6.91%
Non-U.S. Developed Markets Equity	11.50%	9.00%	0.50%	5.45%
Emerging Markets Equity	6.50%	11.64%	5.00%	-0.25%
Buyouts/Venture Capital	8.25%	13.08%	5.25%	5.63%
	<u>100.00%</u>		<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability at June 30, 2017 was 5.00%. The respective single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, 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 40% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, 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)****Actuarial Assumptions – PERS (Cont'd)**

Discount Rate (Cont'd) - The discount rate used to measure the total pension liability at June 30, 2016 was 3.98%. The respective single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, 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. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

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

The following presents the Authority's proportionate share of the net pension liability at June 30, 2017, the plans measurement date, calculated using a discount rate of 5.00%, 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:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Proportionate Share of the Net Pension Liability	\$ 4,093,262.00	\$ 3,299,506.00	\$ 2,638,210.00

The following presents the Authority's proportionate share of the net pension liability at June 30, 2016, the plans measurement date, 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:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Proportionate Share of the Net Pension Liability	\$ 4,245,218.00	\$ 3,464,400.00	\$ 2,819,767.00

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' 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 <http://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

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

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, 2017, 2016 and 2015 were \$286,711.20, \$290,013.12 and \$277,641.00, which equaled the required contributions for each year. As of November 30, 2017, 2016 and 2015, there were 12, 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, 2017, the Authority had an unrestricted net position balance of \$12,823,471.14; however, \$916,918.00 has been appropriated and included as support in the operating budgets for the fiscal year ending November 30, 2018.

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.

Net Position Designated

As of November 30, 2017 and 2016, \$6,108,130.39, and \$3,794,845.25, 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, 2017 and 2016 is comprised of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted and Undesignated Net Position	\$ 9,228,191.75	\$ 4,793,845.22
Amount Related to Pensions (GASB 68 and 71)	(3,429,769.00)	(3,360,912.00)
Net Position Designated for Capital Improvements	6,108,130.39	3,794,845.25
Appropriated in the Subsequent Year's Budget	<u>916,918.00</u>	<u>2,456,150.00</u>
Unrestricted Net Position	<u>\$ 12,823,471.14</u>	<u>\$ 7,683,928.47</u>

Note 8: INTERGOVERNMENTAL AGREEMENTS**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: 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 10: 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 \$500,000.00 for each insured event.

The Fund publishes its own financial report for the year ended December 31, 2017, which can be obtained from:

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

Note 11: SUBSEQUENT EVENTS

Supplemental Bond Resolution - On June 6, 2018, the Authority adopted a supplemental resolution authorizing the issuance of not to exceed \$6,000,000.00 aggregate principal amount of project notes and/or revenue bonds (junior lien) in connection with a project within the service area of the Authority to be financed with the proceeds of a loan from the New Jersey Infrastructure Bank.

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 Five Plan Years

	Measurement Date Ending June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.0141741109%	0.0116972840%	0.0147986848%	0.0167587842%	0.0163273172%
Authority's Proportionate Share of the Net Pension Liability	\$ 3,299,506.00	\$ 3,464,400.00	\$ 3,322,008.00	\$ 3,137,703.00	\$ 3,120,475.00
Authority's Covered Payroll (Plan Measurement Period)	\$ 923,728.00	\$ 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	357.19%	425.05%	328.37%	270.88%	277.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.10%	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 Five Fiscal Years

	Fiscal Year Ended November 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Contractually Required Contribution	\$ 131,308.00	\$ 103,917.00	\$ 127,229.00	\$ 138,157.00	\$ 123,023.00
Authority's Contribution in Relation to the Contractually Required Contribution	<u>(131,308.00)</u>	<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>	<u>\$ -</u>
Authority's Covered Payroll (Fiscal Year)	\$ 1,165,371.00	\$ 970,590.00	\$ 811,920.00	\$ 973,028.00	\$ 1,151,898.00
Authority's Contributions as a Percentage of its Covered Payroll	11.27%	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, 2017 and 2016

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

Changes in Benefit Terms - None

Changes in Assumptions - For 2017, the discount rate changed to 5.00% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65% from 7.90%, 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 \$118,500.00 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at \$265,000.00 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, 2017

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:					
Service Charges	\$ 3,412,733.00	\$ -	\$ 3,412,733.00	\$ 3,346,528.22	\$ (66,204.78)
Connection Fees	72,000.00	-	72,000.00	431,420.00	359,420.00
Other Operating Revenues	39,000.00	-	39,000.00	95,520.24	56,520.24
Total Operating Revenues	3,523,733.00	-	3,523,733.00	3,873,468.46	349,735.46
Non-Operating Revenues:					
Investment Income	500.00	-	500.00	12,225.86	11,725.86
Water Tower Leases	154,800.00	-	154,800.00	149,320.36	(5,479.64)
Total Anticipated Revenues	3,679,033.00	-	3,679,033.00	4,035,014.68	355,981.68
Operating Appropriations:					
Administration:					
Salaries and Wages	174,366.00	-	174,366.00	167,691.59	6,674.41
Fringe Benefits	171,250.00	-	171,250.00	110,358.89	60,891.11
Other Expenses:					
Professional Services	173,000.00	-	173,000.00	117,097.93	55,902.07
Insurance	58,000.00	-	58,000.00	57,196.13	803.87
Equipment Rental	4,000.00	-	4,000.00	530.81	3,469.19
License Reimbursement	500.00	-	500.00	-	500.00
Dues and Memberships	4,000.00	-	4,000.00	3,956.00	44.00
Conferences & Seminars	2,500.00	-	2,500.00	2,365.00	135.00
Office Expense	5,000.00	-	5,000.00	4,097.43	902.57
Public Advertising	9,500.00	-	9,500.00	2,138.88	7,361.12
Printing	9,000.00	-	9,000.00	3,782.00	5,218.00
Postage	36,000.00	-	36,000.00	28,112.36	7,887.64
Computer Maintenance & Upgrade	10,000.00	-	10,000.00	8,956.58	1,043.42
Software Licenses and Internet/Website	9,000.00	-	9,000.00	7,186.59	1,813.41
Miscellaneous	5,000.00	-	5,000.00	5,204.03	(204.03)
Other Expenses	325,500.00	-	325,500.00	240,623.74	84,876.26
Total Administration	671,116.00	-	671,116.00	518,674.22	152,441.78

(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, 2017

	<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	\$ 501,325.00	\$ -	\$ 501,325.00	\$ 484,329.12	\$ 16,995.88
Fringe Benefits	454,250.00	-	454,250.00	376,581.78	77,668.22
Other Expenses:					
Chemical Costs - Treatment Plant	60,500.00	-	60,500.00	58,578.73	1,921.27
Utility Costs	143,000.00	-	143,000.00	93,279.18	49,720.82
Lease Agreement	3,000.00	-	3,000.00	2,513.99	486.01
Water Distribution Supplies	225,000.00	-	225,000.00	178,124.96	46,875.04
Well Parts & Supplies	40,000.00	-	40,000.00	14,132.79	25,867.21
Maintenance - Well / Tank	25,000.00	-	25,000.00	22,855.60	2,144.40
Janitorial Service	9,000.00	-	9,000.00	8,887.50	112.50
Laboratory Analysis	10,000.00	-	10,000.00	11,184.00	(1,184.00)
Transportation - Gasoline and Diesel	67,000.00	-	67,000.00	31,456.53	35,543.47
Permits and Other Fees	25,000.00	-	25,000.00	21,173.02	3,826.98
Safety	3,000.00	-	3,000.00	2,720.44	279.56
Tools	2,000.00	-	2,000.00	1,894.41	105.59
Training and Seminars	5,000.00	-	5,000.00	1,306.00	3,694.00
Uniforms	5,000.00	-	5,000.00	4,330.65	669.35
Miscellaneous	2,000.00	-	2,000.00	0.00	2,000.00
Total Other Expenses	624,500.00	-	624,500.00	452,437.80	172,062.20
Total Cost of Providing Service	1,580,075.00	-	1,580,075.00	1,313,348.70	266,726.30
Principal Payments on Debt Service in Lieu of Depreciation	1,107,061.00	-	1,107,061.00	1,107,059.86	1.14
Total Operating Appropriations	3,358,252.00	-	3,358,252.00	2,939,082.78	419,169.22
Non-Operating Appropriations:					
Interest on Debt	313,012.00	-	313,012.00	276,638.86	36,373.14
Renewal & Replacement Reserves	864,000.00	-	864,000.00	864,000.00	-
Municipal Appropriation	-	30,000.00	30,000.00	30,000.00	-
Total Non-Operating Appropriations	1,177,012.00	30,000.00	1,207,012.00	1,170,638.86	36,373.14
Net Total Appropriations	4,535,264.00	30,000.00	4,565,264.00	4,109,721.64	455,542.36
Excess (Deficit) in Anticipated Revenues Over Operating, Principal Payments and Non-Operating Appropriations	\$ (856,231.00)	\$ (30,000.00)	\$ (886,231.00)	\$ (74,706.96)	\$ 811,524.04

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, 2017

	<u>Original Budget</u>	<u>Transfers/ Modifications</u>	<u>Adopted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:					
Service Charges	\$ 4,661,827.00	\$ -	\$ 4,661,827.00	\$ 4,879,874.71	\$ 218,047.71
Connection Fees	4,800.00	-	4,800.00	33,600.00	28,800.00
Other Operating Revenues	34,600.00	-	34,600.00	50,907.21	16,307.21
Total Operating Revenues	4,701,227.00	-	4,701,227.00	4,964,381.92	263,154.92
Non-Operating Revenues:					
Investment Income	500.00	-	500.00	12,225.86	11,725.86
Total Anticipated Revenues	4,701,727.00	-	4,701,727.00	4,976,607.78	274,880.78
Operating Appropriations:					
Administration:					
Salaries and Wages	174,366.00	-	174,366.00	167,691.66	6,674.34
Fringe Benefits	171,250.00	-	171,250.00	109,759.95	61,490.05
Other Expenses:					
Professional Services	148,000.00	-	148,000.00	120,062.39	27,937.61
Insurance	87,000.00	-	87,000.00	71,432.00	15,568.00
Equipment Rental	7,000.00	-	7,000.00	2,671.22	4,328.78
License Reimbursement	2,000.00	-	2,000.00	-	2,000.00
Dues and Memberships	3,000.00	-	3,000.00	2,645.00	355.00
Conferences & Seminars	5,000.00	-	5,000.00	4,754.92	245.08
Office Expense	6,000.00	-	6,000.00	3,375.19	2,624.81
Public Advertising	9,500.00	-	9,500.00	1,538.14	7,961.86
Printing	3,000.00	-	3,000.00	2,911.65	88.35
Postage	20,000.00	-	20,000.00	14,294.17	5,705.83
Computer Maintenance & Upgrade	10,000.00	-	10,000.00	15,848.87	(5,848.87)
Software Licenses and Internet/Website	9,000.00	-	9,000.00	7,429.67	1,570.33
Miscellaneous	5,000.00	-	5,000.00	5,263.19	(263.19)
Total Other Expenses	314,500.00	-	314,500.00	252,226.41	62,273.59
Total Administration	660,116.00	-	660,116.00	529,678.02	130,437.98

(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, 2017

	<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	\$ 535,825.00	\$ -	\$ 535,825.00	\$ 518,762.82	\$ 17,062.18
Fringe Benefits	457,250.00	-	457,250.00	377,835.65	79,414.35
Other Expenses:					
Cape May County MUA Agreement	700,000.00	-	700,000.00	460,927.00	239,073.00
Chemical Costs - Treatment Plant	90,000.00	-	90,000.00	57,186.37	32,813.63
Buildings and Grounds	28,000.00	-	28,000.00	22,192.65	5,807.35
Utility Costs	258,500.00	-	258,500.00	216,499.42	42,000.58
Collection Materials & Supplies	150,000.00	-	150,000.00	95,804.11	54,195.89
Sludge Handling and Disposal	180,000.00	-	180,000.00	177,822.70	2,177.30
Laboratory Analysis	15,000.00	-	15,000.00	22,244.75	(7,244.75)
Laboratory Operations	10,000.00	-	10,000.00	7,078.78	2,921.22
Materials and Supplies	150,000.00	-	150,000.00	149,404.67	595.33
Permits and Other Fees	40,000.00	-	40,000.00	24,554.31	15,445.69
Safety	12,000.00	-	12,000.00	10,862.55	1,137.45
Tools	12,000.00	-	12,000.00	18,380.63	(6,380.63)
Fuel and Transportation	86,000.00	-	86,000.00	42,591.93	43,408.07
Training and Seminars	5,000.00	-	5,000.00	1,027.52	3,972.48
Uniforms	5,000.00	-	5,000.00	4,330.65	669.35
Miscellaneous	3,000.00	-	3,000.00	-	3,000.00
Total Other Expenses	1,744,500.00	-	1,744,500.00	1,310,908.04	433,591.96
Total Cost of Providing Service	2,737,575.00	-	2,737,575.00	2,207,506.51	530,068.49
Principal Payments on Debt Service in Lieu of Depreciation	553,150.00	-	553,150.00	553,150.00	-
Total Operating Appropriations	3,950,841.00	-	3,950,841.00	3,290,334.53	660,506.47
Non-Operating Appropriations:					
Interest on Debt	46,805.00	-	46,805.00	33,210.26	13,594.74
Renewal & Replacement Reserves	2,244,000.00	-	2,244,000.00	2,244,000.00	-
Municipal Appropriation	-	30,000.00	30,000.00	30,000.00	-
Total Non-Operating Appropriations	2,290,805.00	30,000.00	2,320,805.00	2,307,210.26	13,594.74
Net Total Appropriations	6,241,646.00	30,000.00	6,271,646.00	5,597,544.79	674,101.21
Excess (Deficit) in Anticipated Revenues Over Operating, Principal Payments and Non-Operating Appropriations	\$ (1,539,919.00)	\$ (30,000.00)	\$ (1,569,919.00)	\$ (620,937.01)	\$ 948,981.99

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, 2017

**Reconciliation of Excess 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	\$ (74,706.96)	\$ (620,937.01)	\$ (695,643.98)
Add:			
Water Tower Leases	(149,320.36)		(149,320.36)
Investment Income	(12,225.86)	(12,225.86)	(24,451.71)
Debt Service Principal Payments	1,107,059.86	553,150.00	1,660,209.86
Interest on Debt	276,638.86	33,210.26	309,849.12
Renewal and Replacement Reserves	864,000.00	2,244,000.00	3,108,000.00
Contribution to Lower Township Per N.J.S.A. 40A:5A-1	30,000.00	30,000.00	60,000.00
	<u>2,041,445.54</u>	<u>2,227,197.39</u>	<u>4,268,642.93</u>
Less:			
Depreciation			1,542,426.25
Difference of GAAP Pension Expense vs. Budgetary Basis			68,857.00
			<u>1,611,283.25</u>
Operating Income (Exhibit B)			<u>\$ 2,657,359.68</u>

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue Bonds Payable
For the Fiscal Year Ended November 30, 2017

<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, 2016</u>	<u>Paid or Amortized</u>	<u>Balance Nov. 30, 2017</u>
			<u>Date</u>	<u>Amount</u>				
Revenue Refunding Bonds, Series 2012	05/30/12	\$ 3,725,000.00	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>3,140,000.00</u>		\$ 3,290,000.00	\$ 150,000.00	\$ 3,140,000.00
Revenue Refunding Bonds, Series 2014	03/14/14	4,400,000.00	12/01/17	150,000.00	3.000%			
				<u>150,000.00</u>		1,495,000.00	1,345,000.00	150,000.00
						4,785,000.00	1,495,000.00	3,290,000.00
Premium on Bonds						26,402.26	19,916.87	6,485.39
						<u>\$ 4,811,402.26</u>	<u>\$ 1,514,916.87</u>	<u>\$ 3,296,485.39</u>

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<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, 2016</u>	<u>Loans Issued</u>	<u>Paid</u>	<u>Balance Nov. 30, 2017</u>
			<u>Date</u>	<u>Amount</u>					
USDA Loan - 2010	01/15/10	\$ 1,875,000.00	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%				
			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%				

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal</u>	<u>Payments</u>	<u>Interest</u>	<u>Balance</u>	<u>Loans</u>	<u>Paid</u>	<u>Balance</u>
			<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Dec. 1, 2016</u>	<u>Issued</u>		<u>Nov. 30, 2017</u>
USDA Loan - 2010 (Continued)	01/15/10	\$ 1,875,000.00	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	42,952.00	4.000%				
				<u>1,707,360.00</u>		\$ 1,732,689.94		\$ 25,329.94	\$ 1,707,360.00
USDA Loan - 2013	09/19/13	8,167,000.00	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%				

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<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, 2016</u>	<u>Loans Issued</u>	<u>Paid</u>	<u>Balance Nov. 30, 2017</u>
			<u>Date</u>	<u>Amount</u>					
USDA Loan - 2013 (Continued)	09/19/13	\$ 8,167,000.00	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%				
			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%				

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<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, 2016</u>	<u>Loans Issued</u>	<u>Paid</u>	<u>Balance Nov. 30, 2017</u>
			<u>Date</u>	<u>Amount</u>					
USDA Loan - 2013 (Continued)	09/19/13	\$ 8,167,000.00	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%				
				7,624,791.22		\$ 7,764,671.14		\$ 139,879.92	\$ 7,624,791.22
USDA Loan - 2017	10/13/17	3,526,000.00	04/13/18	28,191.25	2.125%				
			10/13/18	28,490.78	2.125%				
			04/13/19	28,793.50	2.125%				
			10/13/19	29,099.43	2.125%				
			04/12/20	29,408.61	2.125%				
			10/13/20	29,721.08	2.125%				
			04/13/21	30,036.86	2.125%				
			10/13/21	30,356.00	2.125%				
			04/13/22	30,678.54	2.125%				
			10/13/22	31,004.50	2.125%				
			04/13/23	31,333.92	2.125%				
			10/13/23	31,666.84	2.125%				
			04/13/24	32,003.30	2.125%				
			10/13/24	32,343.34	2.125%				
			04/13/25	32,686.98	2.125%				
			10/13/25	33,034.28	2.125%				
			04/13/26	33,385.27	2.125%				
			10/13/26	33,739.99	2.125%				
			04/13/27	34,098.48	2.125%				
			10/13/27	34,460.78	2.125%				
			04/13/28	34,826.92	2.125%				
			10/13/28	35,196.96	2.125%				
			04/13/29	35,570.92	2.125%				
			10/13/29	35,948.87	2.125%				
			04/13/30	36,330.82	2.125%				
			10/13/30	36,716.84	2.125%				
			04/13/31	37,106.95	2.125%				
			10/13/31	37,501.22	2.125%				
			04/13/32	37,899.67	2.125%				
			10/13/32	38,302.35	2.125%				
			04/13/33	38,709.31	2.125%				
			10/13/33	39,120.60	2.125%				

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<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, 2016</u>	<u>Loans Issued</u>	<u>Paid</u>	<u>Balance Nov. 30, 2017</u>
			<u>Date</u>	<u>Amount</u>					
USDA Loan - 2017 (Continued)	10/13/17	\$ 3,526,000.00	04/13/34	\$ 39,536.25	2.125%				
			10/13/34	39,956.33	2.125%				
			04/13/35	40,380.86	2.125%				
			10/13/35	40,809.91	2.125%				
			04/13/36	41,243.52	2.125%				
			10/13/36	41,681.73	2.125%				
			04/13/37	42,124.60	2.125%				
			10/13/37	42,572.17	2.125%				
			04/13/38	43,024.50	2.125%				
			10/13/38	43,481.63	2.125%				
			04/13/39	43,943.63	2.125%				
			10/13/39	44,410.53	2.125%				
			04/13/40	44,882.39	2.125%				
			10/13/40	45,359.27	2.125%				
			04/13/41	45,841.21	2.125%				
			10/13/41	46,328.27	2.125%				
			04/13/42	46,820.51	2.125%				
			10/13/42	47,317.98	2.125%				
			04/13/43	47,820.73	2.125%				
			10/13/43	48,328.82	2.125%				
			04/13/44	48,842.32	2.125%				
			10/13/44	49,361.27	2.125%				
			04/13/45	49,885.73	2.125%				
			10/13/45	50,415.77	2.125%				
			04/13/46	50,951.43	2.125%				
			10/13/46	51,492.79	2.125%				
			04/13/47	52,039.90	2.125%				
			10/13/47	52,592.83	2.125%				
			04/13/48	53,151.63	2.125%				
			10/13/48	53,716.36	2.125%				
			04/13/49	54,287.10	2.125%				
			10/13/49	54,863.90	2.125%				
			04/13/50	55,446.83	2.125%				
			10/13/50	56,035.95	2.125%				
			04/13/51	56,631.33	2.125%				
			10/13/51	57,233.04	2.125%				
			04/13/52	57,841.14	2.125%				
			10/13/52	58,455.71	2.125%				
			04/13/53	59,076.80	2.125%				
			10/13/53	59,704.49	2.125%				
			04/13/54	60,338.85	2.125%				
			10/13/54	60,979.95	2.125%				
			04/13/55	61,627.86	2.125%				
			10/13/55	62,282.66	2.125%				

(Continued)

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of USDA Loans
For the Fiscal Year Ended November 30, 2017

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Loan Principal</u>	<u>Payments</u>	<u>Interest</u>	<u>Balance</u>	<u>Loans</u>	<u>Paid</u>	<u>Balance</u>
			<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Dec. 1, 2016</u>	<u>Issued</u>		<u>Nov. 30, 2017</u>
USDA Loan - 2017 (Continued)	10/13/17	\$ 3,526,000.00	04/13/56	\$ 62,944.41	2.125%				
			10/13/56	63,613.19	2.125%				
			04/13/57	64,289.08	2.125%				
			10/13/57	64,267.68	2.125%				
				<u>3,526,000.00</u>			\$ 3,526,000.00		\$ 3,526,000.00
						<u>\$ 9,497,361.08</u>	<u>\$ 3,526,000.00</u>	<u>\$ 165,209.86</u>	<u>\$ 12,858,151.22</u>

**TOWNSHIP OF LOWER
MUNICIPAL UTILITIES AUTHORITY**

PART II

SINGLE AUDIT SECTION

**FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2017**

**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, in the County of Cape May, State of New Jersey, 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, 2017. 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 Township of Lower Municipal Utilities Authority's, in the County of Cape May, State of New Jersey, 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 Township of Lower Municipal Utilities Authority, in the County of Cape May, State of New Jersey, 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, 2017.

Report on Internal Control Over Compliance

Management of the Township of Lower Municipal Utilities Authority, in the County of Cape May, State of New Jersey, 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
June 19, 2018

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended November 30, 2017

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, 2016	Receipts or Revenues Recognized	Disbursed/ Expended	Passed Through to Subrecipients	Balance Nov. 30, 2017	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	\$3,526,000.00	\$179,136.20	1/1/15	Completion	(\$2,326,521.89)	\$ 3,705,136.20	(\$1,378,614.31)	\$ -	\$ -	\$ 3,526,000.00	\$ 3,705,136.20

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, 2017

Note 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the schedule") 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. 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 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.

Note 3: INDIRECT COST RATE

The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Note 5: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

Note 6: FEDERAL LOANS OUTSTANDING

The Authority had the following loan balance outstanding at November 30, 2017:

<u>Loan Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
USDA	10.760	\$3,526,000.00

Note 7: 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, 2017**

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended November 30, 2017

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
--	------------

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:

<u>CFDA Number(s)</u>	<u>FAIN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	000C34009L139508	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to determine Type A programs	\$	750,000.00
--	----	------------

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, 2017

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

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☐ noSignificant 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**

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, 2017

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, 2017

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, 2017

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 Questioned Costs as Prepared by Management

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.

FEDERAL AWARDS

None.

STATE FINANCIAL ASSISTANCE PROGRAMS

Not Applicable.

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

