

**PINE HILL MUNICIPAL
UTILITIES AUTHORITY**

REPORT OF AUDIT

**WITH
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED
JULY 31, 2018 and 2017**

PINE HILL MUNICIPAL UTILITIES AUTHORITY
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PINE HILL MUNICIPAL UTILITIES AUTHORITY
Roster of Officials
July 31, 2018

<u>MEMBERS</u>	<u>POSITION</u>
Carl M. Buscher	Chairman
Thomas Knott	Vice-Chairman
Christopher Green	Secretary / Treasurer
John Odenath	Commissioner
Stephen Shultz	Commissioner
Christine Burke	Alternate Member
Thomas Hassett	Alternate Member

<u>OTHER OFFICIALS</u>	<u>POSITION</u>
Debra Corson	Executive Director
Patricia Garvey	Recording Secretary
Christopher F. Long	Solicitor
David C. Patterson	Conflict Solicitor
Pennoni Associates, Inc.	Engineer
The Bank of New York / Mellon	Trustee

PINE HILL MUNICIPAL UTILITIES AUTHORITY

PART I

FINANCIAL SECTION

FOR THE FISCAL YEARS ENDED JULY 31, 2018 AND 2017

INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of the
Pine Hill Municipal Utilities Authority
Pine Hill, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Pine Hill Municipal Utilities Authority, in the County of Camden, State of New Jersey, a component unit of the Borough of Pine Hill (Authority), as of and for the fiscal years ended July 31, 2018 and 2017 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Pine Hill Municipal Utilities Authority, in the County of Camden, State of New Jersey as of July 31, 2018 and 2017, 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.

Emphasis of Matter

Adoption of New Accounting Principles

As discussed in note 1 to the financial statements, during the fiscal year ended July 31, 2018, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*. Our opinion is not modified with respect to this matter.

Prior Period Restatement

Because of the implementation of GASB Statement No. 75, beginning net position on the statements of revenue, expenses and changes in net position has been restated for fiscal year July 31, 2018, as discussed in note 9 to the financial statements. Our opinion is not modified with respect to this matter.

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 changes in the Authority's total OPEB liability and related ratios, schedule of the Authority's proportionate share of the net pension liability and schedule of the Authority's pension 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

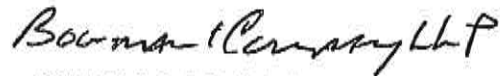
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements. The accompanying 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 not a required part of the basic financial statements.

The accompanying supplementary schedules as listed in the table of contents and 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 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 28, 2019 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 solely 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 the effectiveness of the Authority's 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,

A handwritten signature in black ink that reads "Bowman & Company LLP". The signature is written in a cursive, flowing style.

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
June 28, 2019

**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
Pine Hill Municipal Utilities Authority
Pine Hill, 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 Pine Hill Municipal Utilities Authority, in the County of Camden, State of New Jersey, a component unit of the Borough of Pine Hill, (Authority), as of and for the fiscal year ended July 31, 2018, 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 28, 2019. Our report on the financial statements included an emphasis of matter paragraph describing the restatement of the beginning net position for the fiscal year July 31, 2018 resulting from the adoption of a new accounting principle.

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 the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
June 28, 2019

**Pine Hill Municipal Utilities Authority
Management's Discussion and Analysis
For the Fiscal Years Ended July 31, 2018 and 2017
(Unaudited)**

The Pine Hill Municipal Utilities Authority (the Authority) is a public agency providing potable water and wastewater services to the Borough of Pine Hill. This section of the Authority's annual financial report provides a discussion and analysis of the financial performance for fiscal year ending on July 31, 2018. The entire annual financial report consists of five parts; Independent Auditor's Report, the management's discussion and analysis (this section), the basic financial statements, required supplementary information and supplemental schedules.

FINANCIAL HIGHLIGHTS

Management believes the financial position of the Authority is stable. According to its bond covenants, the Authority is required to have a ratio of net revenues to debt service of 120% for the Water Utility and 110% for the Sewer Utility. For the current year, the Authority generated 97% coverage for the Water Utility and 156% coverage for the Sewer Utility. The Authority adopted Resolution 2018-62 increasing the water rate by 25% effective July 1, 2018 and an additional 25% effective July 1, 2019 in anticipation of correcting the Water Utility coverage deficiency.

Key financial highlights for the Authority's fiscal year 2018 were:

- Operating revenues for fiscal year 2018 were \$2,177,508.56 as compared to \$2,205,984.54 for fiscal year 2017.
- Operating expenses for fiscal year 2018 were \$2,588,684.18 as compared to \$2,475,357.61 for fiscal year 2017.
- The Authority recorded a Net Other Postemployment Benefits Obligation (OBEP) expense in accordance with GASB 75 in the current year of \$183,007.80 for the water utility fund and \$122,005.20 for the sewer utility fund.
- There was an operating loss for fiscal year 2018 of \$411,175.62 as compared to operating loss of \$269,373.07 for fiscal year 2017.
- Change in Net Position for fiscal year 2018 was a decrease of \$44,190.05 as compared to a decrease of \$128,272.64 for fiscal year 2017.
- At year-end, total assets were \$14,186,055.12 and deferred outflows of \$1,234,773.00, which exceeded liabilities of \$9,704,367.11 and deferred inflows of resources of \$776,547.50. The resultant net position at year-end was \$4,939,913.51.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 include all of the Authority's assets, liabilities, and deferred inflows and outflows of resources. As the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statements of revenue, expenses and changes in net position regardless of when cash is received or paid. Net position - the difference between the Authority's assets, liabilities and deferred inflows and outflows of resources - is a measure of the Authority's financial health or position.

**Pine Hill Municipal Utilities Authority
Management's Discussion and Analysis
For the Fiscal Years Ended July 31, 2018 and 2017
(Unaudited)**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT'D)

The statements of revenue, expenses and changes in net position provide a breakdown of the various areas of revenues and expenses encountered during the current and prior fiscal years.

The statements of cash flows provide a breakdown of the various sources of cash flow, categorized into four areas: Cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net position was \$4,939,913.51 on July 31, 2018. Total assets, deferred outflows of resources, total liabilities, total deferred inflows of resources and total net position are as follows:

Statements of Net Position As of July 31, 2018, 2017, and 2016			
	2018*	2017	2016
Assets:			
Unrestricted Assets	\$ 3,902,115.33	\$ 1,964,696.55	\$ 3,301,261.29
Restricted Assets	1,505,853.78	1,846,628.54	1,768,386.56
Capital Assets	8,778,084.01	8,800,451.77	7,729,408.12
Total Assets	14,186,055.12	12,611,776.86	12,799,055.97
Deferred Outflows of Resources	1,234,773.00	497,622.00	635,502.00
Liabilities:			
Current Liabilities	710,145.46	567,265.03	550,460.84
Long-term Liabilities	8,994,221.65	5,845,237.13	6,414,388.29
Total Liabilities	9,704,367.11	6,412,502.16	6,964,849.13
Deferred Inflows of Resources	776,547.50	598,510.50	243,050.00
Net Position:			
Net Investment in Capital Assets	4,797,725.68	6,031,150.56	4,606,389.01
Restricted	1,479,524.28	1,365,331.07	1,386,381.07
Unrestricted (Deficit)	(1,337,336.45)	(1,298,095.43)	233,888.76
Total Net Position	\$ 4,939,913.51	\$ 6,098,386.20	\$ 6,226,658.84

* GASB Statement 75 was adopted by the Authority in fiscal year ended July 31, 2018.

The Authority realized an operating loss in the amount of \$411,175.62 for the current fiscal year, combined with non-operating revenue (expenses) of \$135,446.02 and capital contributions of \$231,539.55, the Authority's decrease in net position for the current fiscal year was \$44,190.05. Major components of this activity are detailed on the following page.

**Pine Hill Municipal Utilities Authority
Management's Discussion and Analysis
For the Fiscal Years Ended July 31, 2018 and 2017
(Unaudited)**

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONT'D)

Statements of Revenue, Expenses and Changes in Net Position For the Fiscal Years Ended July 31, 2018, 2017, and 2016			
	2018*	2017	2016
Operating Revenues:			
Service Charges	\$ 2,161,257.79	\$ 2,121,555.52	\$ 2,062,663.70
Connection Fees	2,525.00		
Other Operating Revenues	13,725.77	84,429.02	89,990.83
Total Operating Revenues	<u>2,177,508.56</u>	<u>2,205,984.54</u>	<u>2,152,654.53</u>
Operating Expenses:			
Administration			
Salaries and Wages	243,682.75	289,140.33	254,085.76
Fringe Benefits	329,470.80	295,096.64	341,734.01
Other Expenses	264,594.37	248,478.51	225,455.47
Cost of Providing Services			
Salaries and Wages	351,487.47	335,166.78	327,194.03
Fringe Benefits	354,824.46	335,189.15	373,856.07
Other Expenses	607,652.79	529,800.95	614,772.96
Depreciation	339,115.67	371,813.83	388,674.65
Total Operating Expenses	<u>2,588,684.18</u>	<u>2,475,357.61</u>	<u>2,525,772.95</u>
Operating Loss	(411,175.62)	(269,373.07)	(373,118.42)
Non-operating Revenue (Expenses):			
Investment Income	26,671.90	1,705.73	547.57
Interest Expense	(81,038.00)	(87,512.68)	(97,386.50)
Other Non-operating Income	189,812.12	226,907.38	234,685.29
Total Non-operating Revenue	<u>135,446.02</u>	<u>141,100.43</u>	<u>137,846.36</u>
Change in Net Position Before Capital Contributions	(275,729.60)	(128,272.64)	(235,272.06)
Capital Contributions	231,539.55		
Change in Net Position	(44,190.05)	(128,272.64)	(235,272.06)
Net Position August 1	6,098,386.20	6,226,658.84	6,461,930.90
Restatement	(1,114,282.64)		
Net Position August 1, as restated	4,984,103.56		
Net Position July 31	<u>\$ 4,939,913.51</u>	<u>\$ 6,098,386.20</u>	<u>\$ 6,226,658.84</u>

**Pine Hill Municipal Utilities Authority
Management's Discussion and Analysis
For the Fiscal Years Ended July 31, 2018 and 2017
(Unaudited)**

OVERALL ANALYSIS

The Authority's overall financial position is positive. The Authority has not experienced any decrease in the overall mix of its residential, commercial, public and industrial customer-billing base. The rate structure for the sewer utility remained unchanged for the year; however, the rates for the water utility were adjusted as described previously.

The Authority realized \$2,525.00 in revenue for new connections in fiscal year 2018. There was no change to the water and sewer connection fee during the year. Developers pay connection fees upon submittal of plans to connect residential developments, commercial properties, etc. into the Authority's water and / or sewer systems. The Authority recognizes these payments as revenue on the date of payment.

Overall, the Authority's financial position has decreased in the current fiscal year to a net position of \$4,939,913.51. The makeup of the ratepayer base is well diversified. The residential and public sectors, the most stable when considering the volatility of a billing rate, comprise approximately 96% of the Authority's 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.

BUDGET VARIANCES

The budget for fiscal year 2018 was formulated prior to June 2017 and adopted within state guidelines. Following, is a narrative addressing the more significant budget line items, and how those budget line items compare to actual operating results for the current fiscal year.

Operating revenues were above the anticipated amount for the water utility by \$32,126.67, and exceeded the anticipated amount by \$55,146.89 for the sewer utility.

The Authority realized mobile antenna lease revenue in the amount of \$189,812.12, which was less than the budgeted amount of \$190,000.00, resulting in an unfavorable variance of \$187.88.

Operating, principal payments and non-operating expenditures had favorable budget variances in the amount of \$170,000.11 for the water utility and favorable budget variance of \$121,068.67 for the sewer utility.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During the current fiscal year, the Authority disbursed \$327,785.87 for capital assets. The more significant disbursements were construction in progress for improvements to the systems. The Authority has not experienced any change in its excellent credit rating, nor does it anticipate any. Although the Authority does not operate under any debt limitations, it is required to receive approval from the Borough of Pine Hill prior to issuing any new debt. On November 21, 2017, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$415,000.00 Trust Bonds with various interest rates dated November 21, 2017. The issue is accompanied by a separate agreement for a \$1,183,073.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334. See Schedule 7 for additional details.

**Pine Hill Municipal Utilities Authority
Management's Discussion and Analysis
For the Fiscal Years Ended July 31, 2018 and 2017
(Unaudited)**

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Borough of Pine Hill'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, please contact the Executive Director, Pine Hill Municipal Utilities Authority, 907 Turnersville Road, Pine Hill, NJ 08021.

BASIC FINANCIAL STATEMENTS

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Statements of Net Position
As of July 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 3,589,970.66	\$ 1,611,828.20
Change Fund	150.00	150.00
Consumer Accounts Receivable	311,994.67	331,184.35
Prepaid Expenses	-	21,534.00
Total Unrestricted Assets	<u>3,902,115.33</u>	<u>1,964,696.55</u>
Restricted Assets:		
Cash and Cash Equivalents	1,485,212.78	1,846,628.54
NJEIT Program Receivable	20,643.00	-
Total Restricted Assets	<u>1,505,855.78</u>	<u>1,846,628.54</u>
Total Current Assets	<u>5,407,971.11</u>	<u>3,811,325.09</u>
Noncurrent Assets:		
Capital Assets:		
Completed (Net of Accumulated Depreciation)	8,768,084.01	7,185,334.89
Construction in Progress	10,000.00	1,615,116.88
Total Capital Assets	<u>8,778,084.01</u>	<u>8,800,451.77</u>
Total Non-Current Assets	<u>8,778,084.01</u>	<u>8,800,451.77</u>
Total Assets	<u>14,186,055.12</u>	<u>12,611,776.86</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to Pensions	330,093.00	497,622.00
Related to OPEB	904,680.00	-
Total Deferred Outflows of Resources	<u>1,234,773.00</u>	<u>497,622.00</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable - Operations	65,232.10	27.00
Accounts Payable - Related to Pensions	78,934.00	76,265.00
Overpayments	6,015.18	5,006.30
Payroll Deductions Payable	7,171.58	7,381.58
Developer Escrow Deposits	37,656.62	35,514.29
Total Current Liabilities Payable from Unrestricted Assets	<u>195,009.48</u>	<u>124,194.17</u>

(Continued)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Statements of Net Position
As of July 31, 2018 and 2017

	2018	2017
<u>LIABILITIES (CONT'D)</u>		
Current Liabilities Payable from Restricted Assets:		
Accounts Payable	\$ 10,000.00	\$ 21,037.96
Accrued Interest Payable	48,387.61	44,106.96
Revenue Bonds Payable - Current Portion	192,978.55	183,822.72
New Jersey Environmental Infrastructure Trust		
Loan Payable - Current Portion	253,769.82	184,103.22
Contribution for Future Construction	10,000.00	10,000.00
Total Current Liabilities Payable from Restricted Assets	<u>515,135.98</u>	<u>443,070.86</u>
Long-term Liabilities:		
Revenue Bonds Payable	650,880.67	842,306.16
New Jersey Environmental Infrastructure Trust Loan Payable	2,903,372.29	1,559,069.11
Compensated Absences Payable	100,679.69	101,882.50
Net OPEB Obligation	3,896,995.00	1,573,019.36
Net Pension Liability	1,442,294.00	1,768,960.00
Total Long-term Liabilities	<u>8,994,221.65</u>	<u>5,845,237.13</u>
Total Liabilities	<u>9,704,367.11</u>	<u>6,412,502.16</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Advanced Billings	243,597.50	243,432.50
Related to Pensions	532,950.00	355,078.00
Total Deferred Inflows of Resources	<u>776,547.50</u>	<u>598,510.50</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	4,797,725.68	6,031,150.56
Restricted:		
Bond Resolution Covenants	1,479,524.28	1,365,331.07
Unrestricted (Deficit)	<u>(1,337,336.45)</u>	<u>(1,298,095.43)</u>
Total Net Position	<u>\$ 4,939,913.51</u>	<u>\$ 6,098,386.20</u>

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

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Statements of Revenue, Expenses and Changes in Net Position
For the Fiscal Years Ended July 31, 2018 and 2017

	2018	2017
Operating Revenues:		
Service Charges	\$ 2,161,257.79	\$ 2,121,555.52
Connection Fees	2,525.00	-
Other Operating Revenues	13,725.77	84,429.02
Total Operating Revenues	<u>2,177,508.56</u>	<u>2,205,984.54</u>
Operating Expenses:		
Administration:		
Salaries and Wages	243,682.75	289,140.33
Fringe Benefits	329,470.80	295,096.64
Other Expenses	264,594.37	248,478.51
Cost of Providing Services		
Salaries and Wages	351,487.47	335,166.78
Fringe Benefits	354,824.46	335,189.15
Other Expenses	607,652.79	529,800.95
Major Repairs and Other Expenses	97,855.87	70,671.42
Depreciation	339,115.67	371,813.83
Total Operating Expenses	<u>2,588,684.18</u>	<u>2,475,357.61</u>
Operating Loss	<u>(411,175.62)</u>	<u>(269,373.07)</u>
Non-operating Revenue (Expenses):		
Investment Income	26,671.90	1,705.73
Interest Expense	(81,038.00)	(87,512.68)
Other Non-operating Income	189,812.12	226,907.38
Total Non-operating Revenue (Expenses)	<u>135,446.02</u>	<u>141,100.43</u>
Change in Net Position Before Capital Contributions	(275,729.60)	(128,272.64)
Capital Contributions	<u>231,539.55</u>	<u>-</u>
Change in Net Position	<u>(44,190.05)</u>	<u>(128,272.64)</u>
Net Position August 1, As Originally Stated	6,098,386.20	6,461,930.90
Restatement (See Note 9)	<u>(1,114,282.64)</u>	<u>-</u>
Net Position August 1, As Restated	<u>4,984,103.56</u>	<u>6,226,658.84</u>
Net Position July 31	<u>\$ 4,939,913.51</u>	<u>\$ 6,098,386.20</u>

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

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended July 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 2,184,146.35	\$ 2,034,726.11
Payments to Suppliers	(1,143,386.32)	(1,128,634.02)
Payments to Employees	(596,583.03)	(637,489.39)
Other Operating Receipts	15,868.10	78,330.45
Other Operating Disbursements	(97,855.87)	(70,671.42)
Net Cash Provided by Operating Activities	362,189.23	276,261.73
Cash Flows from Noncapital Financing Activities:		
Other Non-Operating Revenue	189,812.12	228,187.18
Cash Flows from Capital and Related Financing Activities:		
Capital Acquisitions	(327,785.87)	(1,424,023.52)
Developer Capital Contributions	231,539.55	-
NJEIT Program Receivable	1,577,430.00	-
Bond Principal	(367,925.92)	(356,550.70)
Interest Expense	(75,204.31)	(92,582.92)
Net Cash Provided by (Used) in Capital and Related Financing Activities	1,038,053.45	(1,873,157.14)
Cash Flows from Investing Activities:		
Interest on Investments	26,671.90	1,705.73
Net Cash Provided by Investing Activities	26,671.90	1,705.73
Net Increased (Decrease) in Cash and Cash Equivalents	1,616,726.70	(1,367,002.50)
Cash and Cash Equivalents -- August 1	3,458,606.74	4,825,609.24
Cash and Cash Equivalents -- July 31	\$ 5,075,333.44	\$ 3,458,606.74
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating Loss	\$ (411,175.62)	\$ (269,373.07)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation Expense	339,115.67	371,813.83
Accrued Pension Expense (GASB 68)	21,404.00	84,953.00
Accrued OPEB Liability (GASB 75)	305,013.00	-
Change in Assets and Liabilities:		
Change in Consumer Accounts Receivable	20,198.56	(87,211.91)
Change in Prepaid Expenses	21,534.00	(21,534.00)
Change in Accounts Payable - Operations	65,205.10	(689.40)
Change in Accrued Liabilities	(1,412.81)	204,019.35
Change in Advanced Billings	165.00	382.50
Change in Developers' Escrow Deposits	2,142.33	(6,098.57)
Net Cash Provided by Operating Activities	\$ 362,189.23	\$ 276,261.73

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

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements
For the Fiscal Years Ended July 31, 2018 and 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pine Hill 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 Pine Hill 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 March 9, 1959 by the governing body of the Borough of Pine Hill (the "Borough"), pursuant to the Municipal and County Utilities Authorities Law. The Authority maintains two separate funds, the Sewer Utility Fund and the Water Utility Fund. With respect to the Water Utility, on July 23, 1962, the Authority adopted a Bond Resolution authorizing the Trust Agreement dated August 1, 1962 and issuing Water Revenue Bonds in the amount of \$700,000.00. Additional Water Revenue Bonds were authorized and issued under this Trust Agreement in 1973, 1985, 1992, and 1997. With respect to the Sewer Utility, on October 15, 1971, the Authority entered into a loan agreement for the construction of a wastewater collection system. On December 1, 1986, the Authority entered into an Indenture of Trust to permanently fund the above loan agreement with the issuance of Sewer Revenue Bonds. Additional Sewer Revenue Bonds were authorized and issued under this Trust Agreement in October 1999, November 2007, and in May 2014. Both Trust Agreements are in effect as of July 31, 2018.

The Authority was created for the purpose of constructing, maintaining and operating water supply and distribution and wastewater collection system within the municipal boundaries of the Borough. The Authority bills and collects for its services from all customers and is entitled to a connection fee for new hook-ups.

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 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.

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

Based upon the application of these criteria, the Authority has no component units and is a component unit of the Borough of Pine Hill.

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 recognized when the fees are received.

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.

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

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 and loan principal. Depreciation expense and the annual required contribution for the Authority's Other Postemployment Benefits (OPEB) Plan and the Net Pension Liability (PERS), are not included in the budget appropriations.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Cash, Cash Equivalents and Investments (Cont'd)**

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.

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 prior to January 1, 2003 are stated at estimated cost. Assets purchased since are stated at actual cost. Donated capital assets are recorded at their fair market value as of the date received.

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

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$1,000.00 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:

	<u>Years</u>
Buildings and Improvements	30-40
Infrastructure	40
Equipment	8-15
Fixed Equipment	8-15

For assets placed into service prior to July 31, 2003, half-year depreciation was taken in the year of acquisition. For assets placed into service after July 31, 2003, depreciation is taken starting in the month after the asset is placed into service.

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

The statements of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflows of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources: advanced sewer billings, defined benefit pension plans and postemployment benefit plans.

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.

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

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.

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 and sewer service charges and other revenue sources. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and on investments in debt securities and mobile antenna lease income.

Operating expenses include expenses associated with the operation, maintenance and repair of the water and sewer systems and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt and major non-recurring repairs.

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.

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

For the fiscal year ended July 31, 2018, the Authority adopted Governmental Accounting Standards Board (GASB) 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 cumulative effect of adopting this Statement totaled \$1,114,282.64, and was recognized as a restatement of the Authority's July 31, 2017, net position on the Comparative Statements of Revenue, Expenses and Changes in Net Position (see note 9).

Also, the Authority adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves 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 adoption of this Statement had no impact on the Authority's financial statements.

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

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

Lastly, the Authority adopted 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 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. 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 July 31, 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 July 31, 2020. Management does not expect this Statement will have an impact 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 July 31, 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 fiscal year ending July 31, 2019. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. The Statement will become effective for the Authority in the fiscal year ending July 31, 2021. Management has not yet determined the impact of this Statement on the financial statements.

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

Statement No. 90, *Major Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement will become effective for the Authority in the fiscal year ending July 31, 2020. 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 except for the Water Utility debt service coverage deficiency. See Note 2 – Debt Service Coverage.

General Bond Resolution

The Authority is subject to the provisions and restrictions of the Water Utility System Revenue Bond Resolution dated July 23, 1962, as amended and the Sewer Utility System Revenue Bond Resolution, dated October 16, 1985, as amended (collectively the "Bond Resolution"). As required by the Bond Resolution, certain cash accounts and investments of the Authority are maintained by an independent trustee, accounted for in various accounts and segregated for specific use and for the security of the bondholders. A summary of the activities of each account created by the respective Bond Resolution is covered below.

Water Utility System Revenue Bonds

Revenue Account - All water operating revenues received by the Authority are deposited in the revenue account and subsequently transferred into other accounts to satisfy the bond covenants or to pay the water operating expenses, except for any grants-in-aid of construction that are deposited in the construction account.

Operating Account - This account is maintained to pay the Authority water operating expenses. The balance must be equal to the amount appropriated for operating expenses in the annual budget for the three calendar month period beginning with such monthly date. At July 31, 2018, the balance in the operating account meets the requirements of the Bond Resolution.

Debt Service Account - Periodic transfers from the revenue account are deposited to pay current principal maturities and interest on the Water Utility System Revenue Bonds Series 1985, 1992, and 1997 and the 2014 New Jersey Environmental Infrastructure Trust Loan.

Debt Service Reserve Account - The amounts 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. At July 31, 2018, the balance in the debt service reserve account meets the requirements of the Bond Resolution.

Renewal and Replacement Account - This account is maintained to pay for the reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals. Funds on deposit must be equal to the System Reserve Requirement. The restricted net position on July 31, 2018 of \$400,000.00 met the requirement of the Bond Resolution.

Construction Account - The Construction account is designated for moneys from any source including proceeds from the sale of additional bonds for system construction or acquisitions. All excess moneys in the account are pledged to meet any deficiency in the Debt Service Account and Debt Service Reserve Account. Any remaining excess moneys may then be transferred to the Renewal and Replacement Account.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**Sewer Utility System Revenue Bonds**

Revenue Account - All sewer operating revenues received by the Authority are deposited in the revenue account and subsequently transferred into other accounts to satisfy the bond covenants or to pay the sewer operating expenses, except for any grants-in-aid of construction that are deposited in the construction account.

Operating Account – This account is maintained to pay the Authority sewer operating expenses. The balance must be equal to the amount appropriated for operating expenses in the annual budget for the three calendar month period beginning with such monthly date. At July 31, 2018, the balance in the operating account meets the requirements of the Bond Resolution.

Debt Service Account – Periodic transfers from the revenue account are deposited to pay current principal maturities and interest on Sewer Utility System 1999, 2007, 2014 and 2017 New Jersey Environmental Infrastructure Trust Loans.

Debt Service Reserve Account - The amounts 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. At July 31, 2018, the balance in the debt service reserve account meets the requirements of the Bond Resolution.

General Account – In the event that all other accounts have been maintained to their maximum extent, then transfers are made to the general account. The Trustee at the request of the Authority may use the general account to pay the cost of capital additions, to purchase or redeem bonds of any series, to pay the cost of extraordinary repairs, renewals and replacements of the utility system, to repay subordinated loans, to make payment to the Borough the amounts due under the service contract (Note 5), or for any other lawful purpose, as described in the Utility System Revenue Bond Resolution.

Construction Account – The Construction account is designated for moneys from any source including proceeds from the sale of additional bonds for system construction or acquisitions. All excess moneys in the account are pledged to meet any deficiency in the Debt Service Account and Debt Service Reserve Account. Any remaining excess moneys may then be transferred to the General Account.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**Debt Service Coverage**

The computation of sufficiency of revenues for the fiscal year ended July 31, 2018 as defined by the Utility System Revenue Bond Resolutions is as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>
Net Revenue:		
Operating Loss	\$ (350,793.89)	\$ (60,381.73)
Add:		
Depreciation Expense	157,465.81	181,649.86
Net OPEB Cost	183,007.80	122,005.20
Net Pension Expense	55,081.20	36,720.80
Interest Revenue	12,489.73	14,182.17
Antenna Lease Income	189,812.12	-
Total Net Revenues	<u>\$ 247,062.77</u>	<u>\$ 294,176.30</u>
Debt Service		
Interest on Bonds	\$ 52,970.04	\$ 22,233.72
Bond Principal	201,587.89	166,338.03
Total Debt Service	<u>\$ 254,557.93</u>	<u>\$ 188,571.75</u>
Ratio of Net Revenue to Debt Service	0.97	1.56
Required Ratio	1.20	1.10

The Authority adopted Resolution 2018-62 increasing the water rate by 25% effective July 1, 2018 and an additional 25% effective July 1, 2019 in anticipation of correcting the Water Utility coverage deficiency.

The computation of sufficiency of revenues for the fiscal year ended July 31, 2017 as defined by the Utility System Revenue Bond Resolutions is as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>
Net Revenue:		
Operating Loss	\$ (274,905.53)	\$ (21,875.91)
Add:		
Depreciation Expense	163,472.41	208,341.42
Net OPEB Cost	130,320.98	86,880.65
Net Pension Expense	90,247.80	60,165.20
Interest Revenue	984.51	721.22
Antenna Lease Income	226,907.38	-
Total Net Revenues	<u>\$ 337,027.55</u>	<u>\$ 334,232.58</u>
Debt Service		
Interest on Bonds	\$ 62,378.33	\$ 30,204.59
Bond Principal	187,640.62	168,910.08
Total Debt Service	<u>\$ 250,018.95</u>	<u>\$ 199,114.67</u>
Ratio of Net Revenue to Debt Service	1.35	1.68
Required Ratio	1.20	1.10

The required debt service coverage was met for fiscal year ended July 31, 2017.

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 July 31, 2018 and 2017, the Authority's bank balances were exposed to custodial credit risk as follows:

	July 31,	
	<u>2018</u>	<u>2017</u>
Insured by FDIC and GUDPA	<u>\$ 5,070,474.00</u>	<u>\$ 3,409,316.49</u>

Service Fees

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

Water Utility:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Billings</u>	<u>Total Collections</u>	<u>Percentage of Collections</u>
2018	\$ 159,823.06	\$ 1,173,739.25	\$ 1,171,344.79	87.84%
2017	119,772.74	1,192,143.18	1,151,986.14	87.81%
2016	172,694.48	1,135,597.81	1,182,041.84	90.35%

Sewer Utility:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Billings</u>	<u>Total Collections</u>	<u>Percentage of Collections</u>
2018	\$ 171,361.29	\$ 990,151.28	\$ 1,011,192.68	87.06%
2017	122,986.07	1,000,271.89	951,731.50	84.73%
2016	196,466.03	995,760.50	1,056,197.89	88.59%

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

During the fiscal year ended July 31, 2018 the following changes in Capital Assets occurred:

	Balance August 1, 2017	Additions	Transfers	Deletions	Balance July 31, 2018
Capital Assets not being Depreciated:					
Construction in Progress	\$ 1,615,116.88	\$ 414,603.78	\$ (1,921,864.79)	\$ 97,855.87	\$ 10,000.00
Total Capital Assets not being Depreciated	1,615,116.88	414,603.78	(1,921,864.79)	97,855.87	10,000.00
Capital Assets being Depreciated:					
Infrastructure	14,051,939.97		1,921,864.79		15,973,804.76
Buildings & Improvements	242,497.81				242,497.81
Fixed Equipment	865,197.52				865,197.52
Equipment	473,748.39				473,748.39
Total Capital Assets being Depreciated	15,633,383.69	-	1,921,864.79	-	17,555,248.48
Total Capital Assets	17,248,500.57	414,603.78	-	97,855.87	17,565,248.48
Less Accumulated Depreciation:					
Infrastructure	(7,245,443.50)	(283,227.65)			(7,528,671.15)
Buildings & Improvements	(161,734.03)	(7,304.53)			(169,038.56)
Fixed Equipment	(603,174.18)	(36,092.97)			(639,267.15)
Equipment	(437,697.09)	(12,490.54)			(450,187.63)
Total Accumulated Depreciation	(8,448,048.80)	(339,115.69)	-	-	(8,787,164.49)
Capital Assets, Net	\$ 8,800,451.77	\$ 75,488.09	\$ -	\$ 97,855.87	\$ 8,778,083.99

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

Capital Assets (Cont'd)

During the fiscal year ended July 31, 2017 the following changes in Capital Assets occurred:

	Balance August 1, 2016	Additions	Transfers	Deletions	Balance July 31, 2017
Capital Assets not being Depreciated:					
Construction in Progress	\$ 243,160.21	\$ 1,371,956.67			\$ 1,615,116.88
Total Capital Assets not being Depreciated	243,160.21	1,371,956.67	-	-	1,615,116.88
Capital Assets being Depreciated:					
Infrastructure	14,051,939.97				14,051,939.97
Buildings & Improvements	242,497.81				242,497.81
Fixed Equipment	833,107.71	32,089.81			865,197.52
Equipment	434,937.39	38,811.00			473,748.39
Total Capital Assets being Depreciated	15,562,482.88	70,900.81	-	-	15,633,383.69
Total Capital Assets	15,805,643.09	1,442,857.48	-	-	17,248,500.57
Less Accumulated Depreciation:					
Infrastructure	(6,935,446.72)	(309,996.78)			(7,245,443.50)
Buildings & Improvements	(154,429.49)	(7,304.54)			(161,734.03)
Fixed Equipment	(564,593.38)	(38,580.80)			(603,174.18)
Equipment	(421,765.38)	(15,931.71)			(437,697.09)
Total Accumulated Depreciation	(8,076,234.97)	(371,813.83)	-	-	(8,448,048.80)
Capital Assets, Net	\$ 7,729,408.12	\$ 1,071,043.65	\$ -	\$ -	\$ 8,800,451.77

Note 4: DETAIL NOTES – LIABILITIES

Long-term Liabilities

During the fiscal year ended July 31, 2018, the following changes occurred in long-term obligations:

	Balance August 1, 2017 <u>As Originally Stated</u>	<u>Restatement</u>	Balance August 1, 2017 <u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	Balance July 31, 2018	Due Within One Year
Bonds and Loans Payable:							
Revenue Bonds Payable	\$ 1,027,881.92		\$ 1,027,881.92		\$ (183,822.70)	\$ 843,859.22	\$ 192,078.55
Bond Issue Discounts	(1,553.04)		(1,553.04)		1,553.04	-	-
NJEIT Loans	1,743,172.33		1,743,172.33	\$ 1,598,073.00	(184,103.22)	3,157,142.11	253,769.82
Total Bonds Payable	2,769,301.21		2,769,301.21	1,598,073.00	(366,372.88)	4,001,001.33	446,748.37
Other Liabilities:							
Net Pension Liability	1,768,960.00		1,768,960.00	770,901.00	(1,087,567.00)	1,442,294.00	-
Net OPEB Obligation	1,573,019.36	\$ 1,114,282.64	2,687,302.00	1,263,881.00	(54,168.00)	3,896,995.00	-
Compensated Absences	101,882.50		101,882.50	1,025.76	(2,228.57)	100,679.69	-
Total Other Liabilities	3,443,861.86	1,114,282.64	4,558,144.50	2,035,807.76	(1,153,983.57)	5,439,968.69	-
Total Long Term Liabilities	\$ 6,213,163.07	\$ 1,114,282.64	\$ 7,327,445.71	\$ 3,633,880.76	\$ (1,520,356.45)	\$ 9,440,970.02	\$ 446,748.37

During the fiscal year ended July 31, 2017, the following changes occurred in long-term obligations:

	Balance August 1, 2016	<u>Additions</u>	<u>Reductions</u>	Balance July 31, 2017	Due Within One Year
Bonds and Loans Payable:					
Revenue Bonds Payable	\$ 1,202,557.36		\$ (174,875.44)	\$ 1,027,681.92	\$ 183,822.72
Bond Issue Discounts	(3,106.05)		1,553.01	(1,553.04)	-
NJEIT Loans	1,924,847.60		(181,675.27)	1,743,172.33	184,103.22
Total Bonds Payable	3,124,298.91		(354,997.70)	2,769,301.21	367,925.94
Other Liabilities:					
Net Pension Liability	2,182,315.00	\$ 642,169.00	(1,055,524.00)	1,768,960.00	-
Net OPEB Obligation	1,355,817.73	217,201.63		1,573,019.36	-
Compensated Absences	108,507.36	8,375.14	(15,000.00)	101,882.50	-
Total Other Liabilities	3,646,640.09	867,745.77	(1,070,524.00)	3,443,861.86	-
Total Long Term Liabilities	\$ 6,770,939.00	\$ 867,745.77	\$ (1,425,521.70)	\$ 6,213,163.07	\$ 367,925.94

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Revenue Bonds Payable****Water Utility Revenue Bonds Payable**

The Revenue Bonds Series 1985, 1992 and 1997 are direct obligations of the Authority. The Bonds are secured under a Utility System Revenue Bond Resolution dated August 1, 1962 (Note 2), under which substantially all rents, revenues, receipts, fees, and other charges or income received or accrued by the Authority are pledged. Subsequent supplemental bond resolutions were adopted authorizing the issuance of the Utility System Revenue Bonds, Series 1985, 1992, and 1997. The Bonds are further secured by the limited service agreement between the Authority and the Borough (See Note 5).

The 1985 Series Bonds were issued to fund various capital improvements to the Authority's water utility system and pay certain costs related to the issuance of the 1985 Bonds. The Bonds were issued originally for \$1,205,000.00 and carried interest rate of 5.0%. The final maturity of the 1985 Bonds is August 1, 2025.

The 1992 Series Bonds were issued to fund various capital improvements to the Authority's water utility system and pay certain costs related to the issuance of the 1992 Bonds. The Bonds were issued originally for \$800,000.00 and carried interest rate of 5.5%. The final maturity of the 1992 Bonds is August 1, 2025.

The 1997 Series Bonds were issued to repay at maturity the principal of the Authority's Water Project Notes (1997 Series), the proceeds of which were used to temporarily finance a portion of the costs of certain improvements to the Authority's Water System (1997 Project); pay additional costs necessary to complete the 1997 Project; fund various reserves under the Trust agreement; and pay certain costs related to the issuance of the 1997 Bonds. The Bonds were issued originally for \$1,480,000.00 and carried interest rate of 5.2%. The final maturity of the 1997 Bonds is August 1, 2019.

The following schedule reflects the Debt Requirements until 2026.

<u>Fiscal Year</u> <u>Ending July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 192,978.55	\$ 39,989.45	\$ 232,968.00
2020	87,353.99	32,754.01	120,108.00
2021	91,960.67	28,147.33	120,108.00
2022	96,810.85	23,297.15	120,108.00
2023	101,917.42	18,190.58	120,108.00
2024	107,293.96	12,814.04	120,108.00
2025	112,954.77	7,153.23	120,108.00
2026	52,588.99	1,360.90	53,949.89
	<u>843,859.20</u>	<u>\$ 163,706.69</u>	<u>\$ 1,007,565.89</u>
Less: Current Maturities	<u>192,978.55</u>		
Long-term Portion	<u>\$ 650,880.65</u>		

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Water Utility New Jersey Environmental Infrastructure Trust Loans Series 2014**

On May 21, 2014, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$85,000.00 Trust Loan with various interest rates dated May 21, 2014. The issue is accompanied by a separate agreement for a \$251,049.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334.

The following schedule reflects the Debt Service Requirements for the Authority's Water Utility 2014 New Jersey Environmental Infrastructure Trust Loans until 2034.

<u>Fiscal Year</u> <u>Ending July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 17,765.19	\$ 2,993.76	\$ 20,758.95
2020	17,765.19	2,743.76	20,508.95
2021	17,765.19	2,493.76	20,258.95
2022	17,765.19	2,243.76	20,008.95
2023	17,765.19	1,993.76	19,758.95
2024	17,765.19	1,743.76	19,508.95
2025	17,765.19	1,493.76	19,258.95
2026	17,765.19	1,293.76	19,058.95
2027	17,765.19	1,143.76	18,908.95
2028	17,765.19	993.76	18,758.95
2029	17,765.19	843.76	18,608.95
2030	17,765.19	693.76	18,458.95
2031	17,765.19	543.76	18,308.95
2032	17,765.19	393.76	18,158.95
2033	17,765.19	240.63	18,005.82
2034	13,510.39	81.25	13,591.64
	<u>279,988.24</u>	<u>\$ 21,934.52</u>	<u>\$ 301,922.76</u>
Less: Current Maturities	<u>17,765.19</u>		
Long-term Portion	<u>\$ 262,223.05</u>		

Sewer Utility New Jersey Environmental Infrastructure Trust Loans Series 1999, 2007, 2014 and 2017

On November 1, 1999, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$715,000.00 Trust Loan with various interest rates dated October 15, 1999. The issue is accompanied by a separate agreement for a \$727,500.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334.

On November 1, 2007, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$530,000.00 Trust Loan with various interest rates dated November 8, 2007. The issue is accompanied by a separate agreement for a \$470,714.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334.

On May 21, 2014, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$165,000.00 Trust Loan with various interest rates dated May 21, 2014. The issue is accompanied by a separate agreement for a \$500,000.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Sewer Utility New Jersey Environmental Infrastructure Trust Loans Series 1999, 2007, 2014 and 2017 (Cont'd)**

On November 21, 2017, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust for the issuance of \$415,000.00 Trust Loan with various interest rates dated November 21, 2017. The issue is accompanied by a separate agreement for a \$1,183,073.00 zero interest Fund Loan in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334.

The following schedule reflects the Debt Service Requirements for the Authority's Sewer Utility New Jersey Environmental Infrastructure Trust Loans until 2038.

<u>Fiscal Year</u> <u>Ending July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 236,004.63	\$ 43,383.69	\$ 279,388.32
2020	265,596.07	34,216.26	299,812.33
2021	171,166.31	30,181.26	201,347.57
2022	170,305.46	27,581.26	197,886.72
2023	177,457.56	24,706.26	202,163.82
2024	181,425.36	21,712.51	203,137.87
2025	180,448.94	18,681.26	199,130.20
2026	179,444.63	15,706.26	195,150.89
2027	159,680.32	12,718.76	172,399.08
2028	154,528.17	10,062.51	164,590.68
2029	119,528.17	8,568.76	128,096.93
2030	124,528.17	7,718.76	132,246.93
2031	124,528.17	6,778.13	131,306.30
2032	124,528.17	5,806.25	130,334.42
2033	124,528.17	4,812.50	129,340.67
2034	116,053.77	3,790.63	119,844.40
2035	89,104.45	2,909.38	92,013.83
2036	89,104.45	2,175.00	91,279.45
2037	59,192.90	1,350.00	60,542.90
2038	30,000.00	450.00	30,450.00
	<u>2,877,153.87</u>	<u>\$ 283,309.44</u>	<u>\$ 3,160,463.31</u>
Less: Current Maturities	<u>236,004.63</u>		
Long-term Portion	<u>\$ 2,641,149.24</u>		

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Compensated Absences**

Authority employees may accumulate unused sick days in accordance with the Authority's personnel policy, employee contracts and union contracts. 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 \$15,000.00. 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 July 31, 2018 and July 31, 2017 is estimated at \$100,679.69 and \$101,882.50, 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>

General Information about the Pension Plans
Plan Descriptions

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

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

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Pension Plans (Cont'd)****General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions**

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

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 seven years beginning in July 2012. The member contribution rate was 7.34% in State fiscal year 2018 and 7.20% in State fiscal year 2017. 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 2018. Employers' contribution are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Pension Plans (Cont'd)****General Information about the Pension Plans (Cont'd)****Contributions (Cont'd)**

The Authority's contractually required contribution rate for the fiscal years ended July 31, 2018 and 2017 was 13.91% and 13.04% 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, 2018, the Authority's contractually required contribution to the pension plan for the fiscal year ended July 31, 2018 was \$72,862.00, and was payable by April 1, 2019. Based on the PERS measurement date of June 30, 2017, the Authority's contractually required contribution to the pension plan for the fiscal year ended July 31, 2017 was \$70,398.00, which was paid on April 1, 2018. Employee contributions to the Plan during the fiscal years ended July 31, 2018 and 2017 were \$38,453.58 and \$39,710.49, 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 July 31, 2018 and 2017, there were no employees participating in DCRP.

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

At July 31, 2018, the Authority's proportionate share of the net pension liability was \$1,442,294.00. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2018. 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, 2018 measurement date, the Authority's proportion was .0073251926%, which was a decrease of .0002739564% from its proportion measured as of June 30, 2017.

At July 31, 2017, the Authority's proportionate share of the net pension liability was \$1,768,960.00. 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 .0075991490%, which was an increase of .0002307280% from its proportion measured as of June 30, 2016.

For the fiscal years ended July 31, 2018 and 2017, the Authority recognized pension expense of \$91,801.00 and \$150,414.00, respectively. These amounts were based on the plan's June 30, 2018 and 2017 measurement dates, respectively.

Note 4: 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 - At July 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>July 31, 2018</u>		<u>July 31, 2017</u>	
	<u>Measurement Date</u>		<u>Measurement Date</u>	
	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Differences between Expected and Actual Experience	\$ 27,505.00	\$ 7,437.00	\$ 41,653.00	\$ -
Changes of Assumptions	237,666.00	461,169.00	356,385.00	355,078.00
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	13,529.00	12,045.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	58,850.00	50,815.00	81,672.00	-
Authority Contributions Subsequent to the Measurement Date	6,072.00	-	5,867.00	-
	<u>\$ 330,093.00</u>	<u>\$ 532,950.00</u>	<u>\$ 497,622.00</u>	<u>\$ 355,078.00</u>

The deferred outflows of resources related to pensions totaling \$6,072.00 and \$5,867.00 will be included as a reduction of the net pension liability in the fiscal years ended July 31, 2019 and 2018, respectively. This amount is based on an estimated April 1, 2020 and April 1, 2019 contractually required contribution, prorated from the pension plans measurement date of June 30, 2018 and June 30, 2017 to the Authority's fiscal year end of July 31, 2018 and 2017.

Note 4: 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 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	-
June 30, 2018	-	5.63
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
June 30, 2018	-	5.63
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
June 30, 2018	-	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
June 30, 2018	5.63	5.63

Note 4: 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 <u>July 31,</u>	
2019	\$ 21,855.00
2020	(5,485.00)
2021	(98,082.00)
2022	(92,715.00)
2023	(34,502.00)
	<u>\$ (208,929.00)</u>

Actuarial Assumptions – PERS

The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017 and 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, 2018 and 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%
Period of Actuarial Experience	
Study upon which Actuarial	
Assumptions were Based	July 1, 2011 - June 30, 2014

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Pension Plans (Cont'd)

Actuarial Assumptions – PERS (Cont'd)

For the June 30, 2018 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 Conduent modified 2014 projection scale. Postretirement 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. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent modified 2014 projection scale thereafter. 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, 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).

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018 and 2017) 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' target asset allocation as of June 30, 2017 and 2016 are summarized in the table on the following page.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Pension Plans (Cont'd)

Actuarial Assumptions – PERS (Cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability at June 30, 2018 was 5.66%. The respective single blended discount rates were based on the long-term expected rate of return on pension Plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018, 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 50% 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 2046; therefore, the long-term expected rate of return on Plan investments was applied to projected benefit payments through 2046, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

Note 4: 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, 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.

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, 2018, the plans measurement date, calculated using a discount rate of 5.66%, 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 (4.66%)	Current Discount Rate (5.66%)	1% Increase (6.66%)
Authority's Proportionate Share of the Net Pension Liability	\$ 1,813,518.00	\$ 1,442,294.00	\$ 1,130,860.00

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%)
Authority's Proportionate Share of the Net Pension Liability	\$ 2,194,515.00	\$ 1,768,960.00	\$ 1,414,420.00

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 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 and PFRS, please refer to the Plan's Comprehensive Annual Financial Report (CAFR) which can be found at <https://www.nj.gov/treasury/pensions/financial-reports.shtml>.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Postemployment Benefits Other Than Pensions (OPEB) – Authority Plan****General Information about the OPEB Plan****Plan Description and Benefits Provided**

The Authority has established a postemployment benefit plan to assist retirees in paying for medical coverage. The plan provides family prescription, vision, and medical insurance to eligible retirees with 25 years of service or those who have reached 62 years of age and have completed 20 years of service. No assets are accumulated in a trust. In accordance with GASB Statement 75, this plan is considered a Single Employer, Defined Benefit OPEB Plan that is not administered through a Trust that meets the criteria in paragraph 4 of GASB Statement 75.

Employees Covered by Benefit Terms

	<u>July 31, 2018</u>
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	4
Inactive Employees Entitled to but Not Yet Receiving Benefit Payments	
Active Employees	<u>7</u>
	<u>11</u>

Contributions

Employees are not required to contribute to the plan.

Net OPEB Liability

The Authority's total OPEB liability of \$3,896,995.00 as of July 31, 2018 was measured as of July 31, 2018. The liabilities were determined by an actuarial valuation as of July 31, 2018.

Actuarial Assumptions and Other Inputs

The following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00% Annually
Discount Rate	3.57%
Healthcare Cost Trend Rates	
Medical (Pre-65)	7.00%
Medical (Post-65)	5.00%

The discount rate was based on the 20 year Municipal AA bond rate.

Mortality rates were based on RP-2000 Combined Mortality Table for males and females, as appropriate.

Termination rates were based on the U.S. Office of Personnel Management Federal Employees Retirement System.

An experience study was not performed on the actuarial assumptions used in the July 31, 2017 valuation since the plan had insufficient data to produce a study with credible results. Mortality rates and termination rates were based on standard tables either issued by the SOA or developed for the applicable grade of employee. The actuary has used his/her professional judgement in applying these assumptions to this plan.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Postemployment Benefits Other Than Pensions (OPEB) – Authority Plan (Cont'd)

Changes in the Total OPEB Liability

	<u>July 31, 2018</u>
Balance at Beginning of Year	\$ 1,573,019.36
Restatement	<u>1,114,282.64</u>
Balance at Beginning of Year, Restated	2,687,302.00
Changes for the Year:	
Service Cost	\$ 133,031.00
Interest Cost	-
Benefit Payments	(54,188.00)
Actuarial Assumption Changes	658,134.00
Actuarial Demographic Gains / (Losses)	472,716.00
Net Changes	<u>1,209,693.00</u>
Balance at End of Year	<u><u>\$ 3,896,995.00</u></u>

In the fiscal year ended, July 31, 2018, there were no changes of benefit terms and the assumption for discount rate changed to 3.57% and mortality rates were updated using the RP-2000 Combined Mortality Table.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated for using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>July 31, 2018</u>		
	1.00% Decrease <u>(2.57%)</u>	Current Discount Rate <u>(3.57%)</u>	1.00% Increase <u>(4.57%)</u>
Total OPEB Liability	<u>\$4,554,023.00</u>	<u>\$3,896,995.00</u>	<u>\$3,370,377.00</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>July 31, 2018</u>		
	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
Total OPEB Liability	<u>\$ 3,337,677.00</u>	<u>\$ 3,896,995.00</u>	<u>\$ 4,597,143.00</u>

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

Postemployment Benefits Other Than Pensions (OPEB) – Authority Plan (Cont'd)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended July 31, 2018, the Authority recognized OPEB expense of \$359,201.00. At July 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>July 31, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions or Other Inputs	\$ 526,507.00	\$ -
Changes of Actuarial Gains & Losses	378,173.00	-
	<u>\$ 904,680.00</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending July 31,</u>	
2019	\$ 226,170.00
2020	226,170.00
2021	226,170.00
2022	226,170.00
2023	-
Thereafter	-
	<u>\$ 904,680.00</u>

Note 5: INTERGOVERNMENTAL AGREEMENTS**Borough of Pine Hill Service Agreement**

Under a Service Contract dated November 1, 1986 between the Borough of Pine Hill and the Authority, the Borough is obligated to pay the Authority "amounts" equal to any deficits in Authority revenues necessary to pay or provide for (i) operations and maintenance expenses and administrative or other expenses of the Authority, (ii) the principal of and interest on the bonds of the Authority, (iii) the maintenance of such reserves as may be required by the previously defined Bond Resolution or by any contract deemed necessary by the Authority, and (iv) amounts necessary to enable the Authority to comply with the terms of the previously defined Bond Resolution.

The Authority shall repay to the Borough all moneys paid by the Borough to the Authority under this agreement, except, however, service charges on property owned by the Borough itself, which repayment by the Authority to the Borough shall be made, within five years after such payment by the Borough, without interest only from surplus revenues of the Authority.

Note 6: 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 7: RISK MANAGEMENT

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

Workers' Compensation and Employer's Liability
 Liability other than Motor Vehicles
 Property Damage other than Motor Vehicles
 Motor Vehicles

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

Note 8: CONTINGENCIES

Litigation - The Authority is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the Authority, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 9: RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

As indicated in note 1 to the financial statements, the Authority adopted GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions., for the fiscal year ended July 31, 2018. As a result of implementing this Statement, a restatement of unrestricted net position was required to record the Authority's net OPEB obligation.

The cumulative effect on the financial statements as reported for July 31, 2017 is as follows:

	<u>As Previously Reported July 31, 2017</u>	<u>Net OPEB Liability (1)</u>	<u>As Restated July 31, 2017</u>
Net Position:			
Net Investment in Capital Assets	\$ 6,031,150.56		\$ 6,031,150.56
Restricted	1,365,331.07		1,365,331.07
Unrestricted (Deficit)	<u>(1,298,095.43)</u>	<u>\$ (1,114,282.64)</u>	<u>(2,412,378.07)</u>
Total Net Position	<u>\$ 6,098,386.20</u>	<u>\$ (1,114,282.64)</u>	<u>\$ 4,984,103.56</u>

(1) Represents the change in the Authority's Net OPEB Liability as of July 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

PINE HILL MUNICIPAL UTILITIES AUTHORITY
 Required Supplementary Information
 Schedule of Changes in the Authority's
 Total OPEB Liability and Related Ratios
 Fiscal Year Ended July 31, 2018

Total OPEB Liability	June 30, 2018
Service Cost	\$ 133,031.00
Benefit Payments	(54,188.00)
Actuarial Assumption Changes	658,134.00
Actuarial Demographic Gains	472,716.00
Net Change in Total OPEB Liability	1,209,693.00
Total OPEB Liability - Beginning of Fiscal Year (Restated)	2,687,302.00
Total OPEB Liability - End of Fiscal Year	\$ 3,896,995.00
Covered-Employee Payroll	\$ 523,891.00
Total OPEB Liability as a Percentage of Covered-Employee Payroll	743.86%

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.

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS)
Last Six Plan Years

	Measurement Date Ending June 30,					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability	0.7325192600%	0.0075991490%	0.0073684210%	0.0072160876%	0.0070968005%	0.0069554639%
Proportionate Share of the Net Pension Liability	\$ 1,442,294.00	\$ 1,768,960.00	\$ 2,182,315.00	\$ 1,619,867.00	\$ 1,328,715.00	\$ 1,329,327.00
Covered Payroll (Plan Measurement Period)	\$ 514,416.00	\$ 488,828.00	\$ 504,672.00	\$ 492,988.00	\$ 488,664.00	\$ 479,804.00
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	280.38%	361.88%	432.42%	328.58%	271.91%	277.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.60%	48.10%	40.14%	47.93%	52.08%	48.72%

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.

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Required Supplementary Information
Schedule of the Authority's Pension Contributions
Public Employees' Retirement System (PERS)
Last Six Fiscal Years

	Fiscal Year Ended July 31,					
	2018	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 72,862.00	\$ 70,398.00	\$ 65,460.00	\$ 62,039.00	\$ 58,505.00	\$ 52,408.00
Contributions in Relation to the Contractually Required Contribution	(72,862.00)	(70,398.00)	(65,460.00)	(62,039.00)	(58,505.00)	(52,408.00)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll (Fiscal Year)	\$ 523,891.00	\$ 539,740.00	\$ 503,959.00	\$ 504,932.00	\$ 494,388.00	\$ 488,837.00
Contributions as a Percentage of Covered Payroll	13.91%	13.04%	12.99%	12.29%	11.83%	10.72%

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.

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Notes to Required Supplementary Information
For the Fiscal Year Ended July 31, 2018

Note 1: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - PRIVATE PLAN

Changes in Benefit Terms - None

Changes in Assumptions - In 2018, The discount rate changed to 3.57% and Mortality rates were updated using the RP-2000 Combined Mortality Table

Note 2: POSTEMPLOYMENT BENEFITS - PENSION

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions

The Discount Rate changed at June 30th over the following years, 5.39% 2014, 4.90% 2015, 3.98% 2016, 5.00% 2017 and 5.66% 2018.

The Long-term Expected Rate of Return changed at June 30th over the following years, 7.90% 2014 and 2015, 7.65% 2016, 7.00% 2017 and 2018

For 2016, 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 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.

SUPPLEMENTARY SCHEDULES

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue, Expenses and Changes in Net Position
Water Utility
For the Fiscal Year Ended July 31, 2018

	Restricted				
	Unrestricted	Debt Service	Debt Service Reserve	Renewal and Replacement	Construction
Operating Revenues:					
Service Charges	\$ 1,171,577.84				
Other Operating Revenues	8,623.83				
Total Operating Revenues	1,182,126.67	-	-	-	-
Operating Expenses:					
Administration:					
Salaries and Wages	146,017.84				
Fringe Benefits	197,620.57				
Other Expenses	142,170.64				
Cost of Providing Services:					
Salaries and Wages	214,341.95				
Fringe Benefits	212,845.17				
Other Expenses	440,890.83				
Major Repairs and Other Expenses					
Depreciation			\$ 21,567.75		
Total Operating Expenses	1,353,887.00	-	-	21,567.75	157,465.81
Operating Loss	(171,760.33)	-	-	(21,567.75)	(157,465.81)
Non-operating Revenue (Expenses):					
Investment Income	4,591.92	\$ 317.04	\$ 1,655.44	5,925.33	
Interest Expense		(48,064.41)			(1,553.06)
Other Non-Operating	189,812.12				
Net Income (Loss) Before Transfers and Capital Contributions					
Transfers					
Increase (Decrease) in Net Position	22,643.71	(47,747.37)	1,655.44	(15,642.42)	(159,018.87)
Net Position August 1, as restated	657,094.62	39,799.98	(1,655.44)	(1,078,227.97)	382,968.81
Net Position July 31:					
Net Investment in Capital Assets	679,738.33	(7,847.39)	-	(1,093,870.39)	223,969.94
Restricted	(350,507.08)	204,672.29	254,566.95	(365,707.54)	1,532,455.19
Unrestricted (Deficit)	\$ 329,231.25	\$ 196,724.90	\$ 254,566.95	\$ 400,000.00	\$ 1,756,425.13
					983,798.20
					(1,662,853.03)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue, Expenses and Changes in Net Position
Sewer Utility
For the Fiscal Year Ended July 31, 2018

Schedule 2

	Unrestricted		Restricted		
	Unrestricted	General	Debt Service Reserve	Construction	Total
Operating Revenues:					
Service Charges	\$ 989,679.95				\$ 989,679.95
Connection Fees	600.00				600.00
Other Operating Revenues	5,101.94				5,101.94
Total Operating Revenues	995,381.89	-	-	-	995,381.89
Operating Expenses:					
Administration:					
Salaries and Wages	97,664.91				97,664.91
Fringe Benefits	131,850.23				131,850.23
Other Expenses	122,423.73				122,423.73
Cost of Providing Services:					
Salaries and Wages	137,145.52				137,145.52
Fringe Benefits	141,979.29				141,979.29
Other Expenses	166,761.96				166,761.96
Major Repairs and Other Expenses		\$ 76,288.12		\$ 181,649.86	76,288.12
Depreciation					181,649.86
Total Operating Expenses	797,825.64	76,288.12	-	181,649.86	1,055,763.62
Operating Income (Loss)	197,556.25	(76,288.12)	-	(181,649.86)	(60,381.73)
Non-operating Revenue (Expenses):					
Investment Income	3,788.95	9,889.20	\$ 504.02		14,182.17
Interest Expense		(31,420.53)			(31,420.53)
Net Income (Loss) Before Transfers and Capital Contributions					
Transfers	201,345.20	(97,819.45)	504.02	(181,649.86)	(77,620.09)
Capital Contributions	22,579.56	(444,720.67)	92,769.19	329,371.92	-
Increase (Decrease) in Net Position	455,464.31	(542,540.12)	93,273.21	147,722.06	153,919.46
Net Position August 1, as restated	(259,550.56)	878,056.70	206,539.12	2,883,578.49	3,708,623.75
Net Position July 31:					
Net Investment in Capital Assets	195,913.75	10,000.00	-	3,031,300.55	3,041,300.55
Restricted	-	-	299,812.33	-	495,726.08
Unrestricted	-	325,516.58	-	-	325,516.58
	\$	\$	\$	\$	\$

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Anticipated Revenue, Operating Appropriations, Principal Payments and
Non-Operating Appropriations Compared to Budget--Non-GAAP (Budgetary) Basis
Water Utility
For the Fiscal Year Ended July 31, 2018

	Adopted Budget	Transfers/ Modifications	Amended Budget	Actual	Favorable (Unfavorable)
Budget Revenues:					
Operating Revenues:					
Service Charges	\$ 1,150,000.00		\$ 1,150,000.00	\$ 1,171,577.84	\$ 21,577.84
Connection Fees				1,925.00	1,925.00
Other Operating Revenues				8,623.83	8,623.83
Total Operating Revenues	1,150,000.00	-	1,150,000.00	1,182,126.67	32,126.67
Non-Operating Revenues:					
Investment Income				12,489.73	12,489.73
Mobile Antenna Leases	190,000.00		190,000.00	189,812.12	(187.88)
Total Non-Operating Revenues	190,000.00	-	190,000.00	202,301.85	12,301.85
Total Budget Revenues	1,340,000.00	-	1,340,000.00	1,384,428.52	44,428.52
Operating Appropriations:					
Administration					
Salaries and Wages	147,100.00	-	147,100.00	146,017.84	1,082.16
Fringe Benefits:					
PERS	19,852.80		19,852.80	19,094.94	757.86
Social Security	11,400.00		11,400.00	11,928.32	(528.32)
Unemployment Insurance	5,400.00		5,400.00	1,612.94	3,787.06
Health Insurance	89,122.80		89,122.80	62,524.77	26,598.03
Health Waiver	4,724.40		4,724.40	4,724.30	0.10
Total Fringe Benefits	130,500.00	-	130,500.00	99,885.27	30,614.73
Other Expenses:					
Legal Fees	15,000.00		15,000.00	13,080.35	1,919.65
Engineer Fees	17,000.00		17,000.00	16,539.49	460.51
Trustee Fees	23,000.00		23,000.00	14,860.30	8,139.70
Audit and Accounting Fees	27,500.00		27,500.00	25,545.00	1,955.00
Repairs and Maintenance	2,600.00		2,600.00	1,227.31	1,372.69
Supplies	26,850.00	\$ 2,500.00	29,350.00	26,469.32	2,880.68
Utilities	3,000.00		3,000.00	1,851.77	1,148.23
Telephone	3,000.00		3,000.00	2,194.56	805.44
Training/Education	4,000.00		4,000.00	870.32	3,129.68
Insurance	24,000.00	(3,500.00)	20,500.00	20,044.06	455.94
Miscellaneous	7,100.00		7,100.00	2,897.80	4,202.20
Total Other Expenses	153,050.00	(1,000.00)	152,050.00	125,580.28	26,469.72
Total Administration	430,650.00	(1,000.00)	429,650.00	371,483.39	58,166.61
Cost of Providing Service:					
Salaries and Wages	213,350.00	2,600.00	215,950.00	214,341.95	1,608.05
Fringe Benefits:					
PERS	25,300.00	(1,600.00)	23,700.00	23,338.26	361.74
Social Security	16,800.00		16,800.00	14,579.06	2,220.94
Health Insurance	108,900.00		108,900.00	76,419.16	32,480.84
Total Fringe Benefits	151,000.00	(1,600.00)	149,400.00	114,336.48	35,063.52
Other Expenses:					
Chemicals	13,000.00		13,000.00	12,421.00	579.00
Testing	19,350.00		19,350.00	18,210.15	1,139.85
Vehicle Expense	9,500.00		9,500.00	6,402.36	3,097.64

(Continued)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Anticipated Revenue, Operating Appropriations, Principal Payments and
Non-Operating Appropriations Compared to Budget--Non-GAAP (Budgetary) Basis
Water Utility
For the Fiscal Year Ended July 31, 2018

	Adopted Budget	Transfers/ Modifications	Amended Budget	Actual	Favorable (Unfavorable)
Operating Appropriations (Cont'd):					
Cost of Providing Service (Cont'd):					
Other Expenses:					
Meters, Connections and Laterals	\$ 16,000.00		\$ 16,000.00	\$ 15,962.00	\$ 38.00
Hydrants	2,600.00	\$ (611.02)	1,988.98	395.00	1,593.98
Repairs and Maintenance	21,000.00		21,000.00	5,975.21	15,024.79
Supplies	17,300.00	611.02	17,911.02	10,047.33	7,863.69
Utilities	102,000.00		102,000.00	80,600.86	21,399.14
Telephone	2,400.00		2,400.00	2,022.36	377.64
Training and Seminars	3,300.00		3,300.00	1,962.08	1,337.92
State Water Tax	12,000.00		12,000.00	10,650.61	1,349.39
Water Agreement	258,000.00		258,000.00	237,248.13	20,751.87
Miscellaneous	800.00		800.00	202.50	597.50
Total Other Expenses	477,250.00	-	477,250.00	402,099.59	75,150.41
Total Cost of Providing Service	841,600.00	1,000.00	842,600.00	730,778.02	111,821.98
Principal Payments on Debt Service in Lieu of Depreciation	201,590.00	-	201,590.00	201,587.89	2.11
Non-Operating Appropriations:					
Interest on Bonds	52,980.00	-	52,980.00	52,970.59	9.41
Total Non-Operating Appropriations	52,980.00	-	52,980.00	52,970.59	9.41
Total Budget Appropriations	1,526,820.00	-	1,526,820.00	1,356,819.89	170,000.11
Unrestricted Net Position to Balance Budget	186,820.00	-	186,820.00	-	186,820.00
Total Appropriations and Unrestricted Net Position	1,340,000.00	-	1,340,000.00	1,356,819.89	(16,819.89)
Excess Budget Revenues Over Budget Appropriations	\$ -	\$ -	\$ -	\$ 27,608.63	\$ 27,608.63
<u>Reconciliation to Operating Loss</u>					
Excess Budget Revenues Over Budget Appropriations				\$ 27,608.63	
Add:					
Principal Payments			\$ 201,587.89		
Bond Interest			52,970.59		
Accruals			721.69		
				255,280.17	
Less:				282,888.80	
Non-Operating Income:					
Investment Income			12,489.73		
Mobile Antenna Leases			189,812.12		
Net OPEB Obligation (GASB 75) Accrual			183,007.80		
Net Pension Expense (Adjusted for Payment)			12,842.40		
Prior Year Encumbrances			56,497.08		
Depreciation			157,465.81		
Major Repairs - Renewal and Replacement Fund			21,567.75		
				633,682.69	
Operating Loss (Schedule 1)				\$ (350,793.89)	

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and
Non-Operating Appropriations Compared to Budget--Non-GAAP (Budgetary) Basis
Sewer Utility
For the Fiscal Year Ended July 31, 2018

	Adopted Budget	Transfers/ Modifications	Amended Budget	Actual	Favorable (Unfavorable)
Budget Revenues:					
Operating Revenues:					
Service Charges	\$ 940,235.00		\$ 940,235.00	\$ 989,679.95	\$ 49,444.95
Connection Fees				600.00	600.00
Other Operating Revenues				5,101.94	5,101.94
Total Operating Revenues	940,235.00	-	940,235.00	995,381.89	55,146.89
Non-Operating Revenues:					
Investment Income				14,182.17	14,182.17
Total Non-Operating Revenues	-	-	-	14,182.17	14,182.17
Total Budget Revenues	940,235.00	-	940,235.00	1,009,564.06	69,329.06
Operating Appropriations:					
Administration:					
Salaries and Wages	98,900.00	-	98,900.00	97,664.91	1,235.09
Fringe Benefits:					
PERS	13,235.20		13,235.20	12,729.96	505.24
Social Security	7,600.00		7,600.00	7,952.22	(352.22)
Unemployment Insurance	3,600.00		3,600.00	1,092.83	2,507.17
Health Insurance	59,415.20		59,415.20	41,750.68	17,664.52
Health Waiver	3,149.60		3,149.60	3,149.53	0.07
Total Fringe Benefits	87,000.00	-	87,000.00	66,675.22	20,324.78
Other Expenses:					
Legal Fees	15,000.00		15,000.00	12,125.15	2,874.85
Engineer Fees	17,000.00		17,000.00	13,167.88	3,832.12
Trustee Fees	16,000.00	\$ 185.00	16,185.00	16,180.75	4.25
Audit and Accounting Fees	25,000.00		25,000.00	24,155.00	845.00
Repairs and Maintenance	2,600.00		2,600.00	1,228.30	1,371.70
Supplies	23,550.00	665.00	24,215.00	23,797.82	417.18
Utilities	3,000.00		3,000.00	1,786.18	1,213.82
Telephone	3,000.00		3,000.00	2,178.30	821.70
Training/Education	4,000.00	(850.00)	3,150.00	840.33	2,309.67
Insurance	24,000.00		24,000.00	20,044.06	3,955.94
Miscellaneous	6,800.00		6,800.00	2,423.59	4,376.41
Total Other Expenses	139,950.00	-	139,950.00	117,927.36	22,022.64
Total Administration	325,850.00	-	325,850.00	282,267.49	43,582.51
Cost of Providing Service:					
Salaries and Wages	142,250.00	1,100.00	143,350.00	137,145.52	6,204.48
Fringe Benefits:					
PERS	16,850.00		16,850.00	15,558.84	1,291.16
Social Security	11,200.00		11,200.00	9,719.38	1,480.62
Health Insurance	72,600.00		72,600.00	51,026.61	21,571.39
Total Fringe Benefits	100,650.00	-	100,650.00	76,306.83	24,343.17
Other Expenses:					
Chemicals	1,500.00		1,500.00	135.00	1,365.00
Vehicle Expense	9,500.00	(1,400.00)	8,100.00	6,402.34	1,697.66
Laterals and Vent Covers	1,000.00		1,000.00	179.40	820.60
Repairs and Maintenance	20,000.00		20,000.00	16,718.15	3,281.85
Supplies	16,500.00		16,500.00	12,287.01	4,212.99

(Continued)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
 Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and
 Non-Operating Appropriations Compared to Budget--Non-GAAP (Budgetary) Basis
 Sewer Utility
 For the Fiscal Year Ended July 31, 2018

	Adopted Budget	Transfers/ Modifications	Amended Budget	Actual	Favorable (Unfavorable)
Operating Appropriations (Cont'd):					
Cost of Providing Service (Cont'd):					
Other Expenses:					
Utilities	\$ 53,000.00		\$ 53,000.00	\$ 35,971.41	\$ 17,028.59
Small Equipment Purchases	8,500.00		8,500.00		8,500.00
Telephone	2,300.00		2,300.00	2,006.11	293.89
Training and Seminars	2,100.00		2,100.00	243.07	1,856.93
Railroad Rental	3,200.00		3,200.00	2,932.43	267.57
Transmittal Agreements	57,500.00	\$ 300.00	57,800.00	57,797.32	2.68
Miscellaneous	800.00		800.00	202.50	597.50
Total Other Expenses	175,900.00	(1,100.00)	174,800.00	134,874.74	39,925.26
Total Cost of Providing Service	418,800.00	-	418,800.00	348,327.09	70,472.91
Principal Payments on Debt Service in Lieu of Depreciation	166,340.00	-	166,340.00	166,338.03	1.97
Non-Operating Appropriations:					
Interest on Bonds	29,245.00	-	29,245.00	22,233.72	7,011.28
Total Non-Operating Appropriations	29,245.00	-	29,245.00	22,233.72	7,011.28
Total Budget Appropriations	940,235.00	-	940,235.00	819,166.33	121,068.67
Unrestricted Net Position to Balance Budget	-	-	-	-	-
Total Appropriations and Unrestricted Net Position	940,235.00	-	940,235.00	819,166.33	121,068.67
Excess Budget Revenues Over Budget Appropriations	\$ -	\$ -	\$ -	\$ 190,397.73	\$ 190,397.73
<u>Reconciliation to Operating Loss</u>					
Excess Budget Revenues Over Budget Appropriations				\$ 190,397.73	
Add:					
Principal Payments		\$ 166,338.03			
Bond Interest		22,233.72			
Accruals		481.12			
				189,052.87	
				379,450.60	
Less:					
Non-Operating Income:					
Investment Income - Unrestricted		14,182.17			
Net OPEB Obligation (GASB 75) Accrual		122,005.20			
Net Pension Expense (Adjusted for Payment)		8,561.60			
Prior Year Encumbrances		37,145.38			
Depreciation		181,649.86			
Major Repairs - Sewer General Fund		76,288.12			
				439,832.33	
Operating Loss (Schedule 2)				\$ (60,381.73)	

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue Bonds Payable
Water Utility
For the Fiscal Year Ended July 31, 2018

Purpose	Date of Issue	Amount of Original Issue	Maturities of Bonds Outstanding July 31, 2018		Interest Rate	Balance August 1, 2017	Issued	Paid	Balance July 31, 2018
			Date	Amount					
1985 Water Revenue Bonds	11/1/85	\$ 1,205,000.00	2019	\$ 49,107.88					
			2020	51,594.83					
			2021	54,207.71					
			2022	56,952.92					
			2023	59,817.16					
			2024	62,867.46					
			2025	66,051.22					
			2026	34,264.78	5.00%	\$ 481,604.78		\$ 46,740.82	\$ 434,863.96
1992 Water Revenue Bonds	11/1/92	800,000.00	2019	33,870.67					
			2020	35,759.16					
			2021	37,752.96					
			2022	39,857.93					
			2023	42,080.26					
			2024	44,426.50					
			2025	46,903.55					
			2026	18,344.21	5.50%	331,077.14		32,081.88	298,995.26
1997 Water Revenue Bonds	8/1/97	1,480,000.00		110,000.00	5.20%	215,000.00		105,000.00	110,000.00
						\$ 1,027,681.92	\$ -	\$ 183,822.70	\$ 843,859.22

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of New Jersey Environmental Infrastructure Trust Loan Payable
Water Utility
For the Fiscal Year Ended July 31, 2018

Purpose	Date of Issue	Amount of Original Issue	Maturities of Bonds Outstanding July 31, 2018		Interest Rate	Balance August 1, 2017	Issued	Paid	Balance July 31, 2018
			Date	Amount					
Series 2014A - Trust Loan	5/21/14	\$ 85,000.00	8/1/19	\$ 5,000.00	5.000%				
			8/1/20	5,000.00	5.000%				
			8/1/21	5,000.00	5.000%				
			8/1/22	5,000.00	5.000%				
			8/1/23	5,000.00	5.000%				
			8/1/24	5,000.00	5.000%				
			8/1/25	5,000.00	5.000%				
			8/1/26	5,000.00	5.000%				
			8/1/27	5,000.00	3.000%				
			8/1/28	5,000.00	3.000%				
			8/1/29	5,000.00	3.000%				
			8/1/30	5,000.00	3.000%				
			8/1/31	5,000.00	3.000%				
			8/1/32	5,000.00	3.000%				
			8/1/33	5,000.00	3.125%				
			8/1/34	5,000.00	3.250%	\$ 85,000.00	\$ 5,000.00	\$ 80,000.00	
Series 2014B - Fund Loan	5/21/14	251,049.00	2019	12,765.19					
			2020	12,765.19					
			2021	12,765.19					
			2022	12,765.19					
			2023	12,765.19					
			2024	12,765.19					
			2025	12,765.19					
			2026	12,765.19					
			2027	12,765.19					
			2028	12,765.19					
			2029	12,765.19					
			2030	12,765.19					
			2031	12,765.19					
			2032	12,765.19					
			2033	12,765.19					
			2034	8,510.39					
					NIL	212,753.43		12,765.19	199,988.24
					\$ 297,753.43	\$ -	\$ 17,765.19	\$ 279,988.24	

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of New Jersey Environmental Infrastructure Trust Loan Payable
Sewer Utility
For the Fiscal Year Ended July 31, 2018

Purpose	Date of Issue	Original Issue	Maturities of Loans Outstanding July 31, 2018		Interest Rate	Balance August 1, 2017	Issued	Paid	Balance July 31, 2018
			Date	Amount					
Series 1999A - Trust Loan	10/15/99	\$ 715,000.00	8/1/18	\$ 55,000.00	5.70%	\$ 165,000.00		\$ 50,000.00	\$ 115,000.00
			8/1/19	60,000.00	5.70%				
Series 1999B - Fund Loan	10/15/99	727,500.00	2019	36,480.29	NIL	110,265.94		35,121.07	75,144.87
			2020	38,664.58					
Series 2007A - Trust Loan	11/8/07	530,000.00	8/1/18	25,000.00	5.00%				
			8/1/19	30,000.00	4.00%				
			8/1/20	30,000.00	4.00%				
			8/1/21	30,000.00	5.00%				
			8/1/22	35,000.00	5.00%				
			8/1/23	35,000.00	4.25%				
			8/1/24	35,000.00	4.50%				
			8/1/25	35,000.00	4.50%				
			8/1/26	40,000.00	4.50%				
			8/1/27	35,000.00	4.25%			25,000.00	330,000.00
Series 2007B - Fund Loan	5/21/14	470,714.00	2019	24,996.17	NIL	236,424.12		25,793.24	210,630.88
			2020	27,403.32					
			2021	26,638.14					
			2022	25,777.29					
			2023	27,929.39					
			2024	26,897.19					
			2025	25,920.77					
			2026	24,916.46					
			2027	152.15					
			8/1/18	5,000.00	5.00%				
Series 2014A - Trust Loan	5/21/14	165,000.00	8/1/19	5,000.00	5.00%				
			8/1/20	10,000.00	5.00%				
			8/1/21	10,000.00	5.00%				
			8/1/22	10,000.00	5.00%				
			8/1/23	10,000.00	5.00%				
			8/1/24	10,000.00	3.00%				
			8/1/25	10,000.00	3.00%				
			8/1/26	10,000.00	3.00%				
			8/1/27	10,000.00	3.00%				

(Continued)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of New Jersey Environmental Infrastructure Trust Loan Payable
Sewer Utility
For the Fiscal Year Ended July 31, 2018

Purpose	Date of Issue	Original Issue	Maturities of Loans Outstanding July 31, 2018					Interest Rate	Balance August 1, 2017	Issued	Paid	Balance July 31, 2018
			Date	Amount								
Series 2014A - Trust Loan (Cont'd)	5/21/14	\$ 165,000.00	8/1/27	\$ 10,000.00				3.000%				
			8/1/28	10,000.00				3.000%				
			8/1/29	10,000.00				3.000%				
			8/1/30	10,000.00				3.000%				
			8/1/31	10,000.00				3.000%				
			8/1/32	10,000.00				3.125%				
			8/1/33	10,000.00				3.250%	\$ 155,000.00		\$ 5,000.00	\$ 150,000.00
Series 2014B - Fund Loan	5/21/14	500,000.00	2019	25,423.72								
			2020	25,423.72								
			2021	25,423.72								
			2022	25,423.72								
			2023	25,423.72								
			2024	25,423.72								
			2025	25,423.72								
			2026	25,423.72								
			2027	25,423.72								
			2028	25,423.72								
			2029	25,423.72								
			2030	25,423.72								
			2031	25,423.72								
			2032	25,423.72								
			2033	25,423.72								
			2034	16,949.32				NIL	423,728.84		25,423.72	398,305.12
Series 2017A - Trust Loan	11/21/17	415,000.00	8/1/19	15,000.00				5.000%				
			8/1/20	15,000.00				5.000%				
			8/1/21	15,000.00				5.000%				
			8/1/22	15,000.00				5.000%				
			8/1/23	20,000.00				5.000%				
			8/1/24	20,000.00				5.000%				
			8/1/25	20,000.00				5.000%				
			8/1/26	20,000.00				5.000%				
			8/1/27	20,000.00				2.125%				
			8/1/28	20,000.00				2.375%				
			8/1/29	25,000.00				2.500%				
			8/1/30	25,000.00				2.625%				

(Continued)

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of New Jersey Environmental Infrastructure Trust Loan Payable
Sewer Utility
For the Fiscal Year Ended July 31, 2018

Purpose	Date of Issue	Original Issue	Maturities of Loans Outstanding July 31, 2018		Interest Rate	Balance August 1, 2017	Issued	Paid	Balance July 31, 2018	
			Date	Amount						
Series 2017A - Trust Loan (Cont'd)	11/21/17	\$ 415,000.00	8/1/31	\$ 25,000.00	2.750%					
			8/1/32	25,000.00	2.750%					
			8/1/33	25,000.00	2.875%					
			8/1/34	25,000.00	2.875%					
			8/1/35	25,000.00	3.000%					
			8/1/36	30,000.00	3.000%					
			8/1/37	30,000.00	3.000%	\$ 415,000.00	\$		415,000.00	
Series 2017B - Fund Loan	11/21/17	1,183,073.00	2019	64,104.45						
			2020	64,104.45						
			2021	64,104.45						
			2022	64,104.45						
			2023	64,104.45						
			2024	64,104.45						
			2025	64,104.45						
			2026	64,104.45						
			2027	64,104.45						
			2028	64,104.45						
			2029	64,104.45						
			2030	64,104.45						
			2031	64,104.45						
			2032	64,104.45						
			2033	64,104.45						
			2034	64,104.45						
			2035	64,104.45						
			2036	64,104.45						
			2037	29,192.90						
								NIL		1,183,073.00
						\$ 1,445,418.90	\$ 1,598,073.00	\$ 166,338.03	\$ 2,877,153.87	

PINE HILL MUNICIPAL UTILITIES AUTHORITY

PART II

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JULY 31, 2018

**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
Pine Hill Municipal Utilities Authority
Pine Hill, New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited the Pine Hill Municipal Utility Authority's, in the County of Camden, 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 July 31, 2018. 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 and state 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; 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 Pine Hill Municipal Utility Authority's, in the County of Camden, 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 its 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 Pine Hill Municipal Utility Authority, in the County of Camden, 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 July 31, 2018.

Report on Internal Control Over Compliance

Management of the Pine Hill Municipal Utility Authority's, in the County of Camden, 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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
June 28, 2019

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended July 31, 2018

Federal Grantor/ Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	State GMIS Number	Pass-through Entity Id Number	Program or Award Amount	Matching Funds	Grant Period From To	Revenue Recognized	Total Federal Disbursements /		(Memo Only)	
								Expenditures	Cash Received	Accumulated Expenditures	
U.S. Department of Environmental Protection Agency Pass Through N.J. Department of Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds Greenwood Avenue Pump Station and Madison Avenue Foremain	66.458	not available	S340274-05	\$ 1,183,073.00	n/a	07/20/16 11/27/18	\$ 1,183,073.00	\$ 1,183,073.00	\$ 1,183,073.00	\$ 1,183,073.00	
							1,183,073.00	1,183,073.00	1,183,073.00	1,183,073.00	
							\$ 1,183,073.00	\$ 1,183,073.00	\$ 1,183,073.00	\$ 1,183,073.00	
Total Federal Awards - U.S. Department of Environmental Protection Agency											
				Expended in Prior Years			\$ 1,090,886.74				
				Expended in Current Year			92,186.26				
								\$ 1,183,073.00			

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

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended July 31, 2018

Note 1: GENERAL

The accompanying schedule of expenditures of federal awards includes federal award activity of the Pine Hill Municipal Utilities Authority, County of Camden, State of New Jersey (hereafter referred to as the "Authority") under programs of the federal government for the fiscal year ended July 31, 2018. The Authority is defined in note 1 to the financial statements. The information in this 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). Because this 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: BASIS OF ACCOUNTING

Expenditures reported on the schedule are reported on the accrual basis of accounting as promulgated by the Bureau of Authority Regulation, Department of Community Affairs, State of New Jersey. This basis of accounting is described in note 1 to the financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or 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 FINANCIAL STATEMENTS

The amounts reported in the accompanying schedule agree with amounts reported in the Authority's financial statements.

Note 5: RELATIONSHIP TO FINANCIAL REPORTS

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

Note 6: MAJOR PROGRAMS

Major programs are identified in the *Summary of Auditor's Results* section of the *Schedule of Findings and Questioned Costs*.

PINE HILL MUNICIPAL UTILITIES AUTHORITY
PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JULY 31, 2018

PINE HILL MUNICIPAL UTILITIES AUTHORITY
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended July 31, 2018

Section 1- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified Opinion

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 Opinion

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)?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

U.S. Department of Environmental Protection Agency
 Capitalization Grants -

66.458

Clean Water State Revolving Funds

Dollar threshold used to determine Type A programs

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended July 31, 2018

Section 1- Summary of Auditor's Results (Cont'd)

State Financial Assistance

N/A

Internal control over major programs:

Material weakness(es) identified?

_____ yes _____ no

Significant deficiency(ies) identified?

_____ yes _____ none reported

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

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

_____ yes _____ no

Identification of major programs:

GMIS Number(s)

Name of State Program

Dollar threshold used to determine Type A programs

Auditee qualified as low-risk auditee?

_____ yes _____ no

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended July 31, 2018

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 Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended July 31, 2018

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

36200

PINE HILL MUNICIPAL UTILITIES AUTHORITY
Summary Schedule of Prior Year Audit Findings
and Recommendations 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

APPRECIATION

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Bowman & Company LLP".

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants