

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township, New Jersey)

Financial Statements and Supplementary Information

For the years ended December 31, 2016 and 2015

(With Independent Auditor's Report thereon)

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township, New Jersey)
Financial Statements and Supplementary Information
For the years ended December 31, 2016 and 2015

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BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township, New Jersey)
Financial Statements and Supplementary Information
For the years ended December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners of
Berkeley Township Municipal Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Berkeley Township Municipal Utilities Authority, a component unit of the Township of Berkeley, County of Ocean, State of New Jersey, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 standards prescribed by the Local Finance Board and by the 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Berkeley Township Municipal Utilities Authority, a component unit of the Township of Berkeley, County of Ocean as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and other required supplementary information 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

The Schedule of Revenue, Expenses and Changes in Net Position – Unrestricted and Restricted for the year ended December 31, 2016, the Schedules of Bond Service Requirements by Years for the year ended December 31, 2016, and the Schedules of Debt Service Requirements by Years for the year ended December 31, 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by New Jersey OMB's Circular 15-08, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and is also not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of State Financial Assistance is the responsibility of management and was derived from and relates 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 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 Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Revenue, Expenses and Changes in Net Position – Unrestricted and Restricted for the year ended December 31, 2016, the Schedules of Bond Service Requirements by Years for the year ended December 31, 2016, and the Schedules of Debt Service Requirements by Years for the year ended

December 31, 2016 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2017 on our consideration of the Berkeley Township Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Berkeley Township Municipal Utilities Authority's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 10, 2017
Toms River, New Jersey



Berkeley Township MUNICIPAL UTILITIES AUTHORITY

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Bayville, NJ 08721
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May 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Berkeley Township Municipal Utilities Authority ("Authority") is a self-supporting water treatment plant and distribution entity proudly serving over 3,377 residents and businesses of a bayside community within Berkeley Township, NJ. The treatment plant consists of six rapid sand pressure filters with an automatic flow paced disinfection system. The treated water from three on-site wells is stored in two water storage tanks with a total capacity of 1.4MG. The Authority Board consists of six residents appointed by the Township who provide management oversight and direction. Each Board Member is appointed to a five year term at staggered intervals. Eight employees service a distribution system of approximately 334,450 linear feet of 6" to 16" diameter mains.

The Authority is proud to submit the attached financial statements which reflect the results of management's continued commitment of conservative fiscal planning and performance. We encourage you to visit our website at www.Berkeleymua.org to review the most recent Consumer Confidence Report of Water Quality issued during 2016. We believe the results of these documents honor our mission statement to provide safe, dependable and affordable water to our customers in a manner that protects the public health and environment of our community.

The right contractor, experienced professional support and the blessing of good weather all allowed for the positive accolades received when a committed team completed a construction project on time and under budget. This was the commencement of the first phase (referred to as the 2015 Phase 1/Test Well) of the construction of a fourth water well into the Piney Point Aquifer. The Authority began 2016 focused on the documentation and testing requirements necessary to transition a test well into a production well to service a community. Although the compliance review process was more lengthy than expected we are grateful to the NJDEP for its guidance and for the positive outcome. The Authority plans to initiate the production well construction in 2017. This well will become the primary water source and increase the firm capacity of the treatment plant from 2.0 million gallons per day to 2.5 million gallons per day. This increase will ensure the Authority can support the anticipated growth of the area.

The Authority also completed the Phase VI water main infrastructure addition project during 2016. This project will connect another 100 homes to the public water system, create better water corridors to increase system flow pressures and extend a water line towards a near-by town for a future system interconnect. The BTMUA Board was proud to announce this project also came in on time; under budget; and received \$500,000 in principal forgiveness from the New Jersey Environmental Infrastructure Trust (NJEIT) finance program. The NJEIT principal forgiveness (grant) program decreases the principal debt service requirement from the program's zero interest loan portion.

The website referenced above also includes the 2017 Budget which continues to reflect the Board's emphasis to control costs, secure conservative investment income and to designate funds toward water tower maintenance and asset preservation.

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2016 as compared to the prior year. It should be read in conjunction with the accompanying financial statements.

Financial Statements

The financial statements included in this report are the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2016 and 2015.

The Statements of Net position shows the financial position of the Authority at December 31st of each year. Assets and deferred outflow of resources are compared with liabilities and net position is the result.

The Statements of Revenues, Expenses and Changes in Net Position measure performance for each year and how this performance impacts the net position of the Authority.

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the two years.

Financial Analysis

At December 31, 2016, the Authority had total assets and deferred outflow of resources of \$25,923,011 compared to \$24,493,086 at December 31, 2015. The increase of \$1,429,925 can be primarily attributed to an increase in property, plant and equipment and deferred outflows related to pension.

At December 31, 2016, the Authority had total liabilities and deferred inflow of resources of \$14,095,162 compared to \$12,610,695 at December 31, 2015. This increase of \$1,484,467 is primarily attributed to the award of the New Jersey Environmental Infrastructure Trust short-term construction loan to fund the well #4/Phase I and Phase VI capital projects.

At December 31, 2016, the Authority had total net position of \$11,827,849 compared to \$11,882,391 at December 31, 2015. This decrease of \$54,542 is accounted for primarily from the operating and non-operating expenses exceeding revenues.

The Authority had a change in net position of \$54,542 for the year ended December 31, 2016. This decrease resulted due to operating expenses and non-operating expenses exceeding revenues. The Authority had a change in net position of \$959,810 for the year ended December 31, 2015. This decrease resulted primarily from the recognition of the GASB 68 requirement (see Note 15).

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2016, 2015 and 2014 includes the following balances:

Financial Position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Current unrestricted assets	\$ 3,864,025	\$ 3,241,783	\$ 3,069,390
Current restricted assets	1,555,779	1,755,437	2,065,206
Property, plant and equipment, net	19,983,248	19,232,159	19,264,447
Total assets	<u>25,403,052</u>	<u>24,229,379</u>	<u>24,399,043</u>
DEFERRED OUTFLOW OF RESOURCES			
Unamortized issuance costs, net of accumulated amortization	59,638	61,502	63,366
Loss on bond refunding, net of accumulated amortization	797	822	847
Deferred outflows related to pension	459,524	201,383	-
Total deferred outflow of resources	<u>519,959</u>	<u>263,707</u>	<u>64,213</u>
Total assets and deferred outflow of resources	<u>\$ 25,923,011</u>	<u>\$ 24,493,086</u>	<u>\$ 24,463,256</u>
LIABILITIES			
Current unrestricted liabilities	\$ 235,390	\$ 199,004	\$ 198,015
Current restricted liabilities	2,835,916	1,346,427	844,200
Long-term liabilities	10,659,438	10,680,564	10,380,112
Total liabilities	<u>13,730,744</u>	<u>12,225,995</u>	<u>11,422,327</u>
DEFERRED INFLOW OF RESOURCES			
Bond premium, net of accumulated amortization	167,922	173,169	178,417
Loan premium, net of accumulated amortization	14,889	17,508	20,311
Gain on loan refundings, net of accumulated amortization	174,000	174,000	-
Deferred inflows related to pension	7,607	20,023	-
Total deferred inflow of resources	<u>364,418</u>	<u>384,700</u>	<u>198,728</u>
NET POSITION			
Net investment in capital assets	8,092,256	8,523,983	8,312,492
Restricted net position	1,507,757	1,504,757	1,504,757
Unrestricted net position	2,227,836	1,853,651	3,024,952
Total net position	<u>11,827,849</u>	<u>11,882,391</u>	<u>12,842,201</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 25,923,011</u>	<u>\$ 24,493,086</u>	<u>\$ 24,463,256</u>

Other Financial Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total revenues	\$ 2,169,964	\$ 2,206,394	\$ 2,586,374
Total expenses	<u>2,224,506</u>	<u>2,099,580</u>	<u>2,079,742</u>
Change in net position	<u>\$ (54,542)</u>	<u>\$ 106,814</u>	<u>\$ 506,632</u>
User charges	\$ 1,709,497	\$ 1,736,629	\$ 1,657,026
Bond & loan principal paid	\$ 402,790	\$ 760,485	\$ 886,250
Bond & loan payable	\$ 11,594,616	\$ 10,405,823	\$ 10,817,440

Authority operating revenues had a favorable variance of \$53,635 when compared to the budget for 2016 due primarily to the budget for other operating revenue being lower than what was actually received during the current year.

Authority operating expenses had a favorable variance of \$285,814 when compared to the budget for 2016 primarily due to management's continuing efforts to contain costs whenever possible resulting in various expenses being under budget.

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 42 Station Road, Bayville, New Jersey during business hours or can be viewed at the Authority's website www.Berkeleymua.org.

Respectfully submitted,


Michele Nugent
Executive Director

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

**Statements of Net Position
December 31, 2016 and 2015**

ASSETS	2016	2015
Current unrestricted assets:		
Cash and cash equivalents	\$ 1,025,008	\$ 731,943
Investments	2,150,000	1,835,500
Interest receivable	5,765	7,615
Billed user fees receivable	621,744	607,563
Connection fee installment receivable	34,632	37,430
Other receivables	15,750	10,324
Prepaid expenses	11,126	11,408
Total current unrestricted assets	3,864,025	3,241,783
Current restricted assets:		
Cash and cash equivalents	712,295	911,331
Investments	570,000	753,800
Interest receivable	41	4,901
Other restricted receivables	273,443	85,405
Total current restricted assets	1,555,779	1,755,437
Property, plant and equipment	30,903,119	29,401,118
Less: accumulated depreciation	(10,919,871)	(10,168,959)
Property, plant and equipment, net	19,983,248	19,232,159
Total assets	25,403,052	24,229,379
DEFERRED OUTFLOW OF RESOURCES		
Unamortized issuance costs, net of accumulated amortization	59,638	61,502
Loss on bond refunding, net of accumulated amortization	797	822
Deferred outflows related to pension	459,524	201,383
Total deferred outflow of resources	519,959	263,707
Total assets and deferred outflow of resources	\$ 25,923,011	\$ 24,493,086

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Statements of Net Position (continued)

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current unrestricted liabilities:		
Accounts payable	\$ 53,378	\$ 38,426
Customer overpayments	17,438	9,374
Accrued expenses	64,741	60,224
Unearned revenue	1,079	995
Unearned connection fee revenue	49,882	42,288
Pensions payable	48,872	47,697
Total current unrestricted liabilities	<u>235,390</u>	<u>199,004</u>
Current restricted liabilities:		
Current portion of bonds payable	202,651	196,615
Current portion of loans payable	247,378	251,167
Construction loan payable	2,114,451	522,868
Accrued interest payable	65,513	54,047
Developer deposits	205,923	321,730
Total current restricted liabilities	<u>2,835,916</u>	<u>1,346,427</u>
Long-term liabilities:		
Bonds payable - long-term	6,291,083	6,493,742
Loans payable - long-term	2,739,053	2,941,431
Net pension liability	1,629,302	1,245,391
Total long-term liabilities	<u>10,659,438</u>	<u>10,680,564</u>
Total liabilities	<u>13,730,744</u>	<u>12,225,995</u>
DEFERRED INFLOW OF RESOURCES		
Bond premium, net of accumulated amortization	167,922	173,169
Loan premium, net of accumulated amortization	14,889	17,508
Gain on loan refundings, net of accumulated amortization	174,000	174,000
Deferred inflows related to pension	7,607	20,023
Total deferred inflow of resources	<u>364,418</u>	<u>384,700</u>
NET POSITION		
Net investment in capital assets	8,092,256	8,523,983
Restricted net position:		
Debt service fund	489,868	489,868
Debt service reserve fund	677,889	677,889
Capital	360,000	340,000
Unrestricted net position:		
Reserved by board designation	690,000	640,000
Unreserved	1,517,836	1,210,651
Total restricted and unrestricted net position	<u>3,735,593</u>	<u>3,358,408</u>
Total net position	<u>11,827,849</u>	<u>11,882,391</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 25,923,011</u>	<u>\$ 24,493,086</u>

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Statements of Revenue, Expenses and Changes in Net Position
For the years ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
User charges	\$ 1,709,497	\$ 1,736,629
Connection fees	61,071	72,289
Other operating revenue	51,078	64,760
Total revenues	\$ 1,821,646	\$ 1,873,678
Operating expenses:		
Cost of providing services	529,262	530,787
Administrative and general	457,524	439,369
Depreciation	750,912	717,310
Unbudgeted pension expense	113,354	45,104
Total operating expenses	1,851,052	1,732,570
Net gain from operations	(29,406)	141,108
Non-operating revenues/(expenses):		
Water tower rental	239,804	256,891
Interest income	23,385	20,091
Interest expense	(287,435)	(280,756)
Township appropriation	(86,019)	(86,254)
Amortization premium/(bond costs), net	5,978	6,162
Donated property	79,151	8,294
FEMA reimbursements	-	41,278
Total non-operating revenue/(expenses)	(25,136)	(34,294)
Changes in net position	(54,542)	106,814
Net position, January 1	11,882,391	12,842,201
Prior period restatement (see Note 15)	-	(1,066,624)
Net position, January 1, as restated	11,882,391	11,775,577
Net position, December 31	\$ 11,827,849	\$ 11,882,391

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from service users	\$ 1,465,656	\$ 2,092,747
Cash paid to suppliers	(503,082)	(547,129)
Cash paid to employees	(462,778)	(449,807)
Cash received from others	51,078	64,760
	<hr/>	<hr/>
Cash flows from operating activities	550,874	1,160,571
	<hr/>	<hr/>
Cash flows from investing activities:		
Acquisition and construction of property, plant and equipment	(1,422,849)	(676,728)
Interest earned on investments	30,095	14,197
(Purchases)/maturities of investments	(130,700)	(1,089,300)
Township appropriation	(86,019)	(86,254)
Cash received from water tower rentals	239,804	256,891
Cash received from FEMA reimbursements	-	41,278
	<hr/>	<hr/>
Cash flows from investing activities	(1,369,669)	(1,539,916)
	<hr/>	<hr/>
Cash flows from financing activities:		
Principal paid on long-term debt	(402,790)	(760,485)
Proceeds received from NJEIT loans	1,591,583	522,868
Interest paid	(275,969)	(297,943)
	<hr/>	<hr/>
Cash flows from financing activities	912,824	(535,560)
	<hr/>	<hr/>
Net change in cash	94,029	(914,905)
Unrestricted and restricted cash, January 1	1,643,274	2,558,179
	<hr/>	<hr/>
Unrestricted and restricted cash, December 31	\$ 1,737,303	\$ 1,643,274
	<hr/>	<hr/>
Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 1,025,008	\$ 731,943
Current restricted asstes:		
Cash and cash equivalents	712,295	911,331
	<hr/>	<hr/>
Total cash and cash equivalents, December 31	\$ 1,737,303	\$ 1,643,274
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Statements of Cash Flows (continued)

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating revenue over expenses to cash flows from operating activities:		
Operating revenues over expenses	\$ (29,406)	\$ 141,108
Items which did not use cash:		
Depreciation	750,912	717,310
Unbudgeted pension expense	113,354	45,104
Working capital changes which (used) provided cash:		
Billed user fees receivable	(14,181)	13,506
Connection fee installment receivable	2,798	(22,230)
Other receivables	(193,464)	323,286
Prepaid expenses	282	3,103
Accounts payable	14,952	(38,578)
Pensions payable	1,175	-
Customer overpayments	8,064	(1,106)
Accrued expenses	4,517	8,695
Unearned revenue	84	(79)
Unearned connection fee revenue	7,594	(15,640)
Developer deposits	(115,807)	(13,908)
	<u> </u>	<u> </u>
Cash flows from operating activities	<u>\$ 550,874</u>	<u>\$ 1,160,571</u>

The accompanying notes are an integral part of these financial statements.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements

For the years ended December 31, 2016 and 2015

NOTE 1: ORGANIZATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

Creation of Authority

Berkeley Township Municipal Utilities Authority (the "Authority"), a public body, corporate and politically organized and existing under the Municipal Utilities Authority Law, constituting Chapter 183 of the Pamphlet Laws of 1957, as amended and supplemented, was created by virtue of ordinance number 88-4-OAB of the Township of Berkeley (the "Township") in the County of Ocean, New Jersey, on January 18, 1988.

The Authority owns a water supply and distribution system which services portions of the Township within the franchise areas as more fully set forth in the Water Supply Master Plan as adopted by the Authority.

The Authority's basic financial statements include all accounts of the Authority's operations.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

At December 31, 2016, the Authority has 3,377 users connected to the system.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets was renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Whereas the provisions of this Statement was effective for financial statements for periods beginning after December 15, 2011, the Authority had implemented this Statement in the financial statements for the year ended December 31, 2012.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Although the provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, the Authority elected to implement it as a prior period adjustment in fiscal year 2012.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Accounting (continued)

For the year ended December 31, 2015, the Authority implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

B. Budgetary Accounting

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

C. Cash, Cash Equivalents and Investments

New Jersey Authorities 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 the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey authorities. The Authority is required to deposit funds in a public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect government units from a loss of funds on deposit with a failed banking institution in New Jersey. *N.J.S.A. 17:9-42* requires government units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

New Jersey Authorities 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

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Cash, Cash Equivalents and Investments (continued)

United States or of the State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey authorities. The Authority is required to deposit funds in a public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect government units from a loss of funds on deposit with a failed banking institution in New Jersey. *N.J.S.A. 17:9-42* requires government units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public Funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of government units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the government units.

For the Statements of Cash Flows, the Authority combines the unrestricted cash and cash equivalents with the restricted cash and cash equivalents. The Authority considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

D. Restricted Accounts

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	All revenue received by the Authority	Authorized operating expenses and expenses and transfers to the various accounts described below
Debt Service	Amount needed to pay maturing interest and principal	Principal and interest on the bonds
Construction	Proceeds of debt issued and construction	Construction costs of the water systems
Costs of Issuance	Proceeds of debt issued	Costs of issuing the debt
Capitalized Interest	Proceeds of debt issued	Interest on the bonds
Bond Reserve	Proceeds of debt issued	Principal and interest on bonds to the extent of deficiencies in the debt service fund

E. Investments

Investments are carried at lower of cost or market plus accrued interest shown separately and consist of certificates of deposits.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. The assets are then transferred to the appropriate capital assets account and depreciated on a straight-line basis over the asset's estimated useful life.

Depreciation is computed, as established by the Division of Local Government Services, Department of Community Affairs, State of New Jersey for Municipal Utilities Authorities, on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are:

Water plant	40 years
Water system improvements	40 years
Furniture and fixtures	5-7 years
Machinery and equipment	5-7 years
Vehicles	5 years

G. Unamortized Issuance Costs

Certain insurance costs incurred with the issuance of Bonds have been capitalized in accordance with GASB Statement No. 65 and are being amortized over the life of the respective issue based on the straight line method. Unamortized debt issuance costs at December 31, 2016 and 2015 are \$59,638 and \$61,502, respectively.

H. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

I. Compensated Absences

Authority employees are entitled to certain compensated absences for vacation and sick time. Unused sick time can be carried forward to the following year up to a maximum of thirty days. Accrued sick and vacation time at December 31, 2016 and 2015 are \$50,184 and \$46,781, respectively and is included in accrued expenses in the accompanying statements of net position.

J. Unearned Connection Fee Revenue

Unearned connection fees are prepaid connection fees paid by vacant lot owners in the area serviced by the Water System.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue Recognition (continued)

The Authority recognizes revenue on the accrual basis as earned. The majority of the Authority's billings are subject to, in the event of nonpayment, local tax sale. The Authority classifies all fees and charges to provide water services as operating revenue and all other income as non-operating revenue.

L. Contributions

Contributions received from various sources as grants are recorded in the period they become measurable. Developer financed construction is recorded in the period in which the system is donated to the Authority. Donated assets are recorded at fair market value at the date of the gift. All contributions and donations are recorded separately after non-operating revenues and expenses.

M. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following five components: net investments in capital assets; restricted for capital activity; restricted for debt service; reserved by board designation; and unreserved net position. Net investments in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Reserved by board designation consists of net position for which constraints are placed thereon by the board of commissioners. Unreserved net position consists of all other net position not included in the above categories.

N. Unearned Revenue

Unearned revenue consists of user charges which have not been earned by the Authority. When the user charges are earned and when owners in the service area are connected, revenue is recognized and unearned revenue is removed from the statement of net position.

O. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Authority is required to measure certain investments at fair value for financial reporting purposes. In addition, the Authority is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Implementation of this Statement did not impact the Authority's financial statements.

Recently Issued Accounting Pronouncements

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

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Impact of Recently Issued Accounting Principles (continued)

ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement will be effective for the year ended December 31, 2017. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Impact of Recently Issued Accounting Principles (continued)

measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Q. Fair Value Measurement

The Authority categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values.

Subsequent to initial recognition, the Authority may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The following methods and assumptions were used by the Authority in estimating the fair value of its financial instruments:

Certificate of Deposit: Valued at the net asset value (NAV) at year end when the NAV is valued at \$1 per unit.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

R. Township Appropriation

The Township of Berkeley appropriates the Authority's net position to the maximum amount allowed by State law. The appropriation for 2016 and 2015 totaled \$86,019 and \$86,254, respectively, and is recorded as non-operating expenses.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Subsequent Events

The Authority has evaluated subsequent events occurring after December 31, 2016 through May 10, 2017, which is the date the financial statements were available to be issued. No events requiring disclosure in the financial statements were identified.

NOTE 3: CASH AND CASH EQUIVALENTS

The Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2016 and 2015, and reported at fair value are as follows:

	<u>2016</u>	<u>2015</u>
Deposits:		
Demand deposits	\$ 714,050	\$ 826,947
Money market funds	<u>1,023,253</u>	<u>816,327</u>
Total deposits	<u>\$ 1,737,303</u>	<u>\$ 1,643,274</u>
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 1,025,008	\$ 731,943
Current restricted assets:		
Cash and cash equivalents	<u>712,295</u>	<u>911,331</u>
Total cash and cash equivalents	<u>\$ 1,737,303</u>	<u>\$ 1,643,274</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2015, the Authority's bank balance of \$1,914,520 and \$1,663,138, respectively, was insured or collateralized as follows:

	<u>2016</u>	<u>2015</u>
Insured	\$ 500,000	\$ 500,000
Collateralized in the Authority's name under GUDPA	<u>1,414,520</u>	<u>1,163,138</u>
Total	<u>\$ 1,914,520</u>	<u>\$ 1,663,138</u>

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. All of the Authority's investments are held in the name of the Authority and are collateralized by GUDPA.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 4: INVESTMENTS (continued)

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Authority has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

C. Investment Credit Risk

The Authority has no investment policy that limits its investment choices other than the limitation of state law as follows:

- 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 federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Authority or bonds or other obligations of the local unit or units within which the Authority is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Authority;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

As of December 31, 2016 and 2015, the Authority had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>2016</u>	<u>2015</u>
Certificates of Deposit	Various	Various	\$ 2,720,000	\$ 2,589,300
Total investments			<u>\$ 2,720,000</u>	<u>\$ 2,589,300</u>

Reconciliation to Statements of Net Position:

Current unrestricted assets:				
Investments			\$ 2,150,000	\$ 1,835,500
Current restricted assets:				
Investments			<u>570,000</u>	<u>753,800</u>
Total investments			<u>\$ 2,720,000</u>	<u>\$ 2,589,300</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 4: INVESTMENTS (continued)

D. Fair Value of Investments

Investments are shown at fair value on the statement of net position with accrued interest shown under a separate caption. Investments are summarized as follows at December 31, 2015:

	<u>Cost</u>	<u>Market</u>
Certificates of Deposit collateralized in the Authority's name under GUDPA	\$ <u>2,720,000</u>	\$ <u>2,720,000</u>
Total fair value of investments	\$ <u>2,720,000</u>	\$ <u>2,720,000</u>

Investments are summarized as follows at December 31, 2015:

	<u>Cost</u>	<u>Market</u>
Certificates of Deposit collateralized in the Authority's name under GUDPA	\$ <u>2,589,300</u>	\$ <u>2,589,300</u>
Total fair value of investments	\$ <u>2,589,300</u>	\$ <u>2,589,300</u>

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable – billed	\$ 621,744	\$ 607,563
Accounts receivable – connection fee installments	34,632	37,430
Accounts receivable – interest	5,806	12,516
Accounts receivable – NJEIT loan funds	193,693	42,615
Accounts receivable – NJEIT interest credits*	34,750	41,050
Accounts receivable – NJEIT principal credits*	45,000	-
Accounts receivable – other	<u>15,750</u>	<u>12,064</u>
	\$ <u>951,375</u>	\$ <u>753,238</u>

The Authority believes that all receivables are collectible and has not established an allowance for doubtful accounts.

*During the year ended December 31, 2014, NJEIT granted loans to the Authority in excess of the project costs. \$45,000 of the excess funding will be de-obligated in the coming years by reducing the principal payments and \$34,750 will be de-obligated by reducing the loan interest payments in future years as follows:

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 5: ACCOUNTS RECEIVABLE (continued)

Fiscal Year <u>Ending:</u>	Principal <u>Credits</u>	Interest <u>Credits</u>
2017	\$ 5,000	\$ 6,150
2018	5,000	5,900
2019	5,000	5,650
2020	10,000	5,400
2021	10,000	4,900
2022	10,000	4,400
2023	-	2,350
	<u>\$ 45,000</u>	<u>\$ 34,750</u>

NOTE 6: PROPERTY, PLANT AND EQUIPMENT, NET

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets that are not being depreciated:				
Land	\$ 143,608	\$ 51,743	\$ -	\$ 195,351
Well #4 construction in progress	610,336	59,841	-	670,177
Phase VI construction in progress	145,407	1,325,375	(1,470,782)	-
Total capital assets not being depreciated	<u>899,351</u>	<u>1,436,959</u>	<u>(1,470,782)</u>	<u>865,528</u>
Improvements other than building	23,540,676	1,522,312	-	25,062,988
Machinery and equipment	130,027	-	-	130,027
Furniture and fixtures	61,302	-	-	61,302
Water plant	4,618,821	13,512	-	4,632,333
Vehicles	150,941	-	-	150,941
Totals at historical cost	<u>28,501,767</u>	<u>1,535,824</u>	<u>-</u>	<u>30,037,591</u>
Less accumulated depreciation:	<u>(10,168,959)</u>	<u>(750,912)</u>	<u>-</u>	<u>(10,919,871)</u>
Total capital assets being depreciated net of accumulated depreciation	<u>18,332,808</u>	<u>784,912</u>	<u>-</u>	<u>19,117,720</u>
Government activities capital assets, net	<u>\$ 19,232,159</u>	<u>\$ 2,221,871</u>	<u>\$ (1,470,782)</u>	<u>\$ 19,983,248</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 7: CONSTRUCTION LOAN PAYABLE

In order to finance the Phase IV construction, the Authority has been drawing down on a construction loan granted by NJEIT in 2015 to be utilized as work progresses through the completion of such construction. As of December 31, 2016, the amount borrowed and outstanding under such loan was \$522,868.

In order to finance the Phase VI construction, the Authority has been drawing down on a construction loan granted by NJEIT in 2016 to be utilized as work progresses through the completion of such construction. As of December 31, 2016, the amount borrowed and outstanding under such loan was \$1,591,583.

As of December 31, 2016, the entire amount of construction loans outstanding is \$2,114,451 and is reflected as a current liability, however, once payment terms are identified, a portion will be reflected as long-term debt.

NOTE 8: BONDS PAYABLE

Bonds payable at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
\$1,650,000 Water Revenue Bonds (Series 2003) due in semi-annual installments of \$38,031 including interest through May 1, 2043, interest rate of 3.25%.	\$ 1,343,734	\$ 1,375,357
\$6,020,000 Water Revenue Refunding Bonds (Series 2012) due in semi-annual installments including interest through November 1, 2048, interest rates of 2 to 4%.	<u>5,150,000</u>	<u>5,315,000</u>
Subtotal	6,493,734	6,690,357
Less: current portion	<u>(202,651)</u>	<u>(196,615)</u>
Bonds payable – long-term	<u>\$ 6,291,083</u>	<u>\$ 6,493,742</u>

Revenue bonds outstanding as of December 31, 2016 are shown as followed:

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 8: BONDS PAYABLE (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 202,651	\$ 206,905	\$ 409,556
2018	208,721	200,735	409,456
2019	214,826	194,380	409,206
2020	225,967	187,839	413,806
2021	227,145	182,861	410,006
2022-2026	1,239,799	816,080	2,055,879
2027-2031	1,440,621	612,808	2,053,429
2032-2036	1,477,708	338,220	1,815,929
2037-2041	877,158	136,140	1,013,298
2042-2046	289,139	38,285	327,424
2047-2049	89,999	4,548	94,547
	<u>\$ 6,493,734</u>	<u>\$ 2,918,801</u>	<u>\$ 9,412,535</u>

On December 11, 2012, the Authority refunded debt with an issuance of \$6,020,000. Series 1995A, Series 1995B, Series 1999, Series 2000, Series 2009A and Series 2009B were refunded. Series 1993 was advanced refunded as well with redemption in January of 2013. The refunding resulted in a loss on refunding of \$897 in the current year; however, the refunding will produce a net savings of approx. \$1,548,000 for the Authority over the life of the new bond series.

NOTE 9: LOANS PAYABLE

Loans payable at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
The 2007A NJEIT Trust fund loans are due in semi-annual principal installments of \$40,953 to \$105,347 through August 1, 2026, at zero percent interest.	\$ 980,841	\$ 1,085,544
The 2014A NJEIT Trust Loans are due in annual principal installments of \$10,000 to \$15,000 through August 1, 2033, at interest rates ranging from 3.0% to 5.0%.	160,000	115,000
The 2014A NANO NJEIT Trust Loans are due in annual principal installments of \$11,409 to \$16,407 through August 1, 2033, at interest rates ranging from 0.2% to 3.35%.	227,167	238,598
The 2014A NANO NJEIT Trust fund loans are due in semi-annual principal installments of \$4,237 to \$8,475 through August 1, 2033, at zero percent interest.	216,102	228,814

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 9: LOANS PAYABLE (continued)

The 2014A NJEIT Trust fund loans are due in semi-annual principal installments of \$9,107 to \$18,215 through August 1, 2033, at zero percent interest.	191,321	218,642
The 2015A-R1 refunding loan is due in annual principal installments of \$86,000 to \$138,000 through August 1, 2027 at interest rates ranging from 2.28% to 3.32%.	<u>1,211,000</u>	<u>1,306,000</u>
Subtotal	2,986,431	3,192,598
Less: current portion	<u>(247,378)</u>	<u>(251,167)</u>
Loans payable – long-term	<u>\$ 2,739,053</u>	<u>\$ 2,941,431</u>

A. New Jersey Environmental Infrastructure Trust Series 2007A, 2014A and 2015A-R1 NANO Loans Payable

On November 8, 2007, the Authority borrowed \$3,910,813 through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the 2007A Issue, \$1,865,813, was issued with no interest rate. The loans mature semi-annually from August 1, 2008 through August 1, 2026 at maturities ranging from \$40,953 to \$105,347.

The “Trust” (State Funds) portion of the 2007A Issue, \$2,045,000, mature annually from August 1, 2008 through 2027 at annual maturities ranging from \$76,323 to \$155,000 and bear interest at rates ranging from 4.00% to 5.00%. The trust portion of the 2007 issue was refunding during the year ended December 31, 2015 to the 2015A-R1 refunding loan.

On May 22, 2014, the Authority borrowed \$1,680,007 through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the 2014A Issue, \$510,007, was issued with no interest rate. The “Fund” (Federal Funds) portion of the 2014A NANO Issue, \$250,000, was issued with no interest rate. The principal forgiveness portion of the 2014A NANO Issue, \$500,000 was issued with no interest rate. The entire \$500,000 was recognized as NJEIT debt forgiveness revenue as of December 31, 2014 since revenue is realized in the year allowable costs have been approved. The remaining loans mature semi-annually from August 1, 2014 through August 1, 2033 at maturities ranging from \$4,237 to \$18,215.

The “Trust” (State Funds) portion of the 2014A Issue, \$170,000, mature annually from August 1, 2014 through 2033 at annual maturities ranging from \$5,000 to \$15,000 and bear interest at rates ranging from 3.00% to 5.00%. The “Trust” (State Funds) portion of the 2014A NANO Issue, \$250,000, mature annually from August 1, 2014 through 2033 at annual maturities ranging from \$11,409 to \$16,407 and bear interest at rates ranging from 0.2% to 3.35%.

In 2015, the 2007A “Trust” loans were refunded to the 2015A-R1 Issue, \$1,306,000, mature annually from August 1, 2016 through 2027 at annual maturities ranging from \$86,000 to \$138,000 and bear interest rates ranging from 2.28% to 3.32%.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 9: LOANS PAYABLE (continued)

A. New Jersey Environmental Infrastructure Trust Series 2007A, 2014A and 2015A-R1 NANO Loans Payable (continued)

Schedule of annual debt service for principal and interest for loans payable, over the next five years and five year increments thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 247,378	\$ 72,177	\$ 319,555
2018	251,452	67,552	319,004
2019	255,407	62,687	318,094
2020	266,940	57,591	324,530
2021	272,380	51,907	324,288
2022-2026	1,286,015	165,368	1,451,384
2027-2031	324,137	44,708	368,845
2032-2034	82,721	2,918	85,639
	<u>\$ 2,986,431</u>	<u>\$ 524,907</u>	<u>\$ 3,511,338</u>

NOTE 10: REFUNDING OF 2007 NEW JERSEY INFRASTRUCTURE TRUST LOAN

On November 10, 2015, the Authority issued Series 2015A-R1 NJEIT Refunding Bonds in the amount of \$1,306,000. The proceeds of this issuance were utilized to refund the 2007 NJEIT trust loan outstanding. The Refunding Bonds issued resulted in a net gain on refunding of \$174,000 in the current year and the refunding is expected to produce a net savings of approximately \$197,046 over the life of the new bond series. The \$174,000 gain on refunding is recognized as a deferred inflow of resources and will be amortized over the life of the loan.

NOTE 11: PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

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

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

The following represents the membership tiers for PERS:

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

<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 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and 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.

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Components of Net Pension Liability - At December 31, 2016, the Authority reported a liability of \$1,629,302 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Authority's proportion measured as of June 30, 2016, was .00550%, which was a decrease of .00005% from its proportion measured as of June 30, 2015.

Collective Balances at December 31, 2016 and December 31, 2015

	<u>12/31/2016</u>	<u>12/31/2015</u>
Actuarial valuation date (including roll forward)	June 30, 2016	June 30, 2015
Deferred Outflows of Resources	\$ 459,524	\$ 201,383
Deferred Inflows of Resources	\$ 7,607	\$ 20,023
Net Pension Liability	\$ 1,629,302	\$ 1,245,391
Authority's portion of the Plan's total net pension Liability	0.00550%	0.00555%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the Authority recognized pension expense of \$113,354. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 30,300	\$ -
Changes of Assumptions	337,504	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	62,127	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	29,593	7,607
	<u>\$ 459,524</u>	<u>\$ 7,607</u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

The amount of \$48,872 resulting from the Authority's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending Dec 31,	PERS	Deferred Outflow of Resources	Deferred Inflow of Resources
2017	\$ 103,738		
2018	103,736		
2019	118,939		
2020	97,176		
2021	28,328		
	\$ 451,917		
Differences between Expected and Actual Experience			
Year of Pension Plan Deferral:			
June 30, 2014	-	-	
June 30, 2015	5.72	-	
June 30, 2016	5.57	-	
Changes of Assumptions			
Year of Pension Plan Deferral:			
June 30, 2014	6.44	-	
June 30, 2015	5.72	-	
June 30, 2016	5.57	-	
Net Difference between Projected and Actual Earnings on Pension Plan Investments			
Year of Pension Plan Deferral:			
June 30, 2014	-	5.00	
June 30, 2015	-	5.00	
June 30, 2016	5.00	-	
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions			
Year of Pension Plan Deferral:			
June 30, 2014	6.44	6.44	
June 30, 2015	5.72	5.72	
June 30, 2016	5.57	5.57	

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Actuarial Assumptions - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	<u>PERS</u>
Inflation	3.08%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.65%
Mortality Rate Table	RP-2000
Period of Actuarial Experience	
Study upon which Actuarial	
Assumptions were Based	July 1, 2011 - June 30, 2014

Pre-retirement 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 rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the 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 scales. 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).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment grade credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global debt ex U.S.	5.00%	-0.25%
REIT	<u>5.25%</u>	5.63%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 11: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	1% Decrease <u>(2.98%)</u>	Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 1,996,519</u>	<u>\$ 1,629,302</u>	<u>\$ 1,326,132</u>

NOTE 12: POST-RETIREMENT BENEFITS

The Authority participates in the New Jersey State Health Benefits Program ("the SHBP"), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" ("OPEB"). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis.

NOTE 13: RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority is a member of the New Jersey Utilities Authorities Joint Insurance Fund (JIF). The joint insurance pool is both an insured and self-administered group of 80 authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The JIF will be self-sustaining through member premiums. The JIF participates in the Municipal Excess Liability Insurance program which has a contract for excess insurance. There were no settlements in excess of insurance coverage for 2016, 2015, or 2014.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to Financial Statements (continued)

For the years ended December 31, 2016 and 2015

NOTE 14: DONATED PROPERTY

In 2016, a property owner constructed and donated a water main to the Authority. The total value of the dedicated water main is \$27,408. Ownership was assumed, recorded and acceptance of the maintenance bond was authorized at the completion of each project.

In 2016, a parcel of land was also donated to the Authority and was valued at \$51,743.

In 2015, a property owner constructed and donated a water main to the Authority. The total value of the dedicated water main is \$8,294. Ownership was assumed, recorded and acceptance of the maintenance bond was authorized at the completion of each project.

All of these donated properties were treated as non-operating revenue in the statement of revenues, expenses and changes in net position and capitalized on the Authority's statement of net position for the years ended December 31, 2016 and 2015.

NOTE 15: PRIOR PERIOD ADJUSTMENT/RESTATEMENT OF NET POSITION

Net position as of January 1, 2015 has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

	Governmental <u>Activities</u>
Net Position as previously reported at December 31, 2014	\$ 12,842,201
Prior period adjustment -	
Implementation of GASB 68:	
Net Pension Liability (measurement date as of June 30, 2014)	(1,020,389)
PERS Pension Payable (2015 Authority PERS Pension Contribution)	(44,929)
Deferred Outflows (measurement date as of June 30, 2014)	59,504
Deferred Inflows (measurement date as of June 30, 2014)	(60,810)
Total prior period adjustment	<u>(1,066,624)</u>
Net Position as restated, January 1, 2015	<u><u>\$ 11,775,577</u></u>

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Operating Revenues and Costs Compared to Budget
For the year ended December 31, 2016
(With comparative totals for the year ended December 31, 2015)

Schedule I

	December 31, 2016			December 31, 2015				
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
Revenues:								
User charges	\$ 1,752,000	1,752,000	\$ 1,709,497	\$ (42,503)	\$ 1,675,000	1,675,000	\$ 1,736,629	\$ 61,629
Connection fees	46,200	46,200	61,071	14,871	92,400	92,400	72,289	(20,111)
Interest earned on connection fees	-	-	1,240	1,240	-	-	380	380
Other operating revenue	-	-	49,838	49,838	-	-	64,380	64,380
Water tower rentals	220,000	220,000	239,804	19,804	244,500	244,500	256,891	12,391
Interest income	13,000	13,000	23,385	10,385	9,000	9,000	20,091	11,091
Total operating revenues	2,031,200	2,031,200	2,084,835	53,635	2,020,900	2,020,900	2,150,660	129,760
Expenses:								
Cost of providing services:								
Salaries	250,000	254,000	252,705	1,295	244,000	244,000	251,535	(7,535)
Payroll taxes and fringe benefits	166,486	166,486	126,454	40,032	148,800	148,800	139,162	9,638
Utilities and natural gas	90,000	90,000	74,482	15,518	90,000	90,000	72,605	17,395
Plant and system expense	99,600	99,600	54,071	45,529	103,000	103,000	42,126	60,874
Permits and fees	20,000	20,000	14,890	5,110	20,000	20,000	14,070	5,930
Uniforms	4,000	4,000	1,994	2,006	4,000	4,000	2,440	1,560
Vehicle expense	14,000	14,000	4,666	9,334	12,000	12,000	8,849	3,151
Total cost of providing services	644,086	648,086	529,262	118,824	621,800	621,800	530,787	91,013
Administrative and general expenses:								
Salaries	211,000	207,000	210,073	(3,073)	206,250	206,250	198,272	7,978
Payroll taxes and fringe benefits	142,514	142,514	105,121	37,393	161,200	161,200	109,694	51,506
Office supplies and expenses	60,000	60,000	41,411	18,589	60,000	60,000	42,925	17,075
Advertising and printing	4,000	4,000	1,758	2,242	4,000	4,000	1,492	2,508
Telephone	11,000	11,000	9,322	1,678	11,000	11,000	9,061	1,939
Engineering fees	60,000	60,000	11,139	48,861	85,000	85,000	1,783	83,217
Legal fees	40,000	40,000	9,010	30,990	40,000	40,000	7,711	32,289

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Operating Revenues and Costs Compared to Budget
For the year ended December 31, 2016
(With comparative totals for the year ended December 31, 2015)

	December 31, 2016			December 31, 2015				
	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
Administrative and general expenses (continued):								
Accounting services	50,000	50,000	29,184	20,816	50,000	50,000	26,797	23,203
Trustee fees	16,000	16,000	13,595	2,405	14,500	14,500	13,595	905
Insurance	25,000	25,000	20,557	4,443	25,000	25,000	20,325	4,675
Postage and freight	9,000	9,000	6,249	2,751	9,000	9,000	7,714	1,286
Total administrative and general expenses	628,514	624,514	457,524	166,990	665,950	665,950	439,369	226,581
Non-operating expenses:								
Interest paid	285,907	285,907	275,969	9,938	301,180	301,180	297,943	3,237
Debt service	447,782	447,782	402,790	44,992	437,328	437,328	437,335	(7)
Township appropriation	86,019	86,019	86,019	-	86,254	86,254	86,254	-
Total non-operating revenues/(expenses)	819,708	819,708	764,778	54,930	824,762	824,762	821,532	3,230
Capital outlay and reserves:								
Renewal and replacement	20,000	20,000	20,000	-	20,000	20,000	20,000	-
Tower maintenance	50,000	50,000	-	50,000	50,000	50,000	-	50,000
Well #4 (capitalized)	1,000,500	1,000,500	-	1,000,500	1,100,000	1,100,000	-	1,100,000
Watermain Phase VI (capitalized)	3,034,000	3,034,000	-	3,034,000	-	-	-	-
Equipment/vehicles	141,500	141,500	-	141,500	77,000	77,000	-	77,000
Total capital outlay and reserves	4,246,000	4,246,000	20,000	4,226,000	1,247,000	1,247,000	20,000	1,227,000
Total expenses	6,338,308	6,338,308	1,771,564	4,566,744	3,359,512	3,359,512	1,811,688	1,547,824
Excess operational revenues over expenses	\$ (4,307,108)	\$ (4,307,108)	313,271	\$ 4,620,379	\$ (1,338,612)	\$ (1,338,612)	338,972	\$ 1,677,584
Plus:								
Capital outlay and reserves			20,000				20,000	
Amortization premium/(bond costs), net			5,978				6,162	
Donated property			79,151				8,294	
Debt service			402,790				437,335	
FEMA reimbursements			-				41,278	
Less:								
Depreciation			(750,912)				(717,310)	
Unbudgeted pension expense			(113,354)				(45,104)	
Adjustment for interest accrual			(11,466)				17,187	
Change in net position per Statements of Revenue, Expenses and Changes in Net Position			\$ (54,542)				\$ 106,814	

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportion of the net pension liability (asset)	0.00550%	0.00555%	0.00545%	0.00528%
Authority's proportionate share of the net pension liability (asset)	\$ 1,629,302	\$ 1,245,391	\$ 1,020,389	\$ 1,009,145
Authority's covered-employee payroll	\$ 393,181	\$ 379,990	\$ 368,749	\$ 377,777
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	414.39%	327.74%	276.72%	267.13%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%	48.72%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Authority Contributions
Public Employees' Retirement System
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 48,872	\$ 47,697	\$ 44,929	\$ 39,785
Contributions in relation to the contractually required contribution	<u>48,872</u>	<u>47,697</u>	<u>44,929</u>	<u>39,785</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 393,181	\$ 379,990	\$ 368,749	\$ 377,777
Contributions as a percentage of covered-employee payroll	12.43%	12.55%	12.18%	10.53%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Notes to the Required Supplementary Information

For the year ended December 31, 2016

Public Employees' Retirement System (PERS)

Basis of Presentation. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 6, 2017. The full report is available by the State of New Jersey, Division of Pension and Benefits. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

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

Changes of assumptions. Pre-retirement mortality rates were based on the RP-2000 Employee Pre-Retirement 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 (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the 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 scales. 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).

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenue, Expenses and Changes in Net Position - Unrestricted and Restricted
For the year ended December 31, 2016
(With comparative totals for the year ended December 31, 2015)

	Unrestricted		Restricted			2016	2015
	Unreserved	Board Designated	Reserve for Debt Service	Investments in Capital Assets, Net	Reserve for Capital		
Operating revenues:							
User charges	\$ 1,709,497	\$ -	\$ -	\$ -	\$ -	\$ 1,709,497	\$ 1,736,629
Connection fees	61,071	-	-	-	-	61,071	72,289
Other operating revenue	51,078	-	-	-	-	51,078	64,760
Total operating revenues	1,821,646	-	-	-	-	1,821,646	1,873,678
Operating expenses:							
Cost of providing services	529,262	-	-	-	-	529,262	530,787
Administrative and general	457,524	-	-	-	-	457,524	439,369
Depreciation	-	-	-	750,912	-	750,912	717,310
Unbudgeted pension expense	113,354	-	-	-	-	113,354	45,104
Total operating expenses	1,100,140	-	-	750,912	-	1,851,052	1,732,570
Operating revenues over expenses	721,506	-	-	(750,912)	-	(29,406)	141,108
Non-operating revenues/(expenses):							
Water tower rental	239,804	-	-	-	-	239,804	256,891
Interest income	23,385	-	-	-	-	23,385	20,091
Interest expense	(287,435)	-	-	-	-	(287,435)	(280,756)
Township appropriation	(86,019)	-	-	-	-	(86,019)	(86,254)
Donated property	79,151	-	-	-	-	79,151	8,294
Amortization premium/(bond costs), net	-	-	-	5,978	-	5,978	6,162
Debt issuance expense	-	-	-	-	-	-	-
NJFIT debt forgiveness	-	-	-	-	-	-	-
FEMA reimbursements	-	-	-	-	-	-	-
Total non-operating revenue/(expenses)	(31,114)	-	-	5,978	-	(25,136)	41,278
Change in net position before transfers	690,392	-	-	(744,934)	-	(54,542)	106,814
Transfers	(383,207)	50,000	-	313,207	20,000	-	-
Net position, January 1	1,210,651	640,000	677,889	8,523,983	340,000	11,882,391	12,842,201
Prior period restatement (see Note 15)	-	-	-	-	-	-	(1,066,624)
Net position, January 1, as restated	1,210,651	640,000	677,889	8,523,983	340,000	11,882,391	11,775,577
Net position, December 31	\$ 1,517,836	\$ 690,000	\$ 677,889	\$ 8,092,256	\$ 360,000	\$ 11,827,849	\$ 11,882,391

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Bond Service Requirements by Years
December 31, 2016

<u>Years</u> <u>Ending</u>	<u>2003 Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 32,651	\$ 43,411	\$ 76,062
2018	33,721	42,341	76,062
2019	34,826	41,236	76,062
2020	35,967	40,095	76,062
2021	37,145	38,917	76,062
2022	38,362	37,700	76,062
2023	39,619	36,443	76,062
2024	40,917	35,145	76,062
2025	42,258	33,804	76,062
2026	43,642	32,420	76,062
2027	45,072	30,990	76,062
2028	46,549	29,513	76,062
2029	48,074	27,988	76,062
2030	49,649	26,413	76,062
2031	51,276	24,786	76,062
2032	52,956	23,106	76,062
2033	54,691	21,371	76,062
2034	56,483	19,579	76,062
2035	58,334	17,728	76,062
2036	60,245	15,817	76,062
2037	62,219	13,843	76,062
2038	64,257	11,805	76,062
2039	66,363	9,699	76,062
2040	68,537	7,525	76,062
2041	70,782	5,280	76,062
2042	73,102	2,961	76,062
2043	36,037	587	36,624
Total	\$ 1,343,734	\$ 670,502	\$ 2,014,236

**Schedule V
(continued)**

**BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Bond Service Requirements by Years
December 31, 2016**

<u>Years</u> <u>Ending</u>	<u>2012 Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 170,000	\$ 163,494	\$ 333,494
2018	175,000	158,394	333,394
2019	180,000	153,144	333,144
2020	190,000	147,744	337,744
2021	190,000	143,944	333,944
2022	195,000	140,144	335,144
2023	200,000	134,294	334,294
2024	205,000	128,294	333,294
2025	215,000	122,144	337,144
2026	220,000	115,694	335,694
2027	225,000	109,094	334,094
2028	235,000	102,344	337,344
2029	240,000	95,294	335,294
2030	245,000	88,094	333,094
2031	255,000	78,294	333,294
2032	265,000	68,094	333,094
2033	280,000	57,494	337,494
2034	290,000	46,294	336,294
2035	215,000	37,594	252,594
2036	145,000	31,144	176,144
2037	150,000	26,613	176,613
2038	155,000	21,925	176,925
2039	125,000	16,888	141,888
2040	95,000	12,825	107,825
2041	20,000	9,738	29,738
2042	20,000	9,088	29,088
2043	40,000	8,438	48,438
2044	40,000	7,088	47,088
2045	40,000	5,738	45,738
2046	40,000	4,388	44,388
2047	45,000	3,038	48,038
2048	45,000	1,519	46,519
Total	\$ 5,150,000	\$ 2,248,306	\$ 7,398,306

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Debt Service Requirements by Years
December 31, 2016

<u>NJEIT 2007A Loans Payable</u>			
<u>Years</u>			
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 104,863	\$ -	\$ 104,863
2018	104,863	-	104,863
2019	104,702	-	104,702
2020	105,089	-	105,089
2021	105,347	-	105,347
2022	104,702	-	104,702
2023	103,897	-	103,897
2024	103,559	-	103,559
2025	102,866	-	102,866
2026	40,953	-	40,953
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 980,841</u>	<u>\$ -</u>	<u>\$ 980,841</u>

**Schedule VI
(continued)**

**BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Debt Service Requirements by Years
December 31, 2016**

NJEIT 2014A Loans Payable - Trust

<u>Years</u>				
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 5,000	\$ 6,150	\$ 11,150	
2018	5,000	5,900	10,900	
2019	5,000	5,650	10,650	
2020	10,000	5,400	15,400	
2021	10,000	4,900	14,900	
2022	10,000	4,400	14,400	
2023	10,000	3,900	13,900	
2024	10,000	3,400	13,400	
2025	10,000	2,900	12,900	
2026	10,000	2,600	12,600	
2027	10,000	2,300	12,300	
2028	10,000	2,000	12,000	
2029	10,000	1,700	11,700	
2030	10,000	1,400	11,400	
2031	10,000	1,100	11,100	
2032	10,000	800	10,800	
2033	15,000	488	15,488	
	<hr/>	<hr/>	<hr/>	
Total	<u>\$ 160,000</u>	<u>\$ 54,988</u>	<u>\$ 214,988</u>	

**Schedule VI
(continued)**

**BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Debt Service Requirements by Years
December 31, 2016**

NJEIT 2014A Loans Payable - Fund

<u>Years</u>				
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 27,322	\$ -	\$ 27,322	
2018	27,322	-	27,322	
2019	27,322	-	27,322	
2020	27,322	-	27,322	
2021	27,322	-	27,322	
2022	27,322	-	27,322	
2023	27,322	-	27,322	
2024	<u>68</u>	<u>-</u>	<u>68</u>	
Total	<u>\$ 191,321</u>	<u>\$ -</u>	<u>\$ 191,321</u>	

**Schedule VI
(continued)**

**BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Debt Service Requirements by Years
December 31, 2016**

NJEIT 2014A NANO Loans Payable - Trust

<u>Years</u>				
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 11,481	\$ 5,477	\$ 16,958	
2018	11,555	5,402	16,957	
2019	11,671	5,287	16,958	
2020	11,817	5,141	16,958	
2021	12,000	4,957	16,957	
2022	12,216	4,741	16,957	
2023	12,460	4,497	16,957	
2024	12,729	4,228	16,957	
2025	13,022	3,935	16,957	
2026	13,341	3,616	16,957	
2027	13,695	3,263	16,958	
2028	14,078	2,879	16,957	
2029	14,486	2,471	16,957	
2030	14,928	2,029	16,957	
2031	15,391	1,566	16,957	
2032	15,883	1,074	16,957	
2033	16,407	550	16,957	
	<hr/>	<hr/>	<hr/>	
Total	<u>\$ 227,160</u>	<u>\$ 61,113</u>	<u>\$ 288,273</u>	

**Schedule VI
(continued)**

**BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Debt Service Requirements by Years
December 31, 2016**

NJEIT 2014A NANO Loans Payable - Fund

<u>Years</u>				
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$ 12,712	\$ -	\$ 12,712	
2018	12,712	-	12,712	
2019	12,712	-	12,712	
2020	12,712	-	12,712	
2021	12,712	-	12,712	
2022	12,712	-	12,712	
2023	12,712	-	12,712	
2024	12,712	-	12,712	
2025	12,712	-	12,712	
2026	12,712	-	12,712	
2027	12,712	-	12,712	
2028	12,712	-	12,712	
2029	12,712	-	12,712	
2030	12,712	-	12,712	
2031	12,712	-	12,712	
2032	12,712	-	12,712	
2033	12,712	-	12,712	
	<hr/>	<hr/>	<hr/>	
Total	<u>\$ 216,102</u>	<u>\$ -</u>	<u>\$ 216,102</u>	

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Board of Commissioners and Management
December 31, 2016

Michael W. Hale Chairman
Karen Davis Vice Chairwoman
Edward F. Cammarato..... Treasurer
Lloyd G. Mullikin..... Commissioner
Kevin Askew..... Alternate
Michele Nugent..... Executive Director

**INDEPENDENT AUDITOR’S 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**

The Board of Commissioners of
Berkeley Township Municipal Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated May 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of Authority’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or audit requirements as prescribed by the Local Finance Board and by the 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 10, 2017
Toms River, New Jersey



HOLMAN | FRENIA
ALLISON, P.C.

Certified Public Accountants & Consultants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND NEW JERSEY OMB CIRCULAR 15-08**

To the Honorable Chairman and Members of the
Berkeley Township Municipal Utilities Authority

Report on Compliance for Each Major State Program

We have audited Berkeley Township Municipal Utilities Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of Berkeley Township Municipal Utilities Authority's major state programs for the year ended December 31, 2016. Berkeley Township Municipal Utilities Authority's major state programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Berkeley Township Municipal Utilities Authority's major state programs 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 and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, the Uniform Guidance and New Jersey OMB's Circular 15-08 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 state program occurred. An audit includes examining, on a test basis, evidence about Berkeley Township Municipal Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Berkeley Township Municipal Utilities Authority's compliance with those requirements.

Opinion on Each Major State Program

In our opinion, Berkeley Township Municipal Utilities Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and New Jersey OMB Circular 15-08.

Report on Internal Control over Compliance

Management of Berkeley Township Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Berkeley Township Municipal Utilities Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB's Circular 15-08, 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 Berkeley Township Municipal Utilities Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state 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 state 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 state 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 and New Jersey OMB's Circular 15-08. Accordingly, this report is not suitable for any other purpose.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

Toms River, New Jersey
May 10, 2017

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Schedule of Expenditures of State Financial Assistance
For the year ended December 31, 2016

STATE FUNDING DEPARTMENT	PROGRAM TITLE	STATE ACCOUNT NUMBER	GRANT PERIOD	LOAN/AWARD AMOUNT	BALANCE AS OF 12/31/2015	PROGRAM RECEIPTS	DISBURSEMENTS/ EXPENDITURES	SUB RECIPIENT EXPENDITURES	BALANCE AS OF 12/31/2016	CUMULATIVE DISBURSEMENTS/ EXPENDITURES
New Jersey Environmental Infrastructure Trust:	NJ Environmental Infrastructure Trust - 2015 Construction Loan - Fund	W1505004-007	6/23/2015 - Current	\$ 464,165	\$ -	\$ 31,961	\$ 31,961	\$ -	\$ -	\$ 392,151
	NJ Environmental Infrastructure Trust - 2016 Construction Loan - Fund	W1505004-008	6/01/2016 - Current	2,192,249	-	1,397,890	1,397,890	-	-	1,397,890
Total					\$ -	\$ 1,429,851	\$ 1,429,851	\$ -	\$ -	\$ 1,790,041

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township,
County of Ocean, State of New Jersey)
Notes to Schedule of Expenditures of State Financial Assistance
For the year ended December 31, 2016

NOTE 1: GENERAL

The accompanying schedule of expenditures of state financial assistance includes state award activity of the Berkeley Township Municipal Utilities Authority. The Board is defined in Note 1 to the Board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other government agencies, is included on the schedule of federal awards and state financial assistance.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting. This basis of accounting is described in Note 2 to the Authority's basic financial statements.

NOTE 3: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The accompanying schedule of state awards includes expenditures that occurred in prior fiscal years. The amounts reported in the accompanying schedule agree with the amounts reported in the Authority's financial statements, except for the following grants and amounts:

	Recognized in Current Year Financial Statements	Recognized in Prior Year Financial Statements	Total
New Jersey Environmental Infrastructure Trust – 2015 Construction Loan - Fund	\$ -0-	\$ 31,961	\$ 31,961
New Jersey Environmental Infrastructure Trust – 2016 Construction Loan - Fund	1,397,890	-0-	1,397,890
Total Financial Assistance	\$ 1,397,890	\$ 31,961	\$ 1,429,851

NOTE 4: RELATIONSHIP TO STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related state financial reports.

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township,
County of Ocean, State of New Jersey)
Schedule of Findings and Questioned Costs
For the year ended December 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
1) Material weakness(es) identified?	None Reported
2) Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to basic financial Statements noted?	No

State Awards

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes
Internal Control over major programs:	
1) Material weakness(es) identified?	None Reported
2) Significant deficiencies identified that are not considered To be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance With 2 CFR 200 Section .516(a) of the Uniform Guidance or NJOMB Circular Letter 15-08 as applicable?	No

Identification of major programs

State Project Number	Name of State Program Cluster
W1505004-007	New Jersey Environmental Infrastructure-Construction Loan 2015
W1505004-008	New Jersey Environmental Infrastructure-Construction Loan 2016

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of Berkeley Township,
County of Ocean, State of New Jersey)
Schedule of Findings and Questioned Costs (continued)
For the year ended December 31, 2016

Section II – Financial Statement Findings

This schedule identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

No Current Year Findings

Section III – State Expenditures Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major state programs, as required by Uniform Guidance and New Jersey OMB Circular 15-08.

No Current Year Findings

BERKELEY TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Berkeley Township,
County of Ocean, State of New Jersey)
Summary Schedule of Prior Year Audit Findings and Questioned Costs
For the year ended December 31, 2016

This section identifies the reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by Uniform Guidance and New Jersey OMB Circular 15-08.

Not applicable.



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To the Board of Commissioners of the
Berkeley Township Municipal Utilities Authority
Bayville, New Jersey 08721

We have audited the financial accounts and transactions of the Berkeley Township Municipal Utilities Authority, a component unit of the Township of Berkeley, in the County of Ocean, State of New Jersey for the year ended December 31, 2016. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments and Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (*N.J.S.A.40A:11-4*)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$40,000, except by contract or agreement.

The Authority has a qualified purchasing agent on staff and therefore may award contracts up to \$40,000 from without competitive bids.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Since computerized general ledgers do not provide for the aggregation of payments within categories for performance of work or furnishing of materials and supplies, we reviewed disbursements to determine whether any clear-cut violations of the bid and quote thresholds established by the Authority existed. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$6,000 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and we ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. There were no findings in the prior year.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

During our audit, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions concerning our comments, please call us.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 10, 2017
Toms River, New Jersey