

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)

Financial Statements and Supplementary Schedules

For the years ended December 31, 2017 and 2016

(With Independent Auditor's Report thereon)

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Financial Statements and Supplementary Data
For the years ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Chairman and Commissioners
of Toms River Municipal Utilities Authority
Toms River, New Jersey 08753

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the Toms River Municipal Utilities Authority, a component unit of the Township of Toms River, County of Ocean, State of New Jersey, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in compliance with audit 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 Toms River Municipal Utilities Authority, a component unit of the Township of Toms River, County of Ocean as of December 31, 2017 and 2016, 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 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Toms River Municipal Utilities Authority's basic financial statements. The accompanying schedules of revenues and expenses – budget to actual is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not a required part of the basic financial statements.

The accompanying schedules of revenues and expenses – budget to actual are the responsibility of management and were 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 schedules of revenues and expenses – budget to actual are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018, on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "HOLMAN FRENIA ALLISON PC". The letters are in all caps and have a cursive, slightly slanted appearance.

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

May 30, 2018
Toms River, New Jersey

**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 Chairman and Commissioners
of Toms River Municipal Utilities Authority
Toms River, New Jersey 08753

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 Toms River Municipal Utilities Authority (herein referred to as “the Authority”), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated May 30, 2018.

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* and 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 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 30, 2018
Toms River, New Jersey



TOMS RIVER MUNICIPAL UTILITIES AUTHORITY

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Carmen J. Memoli, CPA, Chairman
Deborah L. Clement, Vice Chairperson
Joseph G. Bilotta, Commissioner

Charles S. Valvano, Commissioner
Tariq M. Siddiqui, Commissioner
Stephen C. Acropolis, Executive Director

May 30, 2018

Board of Commissioners of
Toms River Municipal Utilities Authority
County of Ocean
Toms River, New Jersey 08753

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Toms River Municipal Utilities Authority's (the Authority) financial activities for the fiscal years ended December 31, 2017 and 2016 and 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 for the years ended December 31, 2017 and 2016.

The Statements of Net Position show the financial position of the Authority at December 31st of each year. Assets 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 net position.

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

Financial Analysis

The Authority, at December 31, 2017, has total assets and deferred outflows of resources of \$71,575,432 compared to \$74,002,444 at December 31, 2016 primarily due to total deferred outflows of resources decreasing due to the actuarial adjustment related to GASB Statement No. 68.

The Authority, at December 31, 2016, has total assets and deferred outflows of resources of \$74,002,444 compared to \$72,659,878 at December 31, 2015. Total assets increased, primarily due to the increase in deferred outflows of resources due to the implementation of GASB Statement No. 68.

The Authority's total liabilities and deferred inflows of resources of \$30,116,215 at December 31, 2017 decreased \$1,096,984 from 2016. The decrease is accounted for primarily due to the actuarial increase in net pension liability related to GASB Statement No. 68.

The Authority's total liabilities and deferred inflows of resources of \$31,213,199 at December 31, 2016 increased \$3,108,580 from 2015. The increase is accounted for primarily due to the actuarial increase in net pension liability related to GASB Statement No. 68.

The Authority's net position decreased \$1,330,028 for the year ended December 31, 2017. This decrease can be primarily attributed to the Authorities increase in actuarial pension expense in regards to GASB Statement No. 68.

The Authority's net position decreased \$1,766,014 for the year ended December 31, 2016. This decrease can be primarily attributed to the Authorities increase in actuarial pension expense in regards to GASB Statement No. 68.

Condensed Financial Information

Key Authority Financial Information for the years 2017 and 2016 include the following balances:
Financial Position:

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current unrestricted assets	\$ 6,355,315	\$ 5,774,215
Current restricted assets	11,704,583	16,364,884
Capital assets, net	<u>50,613,858</u>	<u>47,865,239</u>
Total assets	<u>68,673,756</u>	<u>70,004,338</u>
Deferred outflows of resources	<u>2,901,676</u>	<u>3,998,106</u>
Total assets and deferred outflow of resources	\$ <u>71,575,432</u>	\$ <u>74,002,444</u>
LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
Current unrestricted liabilities	\$ 844,140	\$ 1,080,201
Current restricted liabilities	2,324,244	2,250,003
Long-term liabilities	<u>22,275,343</u>	<u>25,510,417</u>
Total liabilities	<u>25,443,727</u>	<u>28,840,621</u>
Deferred inflow of resources	<u>4,672,488</u>	<u>2,372,578</u>
Total liabilities and deferred inflow of resources	\$ <u>30,116,215</u>	\$ <u>31,213,199</u>
NET POSITION		
Investments in capital assets, net of related debt	\$ 42,710,130	\$ 39,419,275
Unrestricted net position	<u>(1,250,913)</u>	<u>3,369,970</u>
Total net position	\$ <u>41,459,217</u>	\$ <u>42,789,245</u>

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 19,379,068	\$ 19,320,432
Total expenses	<u>(20,709,096)</u>	<u>(21,086,446)</u>
Net (loss)/income	\$ <u>(1,330,028)</u>	\$ <u>(1,766,014)</u>
Capital spending	\$ 5,233,417	\$ 6,022,011
Contributed by developers	82,561	231,994
Connection fees	791,669	455,008
Bonds paid down	611,107	606,107
Bonds payable, net	8,453,540	9,102,833

Key Authority Financial Information for the years 2016 and 2015 include the following balances:
Financial Position:

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current unrestricted assets	\$ 5,774,215	\$ 6,549,723
Current restricted assets	16,364,884	20,238,972
Capital assets, net	<u>47,865,239</u>	<u>44,356,055</u>
Total assets	<u>70,004,338</u>	<u>71,144,750</u>
Deferred outflows of resources	<u>3,998,106</u>	<u>1,515,128</u>
Total assets and deferred outflow of resources	\$ <u>74,002,444</u>	\$ <u>72,659,878</u>
LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
Current unrestricted liabilities	\$ 1,080,201	\$ 512,549
Current restricted liabilities	2,250,003	2,511,917
Long-term liabilities	<u>25,510,417</u>	<u>22,554,613</u>
Total liabilities	<u>28,840,621</u>	<u>25,579,079</u>
Deferred inflow of resources	<u>2,372,578</u>	<u>2,525,540</u>
Total liabilities and deferred inflow of resources	\$ <u>31,213,199</u>	\$ <u>28,104,619</u>
NET POSITION		
Investments in capital assets, net of related debt	\$ 39,419,275	\$ 36,478,862
Unrestricted net position	<u>3,369,970</u>	<u>8,076,397</u>
Total net position	\$ <u>42,789,245</u>	\$ <u>44,555,259</u>


	<u>2016</u>	<u>2015</u>
Total revenues	\$ 19,320,432	\$ 19,513,395
Total expenses	<u>(21,086,446)</u>	<u>(20,118,961)</u>
Net (loss)/income	\$ <u>(1,766,014)</u>	\$ <u>(605,566)</u>
Capital spending	\$ 6,022,011	\$ 3,134,170
Contributed by developers	231,994	83,481
Connection fees	455,008	303,342
Bonds paid down	606,107	601,107
Bonds payable, net	9,102,833	9,768,822

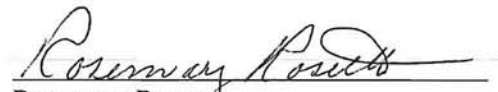
Authority revenues were \$594,659 over budgeted for 2017 and \$447,105 over budgeted for 2016. For 2017, this was primarily due to sewer revenues and delinquent charges being favorable compared to budget whereas for 2016, this was primarily due to sewer revenues and delinquent charges being favorable compared to budget.

Due to Super Storm Sandy devastations, in 2013 the Authority was awarded \$4,679,306 through the Community Disaster Loan based on a 5 year estimate of loss revenue. To date, the Authority received a disbursement of \$2,359,650 in October 2013 and \$2,319,656 in August 2015. A cancellation request has been applied for and was pending as of December 31, 2017. In April 2018, the Authority was approved by FEMA for a partial cancellation of \$4,637,645 of the Community Disaster Loan balance.

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 340 West Water Street, Toms River, New Jersey during the Authority's business hours.

Respectfully Submitted


 Stephen Acropolis
 Executive Director


 Rosemary Rosetto
 CFO

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)

Statements of Net Position
For the years ended December 31, 2017 and 2016

	2017	2016
ASSETS		
Current unrestricted assets:		
Cash	\$ 4,289,621	\$ 3,082,852
Accounts receivable	1,692,355	2,116,602
Inventory	220,464	142,426
Due from OCUA	133,770	414,617
Prepaid expenses	19,105	17,718
Total current unrestricted assets	6,355,315	5,774,215
Current restricted assets:		
Restricted cash and investments:		
Rate stabilization:		
Cash	5,238,921	5,772,552
Investments	1,439,399	1,909,434
Interest receivable	926	1,327
System renovation:		
Cash	2,083,503	5,414,964
Investments	527,075	712,350
Interest receivable	382	524
Other restricted funds:		
Cash	1,199,299	1,161,829
Operating:		
Cash	250,000	250,000
Investments	500,000	500,000
Due from NJ Environmental Infrastructure Trust	465,078	641,904
Total current restricted assets	11,704,583	16,364,884
Property, plant and equipment	132,422,876	127,106,898
Less: accumulated depreciation	(81,809,018)	(79,241,659)
Property, plant and equipment, net	50,613,858	47,865,239
Total assets	68,673,756	70,004,338
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	2,816,942	3,998,106
Loss on bond refunding, net of accumulated amortization	84,734	-
Total deferred outflow of resources	2,901,676	3,998,106
Total assets and deferred outflow of resources	\$ 71,575,432	\$ 74,002,444

The accompanying notes are an integral part of this statement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Statements of Net Position (continued)
For the years ended December 31, 2017 and 2016

	2017	2016
LIABILITIES		
Current unrestricted liabilities:		
Accounts payable	\$ 741,819	\$ 983,766
Accrued expenses	98,026	92,140
Deposits on connection fees	4,295	4,295
Total current unrestricted liabilities	844,140	1,080,201
Current restricted liabilities:		
Current portion of bonds payable - NJEIT	616,107	611,107
Accrued interest payable	159,509	127,738
Escrow performance bonds	1,120,015	1,084,682
Unemployment trust fund	63,398	61,261
Pension payable	365,215	365,215
Total current restricted liabilities	2,324,244	2,250,003
Long-term liabilities:		
Long-term portion of bonds payable - NJEIT	7,837,433	8,491,726
Community disaster loan	4,679,306	4,679,306
Reserve for compensated absences	188,459	163,794
Net pension liability	9,570,145	12,175,591
Total long-term liabilities	22,275,343	25,510,417
Total liabilities	25,443,727	28,840,621
DEFERRED INFLOWS OF RESOURCES		
Unearned sewerage charges	2,655,803	2,237,658
Deferred inflows related to pensions	2,016,685	134,920
Total deferred inflow of resources	4,672,488	2,372,578
NET POSITION		
Investments in capital assets, net of related debt	42,710,130	39,419,275
Unrestricted net position	(1,250,913)	3,369,970
Total net position	\$ 41,459,217	\$ 42,789,245

The accompanying notes are an integral part of this statement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Sewerage charges	\$ 17,786,146	\$ 17,800,327
Connection fees	791,669	455,008
Engineering and inspection fees	20,451	17,744
Delinquent charges	328,977	365,978
Miscellaneous	230,579	147,727
Total operating revenues	<u>19,157,822</u>	<u>18,786,784</u>
Operating expenses:		
Administrative expenses	1,795,145	2,665,591
Maintenance and treatment	15,216,682	14,908,955
Depreciation	2,567,359	2,409,445
Total operating expenses	<u>19,579,186</u>	<u>19,983,991</u>
Net gain (loss) from operations	<u>(421,364)</u>	<u>(1,197,207)</u>
Non-operating revenues (expenses):		
Investment income	119,362	91,834
Realized gain/(loss) on sale of investments	6,875	10,923
Unrealized gain/(loss) on investments	(21,243)	(7,026)
Interest expense	(117,619)	(149,627)
Transfer to the Township of Toms River (See Note 12)	(981,605)	(945,802)
Gain on disposal of fixed assets	113	149,397
Capital contributions	82,561	231,994
Amortization of bond premium	12,335	-
Cost of issuance on NJEIT	(9,443)	-
FEMA reimbursement	-	49,500
Total non-operating revenues (expenses)	<u>(908,664)</u>	<u>(568,807)</u>
Change in net position	(1,330,028)	(1,766,014)
Net position, January 1	<u>42,789,245</u>	<u>44,555,259</u>
Net position, December 31	<u>\$ 41,459,217</u>	<u>\$ 42,789,245</u>

The accompanying notes are an integral part of this statement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)

Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from service users	\$ 20,000,214	\$ 18,932,633
Cash paid to suppliers and employees	(16,564,318)	(16,083,591)
Net cash flows from operating activities	3,435,896	2,849,042
 Cash flows from investing activities:		
Transfers from investments, net	655,310	907,495
Interest received	105,537	96,254
Acquisition and construction of fixed assets	(5,233,417)	(6,022,011)
Disposal of fixed assets	-	579,184
Gain on disposal of fixed assets	113	149,397
Net cash flows from investing activities	(4,472,457)	(4,289,681)
 Cash flows from financing activities:		
Payment to Township of Toms River	(981,605)	(945,802)
Net proceeds from bond refunding	94,268	-
Repayment of debt	(611,107)	(606,107)
Interest paid	(85,848)	(117,419)
FEMA reimbursement	-	49,500
Net cash flows from investing activities	(1,584,292)	(1,619,828)
 Change in cash	(2,620,853)	(3,060,467)
 Unrestricted and restricted cash, January 1	15,682,197	18,742,664
 Unrestricted and restricted cash, December 31	\$ 13,061,344	\$ 15,682,197
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash	\$ 4,289,621	\$ 3,082,852
Current restricted assets:		
Cash	8,771,723	12,599,345
 Unrestricted and restricted cash, December 31	\$ 13,061,344	\$ 15,682,197

The accompanying notes are an integral part of this statement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Statements of Cash Flows (continued)
For the years ended December 31, 2017 and 2016

	2017	2016
Reconciliation of net income to cash flows		
from operating activities:		
Net loss from operations	\$ (421,364)	\$ (1,197,207)
Items which did not use cash:		
Depreciation	2,567,359	2,409,445
Unbudgeted pension expense	457,483	982,209
Working capital changes which provided (used) cash:		
Accounts receivable	424,247	11,863
Inventory	(78,038)	12,798
Due from OCUA	280,847	(101,728)
Prepaid expenses	(1,387)	8,454
Accounts payable	(241,947)	552,311
Accrued expenses	5,886	15,341
Deferred sewerage charges	418,145	133,986
Reserve for compensated absences	24,665	21,570
Net cash flows from operating activities	\$ 3,435,896	\$ 2,849,042

The accompanying notes are an integral part of this statement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Creation of Authority

Dover Municipal Utilities Authority, originally named the Dover Sewerage Authority, was created under the Municipal Utilities Law constituting Chapter 143 of the Laws of the State of New Jersey of 1957 (Chapter 14-8, Title 40 of the revised statutes of the State of New Jersey) and was created by an ordinance of the Dover Township Committee on April 26, 1949.

On November 28, 2007, the Authority changed its name to "Toms River Municipal Utilities Authority". The name change was done in conjunction with Dover Township, which had changed its name to the "Township of Toms River".

The Authority provides wastewater collection services to the residents within the territorial limits of Toms River Municipal Utilities Authority's sanitary sewer collection system.

Component Unit

The Authority is considered to be a "Component Unit" of the Township of Toms River under GAAP however, the Township of Toms River does not follow GAAP for accounting and financial reporting purposes rather it follows a regulatory basis of accounting, utilizing accounting principles which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Township's financial statements of potential component units, based on the separate legal status of these units. Accordingly, the financial statements of the Township do not include the Authority as a component unit.

Basis of Presentation

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 on a going concern basis.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing 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, accountability or other purposes.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

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 in capital assets, net of related debt and unrestricted components.

Basis of Accounting

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

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

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

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

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with *N.J.A.C. 5:31-2*. *N.J.A.C. 5:31-2* requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt no later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. 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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting (continued)

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

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash in banks and may include petty cash and change funds. It may also include all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into 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 of America or 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 by *N.J.S.A. 17:9-41* to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Investments are carried at lower of cost or market plus accrued interest shown separately and consists of interest bearing bank deposits, certificates of deposit and U.S. Government Securities.

Inventory

Inventory consists principally of parts and supplies utilized in maintaining the system and gasoline storage and is stated at lower of cost (determined on a first in, first out basis) or market.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

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

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at cost. Assets contributed by developer's are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets.

Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

	<u>Years</u>
Collection systems	40
Buildings, additions and improvements	10-40
Furniture and fixtures	5-7
Equipment	3-10

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements 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 statements 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 period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated sick leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated sick leave in the event of retirement or termination from service at the current salary.

Unearned Revenue

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

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Premium

Bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to bonds payable.

Pensions Section

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from the PERS's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

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

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted Net Position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Income Taxes

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

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. Non-operating revenues primarily consist of interest income and on investments of securities. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. Non-operating expenses primarily include expenses attributable to the Authority's interest on debt, contribution to Township and sales of capital assets.

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.

Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption this Statement had no impact on the Authority's financial statements.

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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adopted Accounting Pronouncements (continued)

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) 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*. The adoption this Statement had no impact on the Authority's financial statements.

Recently Issued Accounting Pronouncements

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

Statement No. 75, *Accounting and Financial Reporting for 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. 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 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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending December 31, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement will become effective for the Authority in the fiscal year ending December 31, 2020. Management has not yet determined the impact of this Statement on the financial statements.

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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement (continued)

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.

Subsequent Events

Toms River Municipal Utilities Authority has evaluated subsequent events occurring after December 31, 2017 through May 30, 2018, which is the date the financial statements were available to be issued. During the year ended December 31, 2017, the Authority requested a partial cancellation of their outstanding debt balance of \$4,679,306 for the community disaster loan described in Note 7. On April 20, 2018, the U.S. Department of Homeland Security approved the Authority's partial cancellation request of \$4,637,645, resulting in a total outstanding principal balance of \$41,661.

NOTE 2: CASH AND CASH EQUIVALENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2017 and 2016, reported at fair value, are as follows:

	2017	2016
Deposits:		
Demand deposits	\$ 5,738,920	\$ 4,494,681
Money market funds	<u>7,322,424</u>	<u>11,187,516</u>
Total deposits	<u>\$13,061,344</u>	<u>\$15,682,197</u>
 Reconciliation to Statements of Net Position:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 4,289,621	\$ 3,082,852
Current restricted assets:		
Cash and cash equivalents	<u>8,771,723</u>	<u>12,599,345</u>
Total current unrestricted and restricted assets	<u>\$13,061,344</u>	<u>\$15,682,197</u>

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, *N.J.S.A. 17:9-41* et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 2: CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk Related to Deposits (continued)

shown as Uninsured and Uncollateralized in the schedule below. As of December 31, 2017 and 2016, the Authority's bank balances were insured or exposed to credit risk as follows:

	2017	2016
Insured by FDIC	\$ 750,000	\$ 750,000
Collateralized in the Authority's name under GUDPA	12,588,531	15,511,148
	\$ 13,338,531	\$ 16,261,148

The Board approved Cash Management and Investment Policy that was adopted February 28, 2017 establishes the following restricted cash and investment accounts:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
System renovation	Amount designated by Board.	To pay for infrastructure repairs for the collection system.
Rate stabilization	Amount designated by Board.	To maintain stable sewer rates for customers.
Capital reserve	Varies annually.	To reserve for capital expenditures.

In addition to the above, the Authority has restricted accounts pertaining to performance on contracts, unemployment trust funds, and construction funds.

NOTE 3: INVESTMENTS

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.

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. Maturities of investments held at December 31, 2017 and 2016, are provided in the schedule below.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 3: INVESTMENTS (continued)

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, 2017 and 2016, the Authority had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>2017</u> <u>Fair Value</u>	<u>2016</u> <u>Fair Value</u>
Collateralized mortgage obligations	6/20/2045	N/A	\$1,966,474	\$2,621,784
Certificates of deposits	7/22/2018	N/A	500,000	500,000
Total Investments			<u>\$2,466,474</u>	<u>\$3,121,784</u>

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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 3: INVESTMENTS (continued)

Fair Value of Investments

Investments are shown at fair value on the balance sheet with accrued interest shown under a separate caption. Investments are summarized as follows at December 31, 2017 and 2016:

	2017		2016	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Collateralized mortgage obligations of				
US government agencies	\$ 1,986,164	\$ 1,966,474	\$ 2,620,230	\$ 2,621,784
Certificates of deposit	500,000	500,000	500,000	500,000
Interest receivable	1,308	1,308	1,851	1,851
Total fair value of investments	<u>\$ 2,487,472</u>	<u>\$ 2,467,782</u>	<u>\$ 3,122,081</u>	<u>\$ 3,123,635</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable balances at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable - customers	\$ 1,589,537	\$ 1,981,305
Review and inspection fees	9,434	10,794
Other receivables	35,579	44,094
Other municipalities	57,805	80,409
Total	<u>\$ 1,692,355</u>	<u>\$ 2,116,602</u>

NOTE 5: OCUA CREDIT

The Authority makes quarterly estimated payments to the Ocean County Utilities Authority (OCUA) for the amount of sewerage that is discharged. At the end of the year, the OCUA is required to provide Toms River Municipal Utilities Authority with a "Deficiency Notification" in accordance with Articles V and IX of the Service Agreement. The credit or (deficiency) is computed by taking the actual flows for the year and comparing this number to the estimated flows. The Authority had a credit of \$133,770 and \$414,617 for 2017 and 2016, respectively. The credits are at historical levels because of the efficiency of the Toms River Municipal Utilities Authority in reducing the amount of groundwater entering the sewer system. This is due to the Authority's diligent rehabilitation efforts, locking manhole covers, pipe relining, and repairs and replacement.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: CAPITAL ASSETS

The activity in capital assets for the year ended December 31, 2017 is as followed:

	Balance December 31, <u>2016</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2017</u>
Capital Assets not being depreciated:				
Land	\$ 1,779,650	\$ -	\$ -	\$ 1,779,650
Construction in Progress	2,501,167	2,205,054	(352,074)	4,354,147
Construction in Progress - Wetlands Sewer Main	13,418	-	(13,418)	-
NJEIT work in progress	10,035,933	59,361	-	10,095,294
Total Capital Assets not being depreciated	<u>14,330,168</u>	<u>2,264,415</u>	<u>(365,492)</u>	<u>16,229,091</u>
Capital Assets being depreciated:				
Collection System	102,971,097	2,494,841	-	105,465,938
Buildings and improvements	2,918,464	77,504	352,074	3,348,042
Equipment	5,816,884	421,754	-	6,238,638
GIS deployed	295,493	-	-	295,493
Furniture and fixtures	774,792	70,882	-	845,674
Total Capital Assets being depreciated	<u>112,776,730</u>	<u>3,064,981</u>	<u>352,074</u>	<u>116,193,785</u>
Less: Accumulated Depreciation:	<u>(79,241,659)</u>	<u>(2,567,359)</u>	<u>-</u>	<u>(81,809,018)</u>
Total Capital Assets being depreciated, net	<u>33,535,071</u>	<u>497,622</u>	<u>352,074</u>	<u>34,384,767</u>
Total Governmental Activities Capital Assets, net	<u>\$ 47,865,239</u>	<u>\$ 2,762,037</u>	<u>\$ (13,418)</u>	<u>\$ 50,613,858</u>

The activity in capital assets for the year ended December 31, 2016 is as followed:

	Balance December 31, <u>2015</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2016</u>
Capital Assets not being depreciated:				
Land	\$ 1,779,650	\$ -	\$ -	\$ 1,779,650
Construction in Progress	4,485,900	2,081,977	(4,066,710)	2,501,167
Construction in Progress - Wetlands Sewer Main	13,418	-	-	13,418
Infrastructure Study	127,500	-	(127,500)	-
NJEIT work in progress	9,031,903	1,004,030	-	10,035,933
Total Capital Assets not being depreciated	<u>15,438,371</u>	<u>3,086,007</u>	<u>(4,194,210)</u>	<u>14,330,168</u>
Capital Assets being depreciated:				
Collection System and Easements	96,620,753	6,350,344	-	102,971,097
Buildings and improvements	2,771,495	146,969	-	2,918,464
Equipment	5,891,431	377,476	(452,023)	5,816,884
GIS deployed	295,493	-	-	295,493
Furniture and fixtures	622,410	153,150	(768)	774,792
Total Capital Assets being depreciated	<u>106,201,582</u>	<u>7,027,939</u>	<u>(452,791)</u>	<u>112,776,730</u>
Less: Accumulated Depreciation:	<u>(77,283,898)</u>	<u>(2,409,445)</u>	<u>451,684</u>	<u>(79,241,659)</u>
Total Capital Assets being depreciated, net	<u>28,917,684</u>	<u>4,618,494</u>	<u>(1,107)</u>	<u>33,535,071</u>
Total Governmental Activities Capital Assets, net	<u>\$ 44,356,055</u>	<u>\$ 7,704,501</u>	<u>\$ (4,195,317)</u>	<u>\$ 47,865,239</u>

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(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
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For the years ended December 31, 2017 and 2016

NOTE 7: LIABILITIES

Accrued Expenses

Accrued expenses at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Payroll	\$ 66,237	\$ 60,778
Payroll taxes	5,039	4,612
Professional fees	26,750	26,750
Total accrued expenses	<u>\$ 98,026</u>	<u>\$ 92,140</u>

Unearned Sewerage Charges

The Authority's customers are billed in December for the following quarter beginning January 1st. Appropriately, customer payments received in December for the following quarter are included in the Authority's liabilities as deferred income and not recognized as revenue until the following year. As of December 31, 2017 and 2016, the balances totaled \$2,655,803 and \$2,237,658, respectively.

Long-term Obligations

During the years ended December 31, 2017 and 2016, the following changes occurred in long-term obligations:

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	Balance <u>12/31/17</u>	Balance Due Within <u>One Year</u>
Long-term debt	\$ 9,020,675	\$ 1,578,000	\$ 2,396,126	\$ -	\$ 8,202,549	\$ 616,107
Unamortized loan premium	82,158	197,980	19,397	(9,750)	250,991	19,396
Bonds payable, net	9,102,833	1,775,980	2,415,523	(9,750)	8,453,540	635,503
Community disaster loan	4,679,306	-	-	-	4,679,306	-
Reserve for compensated absences	163,794	24,665	-	-	188,459	-
Net pension liability	12,175,591	-	2,605,446	-	9,570,145	-
	<u>\$ 26,121,524</u>	<u>\$ 1,800,645</u>	<u>\$ 5,020,969</u>	<u>\$ (9,750)</u>	<u>\$ 22,891,450</u>	<u>\$ 635,503</u>

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	Balance <u>12/31/16</u>	Balance Due Within <u>One Year</u>
Long-term debt	\$ 9,681,747	\$ -	\$ 606,107	\$ (54,965)	\$ 9,020,675	\$ 611,107
Unamortized loan premium	87,075	-	4,917	-	82,158	4,917
Bonds payable, net	9,768,822	-	611,024	(54,965)	9,102,833	616,024
Community disaster loan	4,679,306	-	-	-	4,679,306	-
Reserve for compensated absences	142,224	21,570	-	-	163,794	-
Net pension liability	8,570,368	3,605,223	-	-	12,175,591	-
	<u>\$ 23,160,720</u>	<u>\$ 3,626,793</u>	<u>\$ 611,024</u>	<u>\$ (54,965)</u>	<u>\$ 26,121,524</u>	<u>\$ 616,024</u>

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NOTE 7: LIABILITIES (continued)

New Jersey Environmental Infrastructure Trust Series 2010A, 2014A and 2017A Loans Payable

Loans payable at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
2010A NJEIT Fund Loans, bearing no interest, maturity dates February 1 from 2011 to 2029.	\$ 4,703,665	\$ 5,193,158
2010A NJEIT Trust Loans, bearing interest ranging from 3.00% to 5.00% per annum; maturity dates each February 1 from 2011 to 2029. Interest payable on February 1 and August 1 each year to maturity.	120,000	1,930,000
2014A NJEIT Fund Loans, bearing no interest, maturity dates August 1 from 2014 to 2033.	855,884	912,517
2014A NJEIT Trust Loans, bearing interest ranging from 3.00% to 5.00% per annum; maturity dates each August 1 from 2014 to 2033. Interest payable on February 1 and August 1 each year to maturity.	945,000	985,000
2017A-R2 NJEIT Trust Loan Refunding, bearing interest ranging from 3.00% to 5.00% per annum; maturity dates each March 1 from 2017 to 2029. Interest payable on March 1 and September 1 each year to maturity.	1,578,000	-
Total loans	8,202,549	9,020,675
Less: current portion	(616,107)	(611,107)
	7,586,442	8,409,568
Unamortized bond premium	250,991	82,158
	\$ 7,837,433	\$ 8,491,726

On March 10, 2010, the Authority borrowed \$10,105,000 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$7,590,200, was issued with no interest rate. The remaining Bonds mature semi-annually from February 1, 2011 through August 1, 2029 at maturities ranging from \$133,158 to \$266,316.

The “Loan” (State Funds) portion of the Bond Issue, \$2,515,000, the remaining bonds mature annually from August 1, 2011 through 2029 at annual maturities ranging from \$85,000 to \$185,000 and bear interest at rates ranging from 3.00% to 5.00%.

On May 22, 2014, the Authority borrowed \$4,307,243 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$1,080,748, was issued with no interest rate. The principal forgiveness portion of the Bond Issue, \$2,161,495 was issued with no interest rate. Of the amount that was recognized as NJEIT debt forgiveness, \$1,214,007 was recognized as revenue in 2014, \$837,555 was recognized as revenue in 2015. On April 5, 2016, the

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NOTE 7: LIABILITIES (continued)

New Jersey Environmental Infrastructure Trust Series 2010A, 2014A and 2017A Loans Payable (continued)

Authority received a certified letter from the State of New Jersey Department of Environmental Protection in connection with the Authority's New Jersey Environmental Infrastructure Financing Program Project No. S340145-03/04. In the letter the Authority was notified that the remaining fund share of the loan in the amount of \$164,897 of which \$109,932 is Principal Forgiveness will be de-obligated. The remaining Bonds mature semi-annually from August 1, 2014 through August 1, 2033 at maturities ranging from \$96,633 to \$136,353.

The "Loan" (State Funds) portion of the Bond Issue, \$1,065,000, the remaining bonds mature annually from August 1, 2014 through 2033 at annual maturities ranging from \$40,000 to \$75,000 and bear interest at rates ranging from 3.00% to 5.00%.

On January 31, 2017, the Authority issued Series 2017A-R2 NJEIT Refunding Bonds in the amount of \$1,578,000. The proceeds of this issuance were utilized to refund the 2010 NJEIT trust loan outstanding. The bonds mature annually from September 1, 2019 through 2029 at annual maturities ranging from \$116,000 to \$173,000 and bear interest rates at 4.00%. The 2017A-R2 Refunding Bonds issuance resulted in a net loss on refunding of \$91,795 in the current year and a bond premium of \$197,980. The \$91,795 loss on refunding is recognized as a deferred outflow of resources and will be amortized over the life of the loan. As of December 31, 2017, the net balance of the deferred outflow related to the loss on bond refunding was \$84,734. A premium of \$197,980 is associated with this bond issuance and is included in the bonds payable balance on the Statements of Net Position. This premium will be amortized over the life of the bonds. As of December 31, 2017, the premium had a balance of \$182,751.

At December 31, 2017, the debt service requirements on the NJEIT Loans until maturity are as follows:

Year Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 616,107	\$ 234,547	\$ 850,654
2019	617,107	142,956	760,063
2020	622,107	132,551	754,658
2021	635,107	126,586	761,693
2022	636,107	115,336	751,443
2023-2027	3,316,533	290,961	3,607,494
2028-2032	1,678,094	218,016	1,896,110
2033-2037	81,387	21,779	103,166
	<u>\$ 8,202,549</u>	<u>\$ 1,282,732</u>	<u>\$ 9,485,281</u>

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Notes to Financial Statements (continued)
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NOTE 7: LIABILITIES (continued)

Community Disaster Loan

The Jersey Shore sustained heavy damage from a coastal storm on October 29, 2012. Toms River Municipal Utilities Authority's infrastructure was damaged and its customer base was reduced by approximately 20% while customers rebuilt.

The Authority has applied for a low interest Community Disaster Loan from the U.S. Department of Homeland Security for \$4,679,306. This Community Disaster Loan can be used to replace revenue shortfalls. On October 29, 2013, Toms River Municipal Utilities Authority requested to draw down \$2,359,650 of these funds. The draw down was approved by FEMA on October 31, 2013. Infrastructure damage from the storm was previously funded for renovation through the New Jersey Environmental Infrastructure Trust fund.

On July 27, 2015 Toms River Municipal Utilities Authority requested and was approved to draw down the remaining Community Disaster Loan funds in the amount of \$2,319,656.

During the year ended December 31, 2017, the Authority had submitted a request for a partial cancellation of the loan balance in the amount of \$4,637,645. The U.S. Department of Homeland Security approved the request on April 20, 2018.

Compensated Absences

For the years ended December 31, 2017 and 2016, the Authority accrued compensated absences in the amount of \$188,459 and \$163,794, respectively.

Net Pension Liability

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

NOTE 8: PENSION OBLIGATIONS

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/annrprts.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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 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 with 25 or more years of service credit before age 62 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 2017, 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

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Notes to Financial Statements (continued)
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NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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. For the year ended December 31, 2017, the Authority's contractually required contribution to PERS plan was \$380,856.

Components of Net Pension Liability - At December 31, 2017, the Authority's proportionate share of the PERS net pension liability was \$9,570,147. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. 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, 2017. The Authority's proportion measured as of June 30, 2017, was 0.0411117007% which was an increase of 0.0000017422% from its proportion measured as of June 30, 2016.

Collective Balances at December 31, 2017 and December 31, 2016

	<u>12/31/2017</u>	<u>12/31/2016</u>
Actuarial valuation date (including roll forward)	June 30, 2017	June 30, 2016
Deferred Outflows of Resources	\$ 2,816,942	\$ 3,998,106
Deferred Inflows of Resources	2,016,685	134,920
Net Pension Liability	9,570,147	12,175,591
Authority's portion of the Plan's total net pension Liability	0.041111%	0.041111%

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Notes to Financial Statements (continued)
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NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Pension Expense and Deferred Outflows/Inflows of Resources - At December 31, 2017, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2017 measurement date is 838,539. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 225,344	\$ -
Changes of Assumptions	1,928,055	1,920,986
Net Difference between Projected and Actual Earnings on Pension Plan Investments	65,166	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	598,377	95,699
	\$ 2,816,942	\$ 2,016,685

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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

Year Ending	
<u>Dec 31,</u>	<u>Amount</u>
2018	\$ 361,708
2019	461,353
2020	337,243
2021	(169,439)
2022	<u>(190,606)</u>
	<u>\$ 800,259</u>

Actuarial Assumptions - The total pension liability for the June 30, 2017 measurement date was determined by using an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation	2.25%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%
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

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Notes to Financial Statements (continued)
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NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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, 2016 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 (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<hr style="width: 100%; border: 0.5px solid black;"/>	
	100.00%	

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Notes to Financial Statements (continued)
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NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount 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 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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 (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 11,872,417</u>	<u>\$ 9,570,147</u>	<u>\$ 7,652,071</u>

NOTE 9: POST-RETIREMENT HEALTH BENEFITS

The Authority participates in the Central Jersey Health Insurance Fund ("the CJHIF"), 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 Central New Jersey Regional Employee Benefits Fund.

Under the CJHIF, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

The Central New Jersey Regional Employee Benefits Fund, issues publicly available financial reports that include the financial statements and required supplementary information of the CJHIF. The financial reports may be obtained by accessing the website at <http://www.cjhif.com/>.

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Notes to Financial Statements (continued)
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NOTE 9: POST-RETIREMENT HEALTH BENEFITS (continued)

The CJHIF 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. The CJHIF will set the employer contribution rate based on the annual required contribution of the employers (“ARC”), an amount actuarially-determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The unfunded actuarial accrued liability for the Authority has not been determined.

NOTE 10: SERVICE ORGANIZATION’S SOC 2 REQUIREMENT

The Authority utilizes Suez to provide consumption data of the Authority’s customers’ water usage. This data is used to bill the customers of the Authority, as sewer charges for commercial customers are based on the amount of water consumed. Service Organization Control (SOC) 2 requires the Authority to receive an internal control report from service organizations providing such services mentioned above.

The Authority has requested an internal control report from Suez, but they have not provided the Authority with the report.

NOTE 11: INVESTMENT INCOME

For the years ended December 31, 2017 and 2016, investment income consisted of the following:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 119,362	\$ 91,834
Gain on sale of investments	6,875	10,923
Net increase/(decrease) in the fair value of investments	(21,243)	(7,026)
	<u>\$ 104,994</u>	<u>\$ 95,731</u>

NOTE 12: TRANSFER TO THE TOWNSHIP OF TOMS RIVER

In December of 2016, the Authority transferred \$945,802 from the Authority’s reserves to the Township of Toms River, County of Ocean, State of New Jersey pursuant to N.J.S.A. 40A:4-35.1. This has been recorded in the statements of revenues, expenses and changes in net position as transfer to the Township of Toms River.

In December of 2017, the Authority transferred \$981,605 from the Authority’s reserves to the Township of Toms River, County of Ocean, State of New Jersey pursuant to N.J.S.A. 40A:4-35.1. This has been recorded in the statements of revenues, expenses and changes in net position as transfer to the Township of Toms River.

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

	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability (asset)	0.041111%	0.041111%	0.03818%	0.03572%	0.03704%
Authority's proportionate share of the net pension liability (asset)	\$ 9,570,145	\$ 12,175,591	\$ 8,570,368	\$ 6,688,090	\$ 7,079,718
Authority's covered-employee payroll	\$ 2,982,021	\$ 2,812,629	\$ 2,809,779	\$ 2,692,076	\$ 2,493,829
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	320.93%	432.89%	305.02%	248.44%	283.89%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	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.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 380,856	\$ 365,215	\$ 328,235	\$ 294,485	\$ 279,114
Contributions in relation to the contractually required contribution	<u>380,856</u>	<u>365,215</u>	<u>328,235</u>	<u>294,485</u>	<u>279,114</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 2,982,021	\$ 2,812,629	\$ 2,809,779	\$ 2,692,076	\$ 2,493,829
Contributions as a percentage of covered-employee payroll	12.77%	12.98%	11.68%	10.94%	11.19%

**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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2017

Public Employees' Retirement System (PERS)

Changes of Benefit Terms – None

Changes of Assumptions – The discount rate changed from 3.98% as of June 30, 2016, to 5.00% as of June 30, 2017.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenues and Expenses - Budget to Actual
For the year ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Sewer	\$ 17,266,338	\$ 17,266,338	\$ 17,479,807	\$ 213,469
Connection fees	693,084	693,084	791,669	98,585
Other municipalities	275,500	275,500	306,339	30,839
Delinquencies	250,000	250,000	328,977	78,977
Interest on investments	128,235	128,235	119,362	(8,873)
Realized gain/(loss) on sale of investments	-	-	6,875	6,875
Unrealized gain/(loss) on investments	-	-	(21,243)	(21,243)
Engineering and inspection	5,000	5,000	20,451	15,451
Other non-operating revenue	50,000	50,000	230,579	180,579
	<u>18,668,157</u>	<u>18,668,157</u>	<u>19,262,816</u>	<u>594,659</u>
Total revenues				
Costs:				
Administration	2,122,660	2,122,660	1,612,152	510,508
Maintenance of system	5,148,338	5,148,338	4,109,312	1,039,026
Treatment charges - OCUA	11,750,000	11,750,000	10,832,880	917,120
Debt service - interest	116,056	116,056	117,619	(1,563)
Debt service - principal	611,107	611,107	611,107	-
Municipality appropriation	981,605	981,605	981,605	-
Capital outlay (capitalized)	615,000	615,000	619,773	(4,773)
Rehabilitation project (capitalized)	2,300,000	2,300,000	4,650,261	(2,350,261)
	<u>23,644,766</u>	<u>23,644,766</u>	<u>23,534,709</u>	<u>110,057</u>
Total costs				
Net variance	<u>\$ (4,976,609)</u>	<u>\$ (4,976,609)</u>	(4,271,893)	<u>\$ 704,716</u>
Plus:				
Capitalized fixed assets			5,270,034	
Principal maturity			611,107	
Non-operating revenues			95,009	
Less:				
Community Disaster Loan reported as debt			-	
Depreciation expense			(2,567,359)	
Non-budgeted pension expense			(457,483)	
Non-operating expenses			<u>(9,443)</u>	
Change in net position			<u>\$ (1,330,028)</u>	

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenues and Expenses - Budget to Actual
For the year ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Sewer	\$ 17,074,910	\$ 17,074,910	\$ 17,469,568	\$ 394,658
Connection fees	590,000	590,000	455,008	(134,992)
Other municipalities	275,500	275,500	330,759	55,259
Delinquencies	300,000	300,000	365,978	65,978
Interest on investments	140,000	140,000	91,834	(48,166)
Realized gain/(loss) on sale of investments	-	-	10,923	10,923
Unrealized gain/(loss) on investments	-	-	(7,026)	(7,026)
Engineering and inspection	5,000	5,000	17,744	12,744
Miscellaneous	50,000	50,000	147,727	97,727
Total revenues	18,435,410	18,435,410	18,882,515	447,105
Costs:				
Administration	1,871,037	1,871,037	2,272,707	(401,670)
Maintenance of system	4,588,888	4,588,888	3,573,497	1,015,391
Treatment charges - OCUA	11,850,000	11,850,000	10,746,133	1,103,867
Debt service - interest	122,756	122,756	149,627	(26,871)
Debt service - principal	606,107	606,107	606,107	-
Municipality appropriation	945,802	945,802	945,802	-
Capital outlay (capitalized)	675,000	675,000	1,129,746	(454,746)
Rehabilitation project (capitalized)	8,000,000	8,000,000	3,913,458	4,086,542
Total costs	28,659,590	28,659,590	23,337,077	5,322,513
Net variance	\$ (10,224,180)	\$ (10,224,180)	(4,454,562)	\$ 5,769,618
Plus:				
Capitalized fixed assets			5,043,204	
Principal maturity			606,107	
Non-operating revenues			430,891	
Less:				
Depreciation expense			(2,409,445)	
Non-budgeted pension expense			(982,209)	
Change in net position			\$ (1,766,014)	

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Board of Commissioners and Management
December 31, 2017

Juan Carlos Bellu	Chairman
Carmen J. Memoli, CPA	Vice Chairman
Joseph G. Bilotta	Commissioner
Deborah L. Clement	Commissioner
Charles S. Valvano	Commissioner
Tariq M. Siddiqui	Alternate Commissioner
Stephen C. Acropolis	Executive Director/Secretary/Treasurer
Rosemary Rosetto	Chief Financial Officer/Assistant Treasurer
Georgia Benyola	Assistant Secretary

To the Chairman and Commissioners
of the Toms River Municipal Utilities Authority
Toms River, New Jersey 08753

We have audited the financial accounts and transactions of the Toms River Municipal Utilities Authority, a component unit of the Township of Toms River, Ocean County, State of New Jersey, in the County of Ocean for the year ended December 31, 2017. In accordance with requirements prescribed by the Local Finance Board and 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 bids were requested by public advertising and awarded by resolution for the following items: snake camera system, sewer and manhole rehabilitation, sonar inspection of sanitary sewer, roof canopy structure, pavement restoration, West Bay View Drive improvements, Quicklock repair clamps, restoration of the sanitary sewer access road project and manhole riser rings.

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

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. The results of our examination did not disclose any discrepancies.

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

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).

The supporting documentation indicated that quotes were requested for all items that required them.

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

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

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Budget Adoption

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its 2017 operating and capital budget on November 22, 2016 and adopted its 2017 operating and capital budget on December 20, 2016.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards* and audit requirements prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, our procedures included a review of all prior year findings. There were no prior year findings.

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.

Should you have any questions concerning our comments or recommendations, or should you desire any assistance in implementing our recommendations, please call us.

A handwritten signature in black ink that reads "HOLMAN FRENIA ALLISON PC". The letters are in all caps and have a cursive, slightly slanted appearance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 30, 2018
Toms River, New Jersey