

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 year ended December 31, 2018

(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 year ended December 31, 2018

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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 year ended December 31, 2018, 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 opinion.

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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the fiscal year ended December 31, 2018 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions – an Amendment of GASB Statement No. 45, 57, & 74. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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

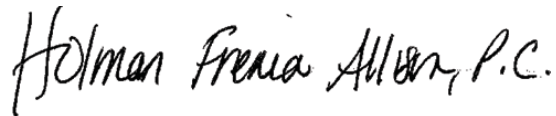
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Toms River Municipal Utilities Authority's basic financial statements. The accompanying schedule of revenues and expenses – budget to actual is presented for purposes of additional analysis 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 schedule of revenues and expenses – budget to actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting other records

used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of 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 June 23, 2019, 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, P.C." in a cursive script.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 23, 2019
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, a Component Unit of the Township of Toms River, (herein referred to as “the Authority”), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated June 23, 2019.

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.

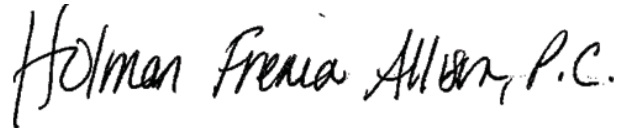
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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

June 23, 2019
Toms River, New Jersey



TOMS RIVER MUNICIPAL UTILITIES AUTHORITY

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Joseph G. Bilotta, Commissioner

Charles S. Valvano, Commissioner
Ben A. Montenegro, Alternate Commissioner
Alfonso J. Manforti, Alternate Commissioner
Robert J. DiBiase, Executive Director

June 23, 2019

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, 2018 and 2017 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 Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for the year ended December 31, 2018.

The Statement 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 Statement of Revenues, Expenses and Change in Net Position measure performance for each year and how this performance impacts net position.

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

Financial Analysis

The Authority, at December 31, 2018, has total assets and deferred outflows of resources of \$69,185,164 compared to \$71,575,430 at December 31, 2017 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, 2017, has total assets and deferred outflows of resources of \$71,575,430 compared to \$74,002,444 at December 31, 2016. 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 \$34,490,872 at December 31, 2018 increased \$4,374,657 from 2017. The increase is accounted for primarily due to the implementation of GASB Statement No. 75, during the year ended December 31, 2018, which resulted in the recognition of \$9,743,545 in net other postemployment health benefits liability. In addition, the Authority received community disaster loan forgiveness for the year ended December 31, 2018, which resulted in a write off of \$4,761,989 in principal.

The Authority's total liabilities and deferred inflows of resources of \$30,116,217 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 net position decreased \$6,764,924 for the year ended December 31, 2018. This decrease can be primarily attributed to the Authority's implementation of GASB Statement No. 75, resulting in a decrease in net position of \$9,408,125. This decrease was offset by a net income at December 31, 2018 of \$2,643,201.

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.

Condensed Financial Information

Key Authority Financial Information for the years 2018 and 2017 include the following balances:
Financial Position:

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current unrestricted assets	\$ 7,991,938	\$ 6,355,315
Current restricted assets	4,418,137	11,704,583
Capital assets, net	<u>54,596,671</u>	<u>50,613,858</u>
Total assets	<u>67,006,746</u>	<u>68,673,756</u>
Deferred outflows of resources	<u>2,178,419</u>	<u>2,901,676</u>
Total assets and deferred outflow of resources	<u>\$ 69,185,165</u>	<u>\$ 71,575,432</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current unrestricted liabilities	\$ 671,930	\$ 844,140
Current restricted liabilities	2,319,565	2,324,244
Long-term liabilities	<u>25,411,806</u>	<u>22,275,343</u>
Total liabilities	<u>28,403,301</u>	<u>25,443,727</u>
Deferred inflow of resources	<u>6,087,571</u>	<u>4,672,488</u>
Total liabilities and deferred inflow of resources	<u>34,490,872</u>	<u>30,116,215</u>
NET POSITION		
Investments in capital assets, net of related debt	46,878,788	42,710,130
Unrestricted net position	<u>(12,184,495)</u>	<u>(1,250,913)</u>
Total net position	<u>34,694,293</u>	<u>41,459,217</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 69,185,165</u>	<u>\$ 71,575,432</u>

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 24,294,926	\$ 19,379,068
Total expenses	<u>(21,651,725)</u>	<u>(20,709,096)</u>
Net income/(loss)	<u>\$ 2,643,201</u>	<u>\$ (1,330,028)</u>
Capital spending	\$ 6,542,767	\$ 5,233,417
Capital contributions	84,636	82,561
Connection fees	719,206	791,669
Bonds paid down	616,107	611,107
Bonds payable, net	7,818,037	8,453,540

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 INFLOWS 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>
Total liabilities, deferred inflows of resources and net position	<u>\$ 71,575,432</u>	<u>\$ 74,002,444</u>

Authority revenues were \$682,286 over budgeted for 2018 and \$594,659 over budgeted for 2017. For 2018 and 2017, 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 was applied for and in April 2018, the Authority was approved by FEMA for a partial cancellation of \$4,637,645 of the Community Disaster Loan principal balance. During the year ended December 31, 2018, the Authority recognized \$4,761,989 in loan principal and interest forgiveness.

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



Robert DiBiase
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)

Statement of Net Position
December 31, 2018

	2018
ASSETS	
Current unrestricted assets:	
Cash	\$ 5,957,935
Accounts receivable	1,802,920
Inventory	210,762
Prepaid expenses	20,321
Total current unrestricted assets	7,991,938
Current restricted assets:	
Restricted cash and investments:	
Rate stabilization:	
Cash	663,939
Investments	1,123,553
Interest receivable	765
System renovation:	
Cash	212,548
Investments	396,504
Interest receivable	296
Other restricted funds:	
Cash	1,248,051
Operating:	
Cash	750,000
Due from NJ Infrastructure Bank	22,481
Total current restricted assets	4,418,137
Capital assets	138,965,642
Less: accumulated depreciation	(84,368,971)
Capital assets, net	54,596,671
Total assets	67,006,746

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	2,100,746
Loss on bond refunding, net of accumulated amortization	77,673
Total deferred outflow of resources	2,178,419
Total assets and deferred outflow of resources	\$ 69,185,165

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Statement of Net Position (continued)
December 31, 2018

	2018
LIABILITIES	
Current unrestricted liabilities:	
Accounts payable	\$ 559,823
Accrued expenses	107,812
Deposits on connection fees	4,295
Total current unrestricted liabilities	671,930
Current restricted liabilities:	
Current portion of bonds payable - NJIB	636,503
Accrued interest payable	34,970
Escrow performance bonds	1,161,687
Unemployment trust fund	68,439
Pension payable	417,966
Total current restricted liabilities	2,319,565
Long-term liabilities:	
Long-term portion of bonds payable - NJIB	7,181,534
Reserve for compensated absences	213,144
Net other postemployment benefits liability	9,743,545
Net pension liability	8,273,583
Total long-term liabilities	25,411,806
Total liabilities	28,403,301
DEFERRED INFLOWS OF RESOURCES	
Unearned sewerage charges	3,265,375
Deferred inflows related to pensions	2,822,196
Total deferred inflow of resources	6,087,571
NET POSITION	
Investments in capital assets, net of related debt	46,878,788
Unrestricted net position	(12,184,495)
Total net position	34,694,293
Total liabilities, deferred inflows of resources and net position	\$ 69,185,165

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
(A Component Unit of the Township of Toms River,
County of Ocean, State of New Jersey)
Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2018

	2018
Operating revenues:	
Sewerage charges	\$ 17,963,427
Connection fees	719,206
Engineering and inspection fees	31,676
Delinquent charges	329,535
Miscellaneous	243,043
Total operating revenues	19,286,887
Operating expenses:	
Administrative expenses	1,895,038
Maintenance and treatment	16,111,380
Depreciation	2,559,953
Total operating expenses	20,566,371
Net loss from operations	(1,279,484)
Non-operating revenues (expenses):	
Investment income	144,305
Realized gain/(loss) on sale of investments	4,774
Unrealized gain/(loss) on investments	(11,728)
Interest expense	(104,793)
Transfer to the Township of Toms River (See Note 12)	(968,833)
Capital contributions	84,636
Amortization of bond premium	12,335
Total non-operating revenues (expenses)	(839,304)
Change in net position before non-recurring items	(2,118,788)
Non-recurring items	
Community disaster loan forgiveness (See Note 13)	4,761,989
Change in net position after non-recurring items	2,643,201
Net position, January 1	41,459,217
Prior period restatement (see Note 15)	(9,408,125)
Net position, January 1	32,051,092
Net position, December 31	\$ 34,694,293

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

Statement of Cash Flows
For the year ended December 31, 2018

	2018
Cash flows from operating activities:	
Cash received from service users	\$ 19,838,645
Cash paid to suppliers and employees	(17,451,122)
Net cash flows from operating activities	2,387,523
 Cash flows from investing activities:	
Transfers from investments, net	946,417
Interest received	137,598
Acquisition and construction of fixed assets	(6,015,885)
Net cash flows from investing activities	(4,931,870)
 Cash flows from financing activities:	
Payment to Township of Toms River	(968,833)
Repayment of debt	(616,107)
Interest paid	(99,584)
Net cash flows from investing activities	(1,684,524)
 Change in cash	(4,228,871)
 Unrestricted and restricted cash, January 1	13,061,344
 Unrestricted and restricted cash, December 31	\$ 8,832,473
 Reconciliation to Statement of Net Position:	
Current unrestricted assets:	
Cash	\$ 5,957,935
Current restricted assets:	
Rate stabilization cash	663,939
System renovation cash	212,548
Other restricted cash	1,998,051
Unrestricted and restricted cash, December 31	\$ 8,832,473

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)
Statement of Cash Flows (continued)
For the year ended December 31, 2018

	2018
Reconciliation of net loss to cash flows from operating activities:	
Net loss from operations	\$ (1,279,484)
Items which did not use cash:	
Depreciation	2,559,953
Unbudgeted pension expense	225,145
Unbudgeted other postemployment benefit expense	335,420
Working capital changes which provided (used) cash:	
Accounts receivable	(110,565)
Inventory	9,702
Due from OCUA	133,770
Prepaid expenses	(1,216)
Accounts payable	(181,996)
Accrued expenses	9,786
Deferred sewerage charges	609,572
Pension payable	52,751
Reserve for compensated absences	24,685
Net cash flows from operating activities	\$ 2,387,523

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 year ended December 31, 2018

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 year ended December 31, 2018

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 year ended December 31, 2018

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 Statement 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
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the year ended December 31, 2018

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 statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future 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
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the year ended December 31, 2018

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 year ended December 31, 2018

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

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 was effective and implemented for the year ended December 31, 2018.

Recently Issued Accounting Pronouncements

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

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting 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.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

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.

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, 2018 through June 23, 2019, which is the date the financial statements were available to be issued.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 2: CASH

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2018, reported at fair value, are as follows:

	<u>2018</u>
Deposits:	
Demand deposits	\$ 8,832,473
Total deposits	<u>\$ 8,832,473</u>
 Reconciliation to Statement of Net Position:	
Current unrestricted assets:	
Cash	\$ 5,957,935
Current restricted assets:	
Rate stabilization cash	663,939
System renovation cash	212,548
Other restricted cash	<u>1,998,051</u>
Total current unrestricted and restricted cash	<u>\$ 8,832,473</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 shown as Uninsured and Uncollateralized in the schedule below. As of December 31, 2018, the Authority's bank balances were insured or exposed to credit risk as follows:

	<u>2018</u>
Insured by FDIC	\$ 750,000
Collateralized in the Authority's name under GUDPA	<u>8,270,235</u>
Total	<u>\$ 9,020,235</u>

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 2: CASH (continued)

Custodial Credit Risk Related to Deposits (continued)

The Board approved and adopted the Cash Management and Investment Policy on February 28, 2018 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.

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

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, 2018, are provided in the schedule below.

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;

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 3: INVESTMENTS (continued)

Investment Credit Risk (continued)

- 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, 2018, the Authority had the following investments and maturities:

	Asset at Fair Value as of December 31, 2018			
	<i>Level I</i>	<i>Level II</i>	<i>Level III</i>	Total
Fixed income securities:				
US government agency obligations	\$1,520,057	\$ -	\$ -	\$1,520,057
Total investments at fair value	\$1,520,057	\$ -	\$ -	\$1,520,057

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable balances at December 31, 2018 consisted of the following:

	<u>2018</u>
Accounts receivable - customers	\$ 1,687,149
Review and inspection fees	5,622
Other receivables	35,091
Other municipalities	75,058
Total	\$ 1,802,920

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 year ended December 31, 2018

NOTE 5: OCUA DEFICIENCY

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 deficiency of \$305,423 for 2018. Historically, the Authority experienced credits because of the efficiency of the Toms River Municipal Utilities Authority in reducing the amount of groundwater entering the sewer system. In 2018, the deficiency was a result of higher than usual rainfall, deeming 2018 to be the wettest year in NJ history records.

NOTE 6: CAPITAL ASSETS

The activity in capital assets for the year ended December 31, 2018 is as followed:

	Balance December 31, 2017	Additions	Retirements and Transfers	Balance December 31, 2018
Capital Assets				
not being depreciated				
Land	\$ 1,779,650	\$ -	\$ -	\$ 1,779,650
Construction in progress	4,354,147	3,242,920	(2,112,482)	5,484,585
NJIB work in progress	<u>10,095,294</u>	<u>442,245</u>	-	<u>10,537,539</u>
Total Capital Assets not being depreciated	<u>16,229,091</u>	<u>3,685,165</u>	<u>(2,112,482)</u>	<u>17,801,774</u>
Capital Assets being depreciated				
Collection system	105,465,938	2,335,911	2,112,482	109,914,331
Buildings and improvements	3,348,042	2,879	-	3,350,921
Equipment	6,238,638	480,778	-	6,719,416
GIS deployed	295,493	-	-	295,493
Furniture and fixtures	<u>845,674</u>	<u>38,033</u>	-	<u>883,707</u>
Total Capital Assets being depreciated	<u>116,193,785</u>	<u>2,857,601</u>	<u>2,112,482</u>	<u>121,163,868</u>
Less: accumulated depreciation	<u>(81,809,018)</u>	<u>(2,559,953)</u>	-	<u>(84,368,971)</u>
Total Capital Assets, being depreciated, net	<u>34,384,767</u>	<u>297,648</u>	<u>2,112,482</u>	<u>36,794,897</u>
Total Capital Assets, net	<u>\$ 50,613,858</u>	<u>\$ 3,982,813</u>	<u>\$ -</u>	<u>\$ 54,596,671</u>

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
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Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 7: LIABILITIES

Accrued Expenses

Accrued expenses at December 31, 2018 consisted of the following:

	<u>2018</u>
Payroll	\$ 74,677
Payroll taxes	6,385
Professional fees	<u>26,750</u>
Total accrued expenses	<u>\$ 107,812</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, 2018, the balance totaled \$3,265,375.

Long-term Obligations

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

	<u>Balance</u>			<u>Balance</u>	<u>Balance</u>
	<u>12/31/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/18</u>	<u>Due Within</u>
					<u>One Year</u>
Bonds payable	\$ 8,202,549	\$ -	\$ 616,106	\$ 7,586,443	\$ 617,107
Unamortized loan premium	<u>250,991</u>	<u>-</u>	<u>19,397</u>	<u>231,594</u>	<u>19,396</u>
Bonds payable, net	<u>8,453,540</u>	<u>-</u>	<u>635,503</u>	<u>7,818,037</u>	<u>636,503</u>
Community disaster loan	4,679,306	-	4,679,306	-	-
Net other postemployment benefits liability	9,408,125	335,420	-	9,743,545	-
Reserve for compensated absences	188,459	24,685	-	213,144	-
Net pension liability	<u>9,570,146</u>	<u>-</u>	<u>1,296,563</u>	<u>8,273,583</u>	<u>-</u>
Total	<u>\$32,299,576</u>	<u>\$ 360,105</u>	<u>\$ 6,611,372</u>	<u>\$26,048,309</u>	<u>\$ 636,503</u>

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 year ended December 31, 2018

NOTE 7: LIABILITIES (continued)

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

Loans payable at December 31, 2018 consisted of the following:

	<u>2018</u>
2010A NJIB Fund Loans, bearing no interest, maturity dates February 1 from 2011 to 2029.	\$ 4,304,192
2014A NJIB Fund Loans, bearing no interest, maturity dates August 1 from 2014 to 2033.	799,251
2014A NJIB 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.	905,000
2017A-R2 NJIB 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.	<u>1,578,000</u>
Total loans	7,586,443
Less: current portion	<u>(636,503)</u>
Subtotal	6,949,940
Unamortized bond premium	<u>231,594</u>
Total	<u><u>\$ 7,181,534</u></u>

On March 10, 2010, the Authority borrowed \$10,105,000 in Revenue Bonds through the New Jersey Infrastructure Bank. 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 Infrastructure Bank. 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 NJIB debt forgiveness, \$1,214,007 was recognized as revenue in 2014, \$837,555 was recognized as revenue in 2015. On April 5, 2016, the 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

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 year ended December 31, 2018

NOTE 7: LIABILITIES (continued)

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

\$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. As of December 31, 2018, this bond issuance premium had a balance of \$64,073.

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 NJIB Refunding Bonds in the amount of \$1,578,000. The proceeds of this issuance were utilized to refund the 2010 NJIB 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 and a bond premium of \$197,980 as of December 31, 2017. 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, 2018, the net balance of the deferred outflow related to the loss on bond refunding was \$77,673. A premium of \$197,980 is associated with this bond issuance and is included in the bonds payable balance on the Statement of Net Position. This premium will be amortized over the life of the bonds. As of December 31, 2018, the premium had a balance of \$167,521.

At December 31, 2018, the debt service requirements on the NJIB Loans until maturity are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 617,107	\$ 96,551	\$ 713,658
2020	622,107	89,661	711,768
2021	635,107	82,571	717,678
2022	636,107	74,911	711,018
2023	646,107	67,211	713,318
2024-2028	3,359,533	213,756	3,573,289
2029-2033	<u>1,070,375</u>	<u>40,934</u>	<u>1,111,309</u>
Total	<u>\$ 7,586,443</u>	<u>\$ 665,595</u>	<u>\$ 8,252,038</u>

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 year ended December 31, 2018

NOTE 7: LIABILITIES (continued)

Compensated Absences

For the year ended December 31, 2018, the Authority accrued compensated absences in the amount of \$213,144.

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.

Other Postemployment Benefits Liability

For details on the other postemployment benefits liability, see the Postemployment Benefits section below. The Authority's contribution into the postemployment benefits plan is budgeted and paid on an annual basis.

Community Disaster Loan Payable

For details on the reduction of the Community Disaster Loan due to the Authority's request for cancellation, see Note 13.

NOTE 8: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

For the year ended December 31, 2018, the Authority is recognizing its post-employment benefits based upon the implementation requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*.

Plan Description – The Authority participates in one single-employer postemployment plan for medical benefits and prescription drugs. The Authority has the authority for establishing and amending this plan. This plan has no assets that are accumulated in a trust and the plan does not have a separate report. Employees are eligible for these benefits provided they have:

- Retired on a disability pension;
- Retired after 25 years or more service credit in a state or locally administered retirement system with service of five (5) years service to the Authority

The Authority also provides full coverage towards the cost of health benefits for the spouses and/or dependents of eligible retired employees for employees hired prior to December 31, 2013. The Authority provides full coverage towards the cost of health benefits for spouses only of eligible retired employees hired after December 31, 2013.

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 year ended December 31, 2018

NOTE 8: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

Funding Policy - The Authority finances this program on a pay-as-you-go basis. The Authority has the authority for establishing and amending the funding policy. For the year ended December 31, 2018 the Authority funded \$254,436 to the plan.

Employees Covered By Benefits Terms – As of December 31, 2018, there were 25 participants currently receiving retiree benefits, and 37 active participants of whom 2 are eligible to retire as of the valuation date.

Total OPEB Liability – The Authority’s total OPEB liability of \$9,743,545 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Mortality	RP 2000 Combined Healthy Male Mortality Rates Set Forward Three Years
Turnover	NJ Pensions Ultimate Withdrawal Rates – Prior to Benefit Eligibility
Assumed Retirement Age	At first eligibility after completing twenty five (25) years of service
Full Attribution Period	Service to Assumed Retirement Age
Annual Discount Rate	4.10% Based on Bond Buyer 20 Index at December 31, 2018
Rate of Salary Increase	2.50%
Trend	Medical: 5.80% in 2018, reducing 0.10% per annum, leveling at 5.00% per annum in 2026; Drug: 10.00% in 2018, reducing 0.50% per annum to 2022 and 1.00% per annum thereafter, leveling at 5.00% per annum in 2026; Dental and vision: 3.50% per annum
Medical Cost Aging Factor	NJ SHBP Medical Morbidity Rates

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 year ended December 31, 2018

NOTE 8: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

Changes in the Total OPEB Liability

The following table shows the Changes in the OPEB Liability as follows:

	Total OPEB Liability
Total OPEB Liability December 31, 2017	\$ 9,408,125
Changes in Total OPEB Liability	
Service Costs	201,094
Interest	388,762
Changes in Benefit Terms	-
Difference between expected and actual experience	-
Changes in Assumptions	-
Benefit Payments	<u>(254,436)</u>
Net Changes in Total OPEB Liability	<u>335,420</u>
Total OPEB Liability December 31, 2018	<u>\$ 9,743,545</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using a discount rate that is 1- percentage-point lower (3.10 percent) or 1-percentage-point higher (5.10 percent) than the current discount rate:

	1 % Decrease (3.10%)	Current Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB Liability	<u>\$ 10,596,886</u>	<u>\$ 9,743,545</u>	<u>\$ 9,037,612</u>

Sensitivity of the Total OPEB Liability to Changes in the Trend Rate– The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using a medical trend rate that is 1- percentage-point lower (4.8 percent to 4.0 percent) or 1-percentage-point higher (6.8 percent to 6.0 percent) than the current discount rate:

	1 % Decrease (4.00%)	Medical Trend Rate (5.00%)	1% Increase (6.00%)
Total OPEB Liability	<u>\$ 9,038,538</u>	<u>\$ 9,743,545</u>	<u>\$ 10,579,201</u>

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 year ended December 31, 2018

NOTE 8: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

OPEB Expense – For the year ended December 31, 2018, the Authority had a total OPEB expense of \$589,856 based on the discount rate of 4.10%.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the Authority did not have any deferred inflows or deferred outflows in relation to the total OPEB liability.

NOTE 9: 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 <http://www.nj.gov/treasury/pensions/financial-reports.shtml>.

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

The following represents the membership tiers for PERS:

<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.

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 year ended December 31, 2018

NOTE 9: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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 2018, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability.

Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. For the year ended December 31, 2018, the Authority's contractually required contribution to PERS plan was \$417,966.

Components of Net Pension Liability – At December 31, 2018, the Authority's proportionate share of the PERS net pension liability was \$8,273,583. The net pension liability was measured as of June 30, 2018. 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, 2017, which was rolled forward to June 30, 2018. 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, 2018. The Authority's proportion measured as of June 30, 2018, was 0.0420202800% which was an increase of 0.0009085793% from its proportion measured as of June 30, 2017.

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 year ended December 31, 2018

NOTE 9: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Balances at December 31, 2018 and December 31, 2017

	<u>12/31/2018</u>	<u>12/30/2017</u>
Actuarial valuation date (including roll forward)	June 30, 2018	June 30, 2017
Deferred Outflows of Resources	\$ 2,100,746	\$ 2,816,942
Deferred Inflows of Resources	2,822,196	2,016,685
Net Pension Liability	8,273,583	9,570,147
Authority's portion of the Plan's total Net Pension Liability	0.04202%	0.04111%

Pension Expense and Deferred Outflows/Inflows of Resources – At December 31, 2018, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2018 measurement date is \$643,107. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 1,57,778	\$ 42,661
Changes of Assumptions	1,363,349	2,465,452
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	77,607
Changes in Proportion and Differences between the Authority's Contributions and Proportion Share of Contributions	<u>579,619</u>	<u>56,476</u>
	<u>\$ 2,100,746</u>	<u>\$ 2,822,196</u>

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 year ended December 31, 2018

NOTE 9: 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	-
June 30, 2018	5.63	-
Changes in Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
June 30, 2018	-	5.63
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
June 30, 2018	5.00	-
Changes in Proportion and Differences between Authority's Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48
June 30, 2018	5.63	5.63

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 year ended December 31, 2018

NOTE 9: 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:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2019	\$ 65,589
2020	32,327
2021	(189,280)
2022	(506,390)
2023	<u>(123,696)</u>
	<u>\$ 721,450</u>

Actuarial Assumptions – The total pension liability for the June 30, 2018 measurement date was determined by using an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. 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

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 year ended December 31, 2018

NOTE 9: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales.

Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 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, 2018) 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, 2018 are summarized in the following table:

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 year ended December 31, 2018

NOTE 9: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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

Discount Rate – The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. 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 3.87% as of June 30, 2018 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount 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 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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 year ended December 31, 2018

NOTE 9: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66%) or 1-percentage-point higher (6.66%) than the current rate:

	1 % Decrease	Current	1% Increase
	<u>(4.66%)</u>	<u>(5.66%)</u>	<u>(6.66%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 10,403,078</u>	<u>\$ 8,273,583</u>	<u>\$ 6,487,074</u>

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 year ended December 31, 2018, investment income consisted of the following:

	<u>2018</u>
Investment income	\$ 144,305
Gain on sale of investments	4,774
Net increase/(decrease) in the fair value of investments	<u>(11,728)</u>
Total	<u>\$ 137,351</u>

NOTE 12: TRANSFER TO THE TOWNSHIP OF TOMS RIVER

In December of 2018, the Authority transferred \$968,833 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
(A Component Unit of the Township of Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the year ended December 31, 2018

NOTE 13: NON-RECURRING ITEMS

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 had applied for a low interest Community Disaster Loan from the U.S. Department of Homeland Security for \$4,679,306. This Community Disaster Loan was 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. During the year ended December 31, 2018, the Authority recognized \$4,761,989 in loan principal and interest forgiveness, while the remaining loan principal and interest totaling \$42,518 was paid. This loan principal and interest forgiveness is recorded in the statement of revenues, expenses and changes in net position as a non-recurring item.

NOTE 14: AUTHORITY COMPLIANCE WITH EXCEEDING CHANGE ORDER LIMIT

During the year ended December 31, 2017, the Authority awarded a bid to DeFino Contracting Company, Inc. for an improvement project on West Bayview Drive, Toms River with a contracted amount of \$473,400. Through the year ended December 31, 2018, there were change orders exceeding 20% of the original contract price for which the Authority remained in compliance with 5:30-11 regulations set forth by the Local Finance Board.

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 year ended December 31, 2018

NOTE 15: PRIOR PERIOD ADJUSTMENT/RESTATEMENT OF NET POSITION

Net position as of January 1, 2018 has been restated as follows for the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions - an Amendment of GASB Statement No. 45, 57, & 74:

Net position as previously reported at December 31, 2017	\$ 41,459,217
Implementation of GASB 75:	
Net other postemployment benefit liability (measurement date as of June 30, 2017)	(9,408,125)
Total prior period adjustment	(9,408,125)
Net position as restated January 1, 2018	\$ 32,051,092

NOTE 16: DEFICIT UNRESTRICTED NET POSITION

The Authority had a deficit in unrestricted net position in the amount of \$(12,184,495) at December 31, 2018. The primary cause of this deficit is due to the recording of the net pension liability and other net postemployment benefit liability, as required by generally accepted accounting principle. If this was not required, the unrestricted net position before the net pension liability and net other postemployment benefit liability and deferred outflows and inflows related to pensions would be \$6,554,083 as of December 31, 2018. This deficit in unrestricted net position does not indicate that the Authority is facing financial difficulties.

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

	Measurement Date Ended June 30,					
	2018	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability (asset)	0.04202%	0.04111%	0.04111%	0.03818%	0.03572%	0.03704%
Authority's proportionate share of the net pension liability (asset)	\$ 8,273,583	\$ 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	2,493,829
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	277.45%	340.26%	433.33%	318.36%	268.19%	283.89%
Plan fiduciary net position as a percentage of the total pension liability	53.60%	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 informatic

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

	Year Ended December 31,					
	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 417,966	\$ 380,856	\$ 365,215	\$ 328,235	\$ 294,485	\$ 279,114
Contributions in relation to the contractually required contribution	<u>(417,966)</u>	<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>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 3,124,824	\$ 2,982,021	\$ 2,812,629	\$ 2,809,779	\$ 2,692,076	\$ 2,493,829
Contributions as a percentage of covered-employee payroll	13.38%	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 the last six fiscal years.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
Schedule of Changes in the Authority's Total OPEB Liability and Ratios
Last Fiscal Year *

	2018
Authority's Total OPEB liability	
Service cost	\$ 201,094
Interest	388,762
Benefit payments	(254,436)
Net Changes in the Authority's Total OPEB Liability	335,420
Authority's Total OPEB Liability (Beginning)	9,408,125
Authority's Total OPEB Liability (Ending)	\$ 9,743,545
Authority's Covered Payroll	\$ 3,124,824
Authority's Net OPEB Liability as a Percentage of Payroll of covered-employee payroll	311.81%

Notes to Schedule:

* 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, 2018**

Public Employees' Retirement System (PERS)

Changes of Benefit Terms

None.

Changes of Assumptions

The discount rate changed from 5.00% as of June 30, 2017, to 5.66% as of June 30, 2018.

State Health Benefit Local Retired Employees Plan (OPEB)

Changes of Benefit Terms

None.

Changes of Assumptions

None.

TOMS RIVER MUNICIPAL UTILITIES AUTHORITY
Schedule of Revenues and Expenses - Budget to Actual
For the year ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Sewer	\$ 17,445,482	\$ 17,445,482	\$ 17,659,864	\$ 214,382
Connection fees	583,740	583,740	719,206	135,466
Other municipalities	275,500	275,500	303,563	28,063
Delinquencies	250,000	250,000	329,535	79,535
Interest on investments	122,230	122,230	144,305	22,075
Realized gain/(loss) on sale of investments	-	-	4,774	4,774
Unrealized gain/(loss) on investments	-	-	(11,728)	(11,728)
Engineering and inspection	15,000	15,000	31,676	16,676
Other non-operating revenue	50,000	50,000	243,043	193,043
Total revenues	18,741,952	18,741,952	19,424,238	682,286
Costs:				
Administration	2,124,664	2,124,664	1,670,812	453,852
Maintenance of system	5,085,886	5,085,886	4,282,618	803,268
Treatment charges - OCUA	11,500,000	11,500,000	11,492,423	7,577
Debt service - interest	108,306	108,306	104,793	3,513
Debt service - principal	666,107	666,107	616,107	50,000
Municipality appropriation	968,833	968,833	968,833	-
Capital outlay (capitalized)	1,075,000	1,075,000	911,669	163,331
Rehabilitation project (capitalized)	4,935,000	4,935,000	5,631,098	(696,098)
Total costs	26,463,796	26,463,796	25,678,353	785,443
Net variance	\$ (7,721,844)	\$ (7,721,844)	(6,254,115)	\$ 1,467,729
Plus:				
Capitalized fixed assets			6,542,767	
Principal maturity			616,107	
Non-operating revenues			96,971	
Non-recurring income: Community Disaster Loan forgiveness			4,761,989	
Less:				
Depreciation expense			(2,559,953)	
Non-budgeted pension expense			(225,145)	
Non-budgeted post employment benefit expense			(335,420)	
Change in net position			\$ 2,643,201	

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, 2018

Carmen J. Memoli, CPA Chairman
Tariq M. Siddiqui, P.E. Vice Chairman
Joseph G. Bilotta Commissioner
Deborah L. Clement Commissioner
Charles S. Valvano Commissioner
Dr. Alfonso J. Manforti Alternate Commissioner
Ben A. Montenegro Alternate Commissioner
Robert J. DiBiase 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, 2018. 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 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 2018 budgets on November 28, 2017 and adopted its 2018 budgets on December 19, 2017.

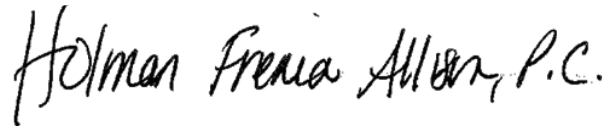
Follow-Up of Prior Years' Findings

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, P.C." in a cursive style.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 23, 2019
Toms River, New Jersey