

WARREN COUNTY (PEQUEST RIVER)
MUNICIPAL UTILITIES AUTHORITY
COUNTY OF WARREN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2017

	<u>Page</u>
<u>PART I - INTRODUCTORY SECTION (UNAUDITED)</u>	
Letter of Transmittal.....	1-3
Organizational Chart.....	4
Roster of Officials.....	5
 <u>PART II - FINANCIAL SECTION</u>	
Independent Auditors' Report.....	6-8
Management's Discussion and Analysis (Unaudited).....	9-12
 <u>Financial Statements</u>	
Statement of Net Position.....	13-14
Statement of Revenue, Expenses and Changes in Net Position.....	15
Statement of Cash Flows.....	16
 Notes to Financial Statements.....	 17-37
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedules Related to Accounting and Reporting for Pensions (GASB 68) (Unaudited)	
Schedule of Authority's Proportionate Share of the Net Pension Liability- Public Employees Retirement System.....	38
Schedule of Authority Contributions – Public Employees Retirement System.....	39
Notes to Required Supplementary Information (Unaudited).....	40
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule 1 – Statement of Revenue, Expenses and Changes in Net Position – Restricted and Unrestricted.....	41
Schedule 2 – Statement of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget.....	42-43
Schedule 3 - Schedule of New Jersey Environmental Infrastructure Loans Payable - Trust Loan - Belvidere and Oxford Wastewater Treatment Plant Upgrades.....	44-45
Schedule 4 – Schedule of New Jersey Environmental Infrastructure Loans Payable - Fund Loan - Belvidere and Oxford Wastewater Treatment Plant Upgrades.....	46-47

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

PART III – SINGLE AUDIT SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48-49
Schedules of Expenditures for Federal and State Awards.....	50
Schedule of Findings and Responses.....	51-52
Summary Schedule of Prior Audit Findings.....	53

PART IV – COMMENTS AND RECOMMENDATIONS

Comments and Recommendations.....	54-55
Summary of Recommendations.....	56

INTRODUCTORY SECTION

Warren County (Pequest River) Municipal Utilities Authority

199 Foul Rift Road, P.O. Box 159
Belvidere, New Jersey 07823

Tel. (908) 475-5412
Fax. (908) 475-5873

April 27, 2018

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Belvidere, NJ

Dear Authority Members:

The annual financial report of the Warren County (Pequest River) Municipal Utilities Authority (The "Authority") for the year ended December 31, 2017, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The annual financial report is presented in four sections: introductory, financial, single audit, and comments and recommendations. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. Information related to the single audit section, including the auditors' report on internal control and compliance with applicable laws, regulations, contracts and grants and findings and questioned costs, are included in the single audit section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Warren County (Pequest River) Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey governed by nine members appointed by the Warren County Board of Chosen Freeholders.

The Authority was created in 1969 and reorganized in 1978 under and pursuant to the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183).

The Warren County (Pequest River) Municipal Utilities Authority was created to provide for the acquisition, construction, maintenance, operation and improvement of facilities for the collection, treatment, purification or disposal of sewage or other wastes for the purpose of relieving waters of pollution within the Authority's area of service. The Authority is authorized to collect service charges for connection with, and for use of, the Authority's services and products. The Authority bills the customers for such usage under their respective service contracts.

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

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2
April 27, 2018

REPORTING ENTITY AND ITS SERVICES: (Cont'd)

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. As the financial reporting entity was established in accordance with New Jersey statutes, the requirements of GASB Codification Section 2100 were not followed and, accordingly, the reporting entity could be different from accounting principles generally accepted in the United States of America.

Although the Freeholders of Warren County appoint the governing members of the Authority and the County has secured the payment of the Authority's bonds and loans, the Authority is autonomous from the County in all other pertinent matters concerning oversight responsibility. Accordingly, the Authority is considered a component unit of the County of Warren.

General Trends and Significant Events

During 2017, the Authority experienced the following:

- Both sewer plants operated without any major breakdowns of violations.
- Each facility is considered to be well run and orderly with housekeeping and storage exceptional.
- The Authority has gone over 18 years without any lost time accidents and no lost work days.
- During 2017, the Authority achieved final completion of the Oxford Wastewater Treatment Facility (WWTF) Upgrade Phase #2 as required by the New Jersey Department of Environmental Protection (NJDEP).
- The Warren County Pollution Control Financing Authority (PCFA) continues to discharge the effluent from its facility into the Authority's Oxford Treatment plant. The flow from the PCFA plant continues to generate moderate revenue for the Authority.

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 5. 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 ("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. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 3
April 27, 2018

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.


OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Warren County (Pequest River) Municipal Utilities Authority for their concern in providing fiscal accountability to the citizens of Warren County and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

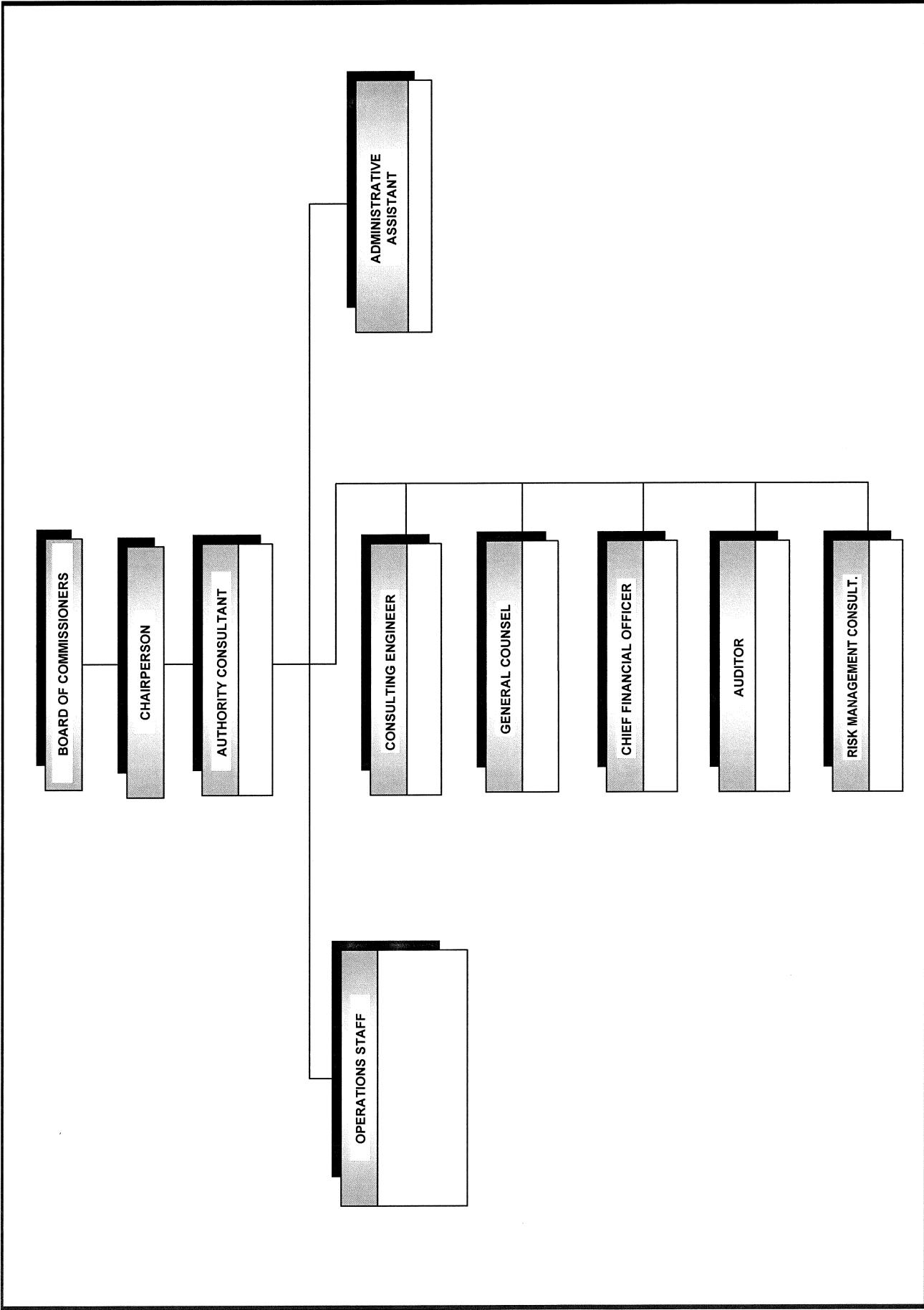
Respectfully submitted,



Daniel Olshefski
Authority's Chief Financial Officer



E. Chad Chamberlain
Chairman



**WARREN COUNTY (PEQUEST RIVER) MUA
ORGANIZATIONAL STRUCTURE**

REVISED - MARCH 2014



35 SPARTA AVENUE
SPARTA, NEW JERSEY 07871
(973) 300-8003 FAX: (973) 300-4003

ROSTER OF OFFICIALS

DECEMBER 31, 2017

Commissioners

E. Chad Chamberlain

Chairperson

Morris Scott, Jr.

Vice Chairperson

Laurel Napolitani

Secretary

Robert Piazza

Treasurer

Philip Rosenberg

Board Member

Sidney Deutsch

Board Member

Everdina O'Connor

Board Member

Donald Niece

Board Member

Drew J. Kiszonak

Board Member

Other Officials

Billy Wauhopp

Authority Consultant

Daniel Olshefski

Authority's Chief Financial Officer

CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia LLP
Mt. Arlington, NJ

ATTORNEYS

Brian Tipton
Florio, Perrucci, Steinhardt & Fader, LLC
Phillipsburg, NJ

CONSULTING ENGINEER

CP Engineers, LLC
Sparta, NJ

FINANCIAL SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax
 Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

The Honorable Chairman and Members
 of the Warren County (Pequest River)
 Municipal Utilities Authority
 Belvidere, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the Pequest River Municipal Utilities Authority, (the "Authority"), a component unit of the County of Warren, as of and for the year ended December 31, 2017, and the related notes to the financial statements, as listed in the foregoing 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.

Auditors' 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, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2

Opinions

In our opinion, the component unit financial statements referred to above, present fairly, in all material respects, the financial position of the Authority as of December 31, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information pension schedules and related notes be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The supplementary information schedules listed in the table of contents and the as well as the schedules of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and the other information in the introductory section are presented for the purpose of additional analysis and are not a required part of the financial statements.

The supplementary information schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules and schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 3

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mt. Arlington, New Jersey
April 27, 2018

NISIVOCCIA LLP



William F. Schroeder
Registered Municipal Accountant #452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the Authority's financial position to be strong for a small county utility. The Authority is functioning within its stringent financial policies and guidelines set forth by the Authority members. Following is a list of key highlights for 2017:

- The principal paid on the 2002 trust loan was \$123,638, and the balance is \$713,887. The principal paid on the 2002 fund loan was \$113,232, and the balance is \$563,553. The principal paid on the 2003 trust loan was \$57,564, the amount defeased was \$2,436 due to a project credit and the balance is \$430,000. The principal paid on the 2003 fund loan was \$50,723 and the balance is \$181,292. The principal paid on the 2014 trust loan was \$140,000, and the balance is \$3,300,000. The principal paid on the 2014 fund loan was \$449,745, and the balance is \$7,233,392.
- Sewer charges decreased \$122,553 in 2017 or 5.04%. This decrease is primarily due to a reduction in industrial waste. Sewer Connection Fees increased \$9,406 due to new connections with NJ American Water.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. In addition, there are several supplementary information schedules.

The *statement of net position* presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents information on all of the Authority's assets, deferred inflows and outflows, and liabilities, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net position* presents the results of the business activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and ensure that capital costs are allocated on the basis of long-term requirements, ensuring that growth pays for growth.

Overview of Annual Financial Report (Cont'd)

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary information schedules* provide detailed comparison of budget to actual expenses, as well as important debt coverage data.

Financial Conditions

The Authority is in excellent shape to meet future financial demands.

The Authority's total net position increased from the prior year by \$425,949. The analysis below focuses on the Authority's net position (Table I) and changes in net position (Table II) during the year.

Table I
Condensed Statement of Net Position

	December 31,		Increase/ (Decrease) from 2016	Percent of Increase/ (Decrease)
	2017	2016		
Current and Other Assets	\$ 6,980,687	\$ 8,249,076	\$ (1,268,389)	-15.38%
Capital Assets, Net	19,203,048	18,442,323	760,725	4.12%
Total Assets	26,183,735	26,691,399	(507,664)	-1.90%
Deferred Outflows of Resources	291,834	373,329	(81,495)	-21.83%
Current Liabilities	1,690,329	1,687,689	2,640	0.16%
Long-Term Liabilities	12,509,949	13,701,754	(1,191,805)	-8.70%
Total Liabilities	14,200,278	15,389,443	(1,189,165)	-7.73%
Deferred Inflows of Resources	226,351	52,294	174,057	332.84%
Net Investment in Capital Assets	7,291,981	5,821,310	1,470,671	25.26%
Restricted Net Position	1,038,847	1,038,808	39	0.00%
Unrestricted Net Position	3,718,112	4,762,873	(1,044,761)	-21.94%
Total Net Position	\$ 12,048,940	\$ 11,622,991	\$ 425,949	3.66%

Total net position increased 3.66%. This was mainly a result of normal business operations and a reduction of debt associated with capital assets.

Financial Conditions (Cont'd)

Changes in the Authority's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table II
Condensed Statement of Revenue, Expenses and Changes in Net Position

	December 31,		Increase/ (Decrease) from 2016	Percent of Increase/ (Decrease)
	2017	2016		
Operating Revenue	\$ 2,336,953	\$ 2,451,200	\$ (114,247)	-4.66%
Nonoperating Revenue	59,211	41,263	17,948	43.50%
Total Revenue	<u>2,396,164</u>	<u>2,492,463</u>	<u>(96,299)</u>	-3.86%
Operating Expenses:				
Cost of Providing Services	1,156,971	1,230,138	(73,167)	5.95%
Administrative and General Expenses	217,946	217,679	267	0.12%
	<u>1,374,917</u>	<u>1,447,817</u>	<u>(72,900)</u>	-5.04%
Depreciation	393,100	392,903	197	-0.05%
Nonoperating Expenses	221,198	255,226	(34,028)	13.33%
Total Expenses	<u>1,989,215</u>	<u>2,095,946</u>	<u>(106,731)</u>	5.09%
Capital Asset Adjustment	<u>19,000</u>		<u>19,000</u>	100.00%
Change in Net Position	406,949	396,517	10,432	2.63%
Beginning Net Position	<u>11,622,991</u>	<u>11,226,474</u>	<u>396,517</u>	3.53%
Ending Net Position	<u>\$ 12,048,940</u>	<u>\$ 11,622,991</u>	<u>\$ 425,949</u>	3.66%

Results of Operations

Operating Revenues: The decrease in operating revenues is primarily due to sewer charges decreasing 5.04% from 2016. Nonoperating revenue increased due to higher interest income.

Expenses: Operating expenses decreased 5.04% over 2016. The Authority maintains its policy of careful spending to stay within the budget.

Budgetary Highlights: Over the course of the year, the Authority's Board of Directors did not make any amendments to the original budget.

Capital Assets: As of December 31, 2017, the Authority had \$19.20 million invested in capital assets, including land, vehicles and two 500,000 gallons per day wastewater treatment plants, four pumping stations and the sewer collection system infrastructure. This amount represents a net increase of \$760,725 from the prior year primarily due to the new project costs that are being funded by the 2014 New Jersey Environmental Infrastructure Loan.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2017. These changes are presented in detail in Note 2 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase from 2016	Percent of Increase/ (Decrease)
	2017	2016		
Land	\$ 52,000	\$ 52,000		
Plant, Equipment and Vehicles	20,810,283	20,739,661	\$ 70,622	0.34%
Construction in Progress	14,019,080	12,935,878	1,083,202	8.37%
Total	34,881,363	33,727,539	1,153,824	3.42%
Less:				
Accumulated Depreciation	15,678,315	15,285,216	393,099	2.57%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 19,203,048</u>	<u>\$ 18,442,323</u>	<u>\$ 760,725</u>	4.12%

Long-term Liabilities: At year-end, the Authority had \$13,403,360 in long-term liabilities outstanding – a decrease of \$1,175,360 from last year – as shown in Table IV. (More detailed information about the Authority's long-term liabilities is presented in Note 3 to the financial statements.)

Table IV
Outstanding Long-Term Liabilities

	December 31,		Increase/ (Decrease) from 2016	Percent of Decrease
	2017	2016		
NJ Environmental Infrastructure Trust Loan Payable	\$ 4,443,887	\$ 4,767,525	\$ (323,638)	-6.79%
NJ Environmental Infrastructure Fund Loan Payable	7,978,237	8,591,937	(613,700)	-7.14%
Unamortized Loan Premium	45,620	53,223	(7,603)	-14.29%
Net Pension Liability	935,616	1,166,035	(230,419)	-19.76%
	<u>\$ 13,403,360</u>	<u>\$ 14,578,720</u>	<u>\$ (1,175,360)</u>	-8.06%

Cash Flow Activity: The Cash and cash equivalents at year-end 2017 decreased by \$1,025,653 from the previous year. The Authority maintains an adequate cash balance to meet future emergencies and capital requirements.

Final Comments: During 2017, the Authority continued their agreement with Billy Wauhop & Associates for engineering and the management of business and supervision of operations. The Authority still continues with shared services with the County of Warren.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2017

<u>ASSETS</u>	<u>2017</u>
Current Assets:	
Unrestricted Cash and Cash Equivalents	\$ 5,368,947
Restricted Cash and Cash Equivalents	1,038,847
Total Cash and Cash Equivalents	<u>6,407,794</u>
Sewer Charges Receivable	16,216
NJ Environmental Infrastructure Receivable	556,677
Total Current Assets	<u>6,980,687</u>
Noncurrent Assets:	
Depreciable Plant, Equipment and Vehicles	5,131,968
Land and Construction in Progress	14,071,080
Total Noncurrent Assets	<u>19,203,048</u>
TOTAL ASSETS	<u>26,183,735</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Changes in Assumptions - Pensions	188,494
Changes in Proportion - Pensions	37,407
Difference Between Projected and Actual Earnings on Investments - Pensions	6,371
Difference Between Expected and Actual Experience - Pensions	22,031
Contribution Subsequent to the Measurement Date - Pensions	37,531
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>291,834</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2017
(Continued)

	2017
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 85,646
Contracts Payable	535,598
Payroll Deductions Payable	1,939
Accrued Wages Payable	14,407
Accrued Interest Payable	92,128
Developers' Escrow Payable	343
NJ Environmental Infrastructure Trust Loan Payable	338,423
NJ Environmental Infrastructure Fund Loan Payable	614,242
Unamortized Loan Premium	7,603
Total Current Liabilities	1,690,329
Noncurrent Liabilities:	
Accrued Compensated Absences Payable	66,857
Net Pension Liability	935,616
NJ Environmental Infrastructure Trust Loan Payable	4,105,464
NJ Environmental Infrastructure Fund Loan Payable	7,363,995
Unamortized Loan Premium	38,017
Total Noncurrent Liabilities	12,509,949
TOTAL LIABILITIES	14,200,278
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unamortized Gain on Loan Refunding	12,372
Changes in Assumptions - Pensions	187,803
Changes in Proportion - Pensions	26,176
TOTAL DEFERRED INFLOW OF RESOURCES	226,351
<u>NET POSITION</u>	
Net Investment in Capital Assets	7,291,981
Restricted	1,038,847
Unrestricted	3,718,112
TOTAL NET POSITION	\$ 12,048,940

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
Operating Revenue:	
Sewer Charges	\$ 2,308,359
Sewer Connection Fees	17,987
Other Revenue	10,607
Total Operating Revenue	2,336,953
Operating Expenses:	
Cost of Providing Services	1,156,971
Administrative and General Expenses	217,946
Depreciation	393,100
Total Operating Expenses	1,768,017
Operating Income	568,936
Nonoperating Revenue/ (Expenses):	
Interest Income	56,775
NJ Environmental Infrastructure Trust Loan Principal Credit	2,436
Interest Expense	(221,198)
Total Nonoperating Revenue/ (Expenses)	(161,987)
Net Position Before Adjustments	406,949
Capital Asset Adjustment	19,000
Change in Net Position	425,949
Net Position, Beginning of Year	11,622,991
Net Position, End of Year	\$ 12,048,940

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,334,087
Other Receipts	10,607
Cash Paid to Suppliers and Employees (Including Grant Expenses)	(1,338,583)
Net Cash Provided by Operating Activities	1,006,111
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(51,622)
Construction in Progress	(1,097,410)
Proceeds from NJ Infrastructure Trust Loan	234,995
Principal Paid on NJ Environmental Infrastructure Fund Loan	(934,902)
Interest Expense	(239,600)
Net Cash Provided by Capital and Related Financing Activities	(2,088,539)
Cash Flows from Investing Activities:	
Interest on Investments	56,775
Net Cash Provided by Investing Activities	56,775
Net Decrease in Cash and Cash Equivalents	(1,025,653)
Cash and Cash Equivalents - Beginning of Year	7,433,447
Cash and Cash Equivalents - End of Year	\$ 6,407,794
Reconciliation of Net Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 568,936
Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Depreciation	393,100
Changes in Net Position:	
Decrease in Sewer Rents Receivable	7,741
Increase in Accrued Compensated Absences Payable	6,485
(Decrease) in Accounts Payable	(2,958)
Increase in Payroll Deductions Payable	77
Increase in Accrued Wages Payable	919
Decrease in Change in Assumptions - Pensions	53,046
(Increase) in Changes in Proportion - Pensions	(6,741)
(Increase) in Net Difference Between Expected and Actual Experience - Pensions	(346)
Increase in Net Pension Liability	(230,419)
(Increase) in Changes in Assumptions - Pensions	187,803
(Decrease) in Changes in Proportion - Pensions	(9,623)
(Increase) in Investment Gains - Pensions	38,091
Total Changes in Net Position	437,175
Net Cash Provided By Operating Activities	\$ 1,006,111

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

Note 1 - Organization and Summary of Significant Accounting Policies

The Warren County (Pequest River) Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey governed by nine members appointed by the Warren County Board of Chosen Freeholders.

The Authority was created in 1969 and reorganized in 1978 under and pursuant to the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183).

The Warren County (Pequest River) Municipal Utilities Authority was created to provide for the acquisition, construction, maintenance, operation and improvement of facilities for the collection, treatment, purification or disposal of sewage or other wastes for the purpose of relieving waters of pollution within the Authority's area of service. The Authority is authorized to impose and to collect service charges for connection with, and for use of, the Authority services and products. The Authority bills the customers for such usage under their respective service contracts.

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings.

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

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, all deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) are segregated into "net investment in capital assets"; "restricted" and "unrestricted" components.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

A. Basis of Presentation and Accounting (Cont'd)

Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. The District is a component unit of the County of Warren under the provisions of GASB Codification Section 2100.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are considered unearned revenue.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue.

C. Inventories

The cost of inventories of supplies are recorded as expenses at the time individual items are purchased, since they are immaterial to the financial position and results of operations.

D. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

E. Investments

The Authority generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

E. Investments (Cont'd)

Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable units; Level 3 inputs are significant unobservable units. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. The Authority's investments are limited by the 1993 and 2003 Bond Resolutions to obligations of or guaranteed by the federal government and bank certificates of deposit.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

G. Compensated Absences

The Authority accounts for compensated absences (e.g., unused vacation, sick leave) as directed by *Governmental Accounting Standards Board Statement No. 16 (GASB 16)*, Accounting for Compensated Absences. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Compensated absences are accrued and reported as a liability in the period earned. The balance as of December 31, 2017 was \$66,857, which is included on the Statement of Net Position as a non-current liability.

H. Revenue Recognition

The Authority has service agreements with several other local government agencies. Customers are billed quarterly based on estimates resulting from the prior year's actual usage. First quarter bills each year are adjusted, if necessary, for actual usage of the prior year. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

I. Net Position

Net Position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the Authority that is applicable to a future reporting period. The Authority had deferred outflows of resources at December 31, 2017, for the changes in assumptions in pensions, changes in proportion in pensions, the net difference between projected and actual investment earnings on pension plan investments, the difference between expected and actual pension experience and the Authority contribution subsequent to the measurement date related to pensions at December 31, 2017.

A deferred inflow of resources is an acquisition of net position by the Authority that is applicable to a future reporting period. The Authority had deferred inflows of resources at December 31, 2017, for an unamortized gain on a loan refunding, changes in assumptions in pensions and the changes in proportion in pension.

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

I. Net Position (Cont'd)

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of 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 would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

J. Allowance for Uncollectible Accounts

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

K. Restricted Accounts

In accordance with the 1993 and 2003 Bond Resolutions, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which Restricted</u>
Renewal and Replacement	Amount needed to increase the balance to equal the renewal and replacement requirements as defined by the resolution.	Transfers to meet minimum levels required in the Bond Service, Sinking or Bond Reserve Accounts or major repairs, renewal and extensions of the system.

L. Pensions

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2 - Capital Assets

Capital assets are recorded at cost and consisted of the following, as of December 31, 2016 and 2017:

	Balance <u>Dec. 31, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	Balance <u>Dec. 31, 2017</u>
Capital Assets to be depreciated					
Plant, Equipment and					
Vehicles	\$ 20,739,661	\$ 51,622		\$ 19,000	\$ 20,810,283
Total Capital Assets to be depreciated	20,739,661	51,622		19,000	20,810,283
Capital Assets not to be depreciated					
Land	52,000				52,000
Construction-in-Progress	12,935,878	1,083,202			14,019,080
Total Capital Assets	33,727,539	1,134,824			34,881,363
Accumulated Depreciation	(15,285,216)	(393,099)			(15,678,315)
Capital Assets (Net)	<u>\$ 18,442,323</u>	<u>\$ 741,725</u>	<u>\$ -0-</u>	<u>\$ 19,000</u>	<u>\$ 19,203,048</u>

Capital assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets have been reviewed for impairments.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

Vehicles	6 Years
Land Improvements	20 Years
Buildings	45 Years
Communications, Business and Computer Equipment	2-15 Years
Machinery and Tools	15 Years
Appliances	10 Years
Lab/Science/Engineering Equipment	10 Years
Furniture and Accessories	20 Years
Grounds and Agricultural Equipment	15 Years
Sewer/Water/Electric Equipment	30 Years

Construction-in-Progress

As of December 31, 2017, the Authority continues to move forward with plans to complete its Oxford water treatment facilities upgrade, as well as conducting a leachate study and interceptor evaluation with cumulative costs totaling \$13,851,409.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3 - Long-Term Debt

During the year ended December 31, 2017, the following changes occurred in long-term debt reported in the financial statements:

	<u>Beginning Balance</u>	<u>Retired</u>	<u>Ending Balance</u>
NJ Environmental Infrastructure Trust Loan Payable	\$ 4,767,525	\$ 323,638	\$ 4,443,887
NJ Environmental Infrastructure Fund Loan Payable	8,591,937	613,700	7,978,237
Unamortized Loan Premium	53,223	7,603	45,620
Net Pension Liability	<u>1,166,035</u>	<u>230,419</u>	<u>935,616</u>
	<u>\$ 14,578,720</u>	<u>\$ 1,175,360</u>	<u>\$ 13,403,360</u>

NJ Environmental Infrastructure Loans

On October 15, 2002, the Authority entered into two loan agreements with the State of New Jersey, acting by and through the NJ Department of Environmental Protection Fund (the "Fund"), and the NJ Environmental Infrastructure Trust (the "Trust"), in the aggregate amount of \$4,300,000, which represents direct obligations of the Authority. The loan agreements were obtained to finance the cost of the Belvidere wastewater treatment plant upgrade.

Principal payments to the Fund amounted to \$113,232 in 2017, and will continue on a semiannual basis over the next 5 years at zero interest. Principal payments to the Trust amounted to \$123,638 in 2017, and will continue on an annual basis over the remaining 5 years.

On October 15, 2003, the Authority entered into two supplemental loan agreements with the State of New Jersey, acting by and through the NJ Department of Environmental Protection Fund (the "Fund"), and the NJ Environmental Infrastructure Trust (the "Trust"), in the aggregate amount of \$2,054,515, which represents direct obligations of the Authority. The loan agreements were obtained to finance the additional costs of the Belvidere wastewater treatment plant upgrade.

Principal payments to the Fund amounted to \$50,723 in 2017, and will continue on a semi-annual basis over the next 4 years at zero interest. Principal payments to the Trust amounted to \$57,564 in 2017, and will continue on an annual basis over 6 years. Additionally, \$2,436 was defeased in 2017 due to a project credit.

On May 21, 2014, the Authority entered into two loan agreements with the State of New Jersey, acting by and through the NJ Department of Environmental Protection Fund (the "Fund"), and the NJ Environmental Infrastructure Trust (the "Trust"), in the aggregate amount of \$11,707,882, which represents direct obligations of the Authority. The loan agreements were obtained to finance the cost of the Oxford wastewater treatment plant upgrade.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Loans (Cont'd)

Principal payments to the Fund amounted to \$449,745 in 2017, and will continue on a semi-annual basis over the next 16 years at zero interest. Principal payments to the Trust amounted to \$140,000 in 2017, and will continue on an annual basis over 16 years.

The Trust loans were issued at a premium totaling \$159,670 which is being amortized over the life of the loan on the straight-line basis. \$7,603 was amortized in 2017 and \$7,603 in 2016. The unamortized loan premium balance was \$45,620 at December 31, 2017.

New Jersey Environmental Infrastructure Trust, NJ Environmental Infrastructure Refunding Bonds, Series 2007B were issued to refund the New Jersey Environmental Infrastructure Trust 2002A. \$4,123 and \$4,123 of gain on the refunding of these bonds was amortized in 2017 and 2016. The unamortized gain on loan refunding balance was \$12,372 at December 31, 2017.

<u>Purpose</u>	<u>Maturities of Loans</u>		<u>Interest Rate</u>	<u>Balance Dec. 31, 2017</u>
	<u>Outstanding Dec. 31, 2017</u>			
	<u>Date</u>	<u>Amount</u>		
Trust Loan - 2002/ Refunding- 2007A	8/1/2018	\$ 128,423	5.00%	\$ 713,887
	8/1/2019	137,970	5.00%	
	8/1/2020	142,770	5.00%	
	8/1/2021	147,564	5.00%	
	8/1/2022	157,160	4.75%	
Trust Loan - 2003	8/1/2018	65,000	4.25%	430,000
	8/1/2019	65,000	5.00%	
	8/1/2020	70,000	5.00%	
	8/1/2021	75,000	4.50%	
	8/1/2022	75,000	4.75%	
Trust Loan - 2014	8/1/2018	145,000	5.00%	3,300,000
	8/1/2019	155,000	5.00%	
	8/1/2020	160,000	5.00%	
	8/1/2021	170,000	5.00%	
	8/1/2022	180,000	5.00%	
	8/1/2023-8/1/2027	1,025,000	3.00-5.00%	
	8/1/2028-8/1/2032	1,200,000	3.00-3.125%	
8/1/2033	265,000	3.25%		
				4,443,887
	Less: Short-Term Portion			338,423
	Long-Term Portion			\$ 4,105,464

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Bonds or Loans (Cont'd)

<u>Purpose</u>	<u>Maturities of Loans</u>		<u>Interest Rate</u>	<u>Balance Dec. 31, 2017</u>
	<u>Outstanding Dec. 31, 2017</u>			
	<u>Date</u>	<u>Amount</u>		
Fund Loan - 2002	2/1/2018	\$ 12,096	-0-%	\$ 563,553
	8/1/2018	100,158		
	2/1/2019	9,895		
	8/1/2019	104,479		
	2/1/2020	7,530		
	8/1/2020	105,376		
	2/1/2021	5,084		
	8/1/2021	106,192		
	2/1/2022	2,556		
	8/1/2022	110,187		
Fund Loan - 2003	2/1/18	6,205	-0-%	181,292
	8/1/18	46,038		
	2/1/19	5,358		
	8/1/19	45,191		
	2/1/2020	4,362		
	8/1/2020	47,259		
	2/1/2021	3,290		
	8/1/2021	23,589		
Fund Loan - 2014	2/1/18	149,915	-0-%	7,233,392
	8/1/18	299,830		
	2/1/19	149,915		
	8/1/19	299,830		
	2/1/2020	149,915		
	8/1/2020	299,830		
	2/1/2021	149,915		
	8/1/2021	299,830		
	2/1/2022	149,915		
	8/1/2022	299,830		
	2/1/2023-8/1/2027	2,248,725		
	2/1/2028-8/1/2032	2,248,725		
	2/1/2033-8/1/2033	487,217		
			7,978,237	
	Less: Short-Term Portion		614,242	
	Long-Term Portion		\$ 7,363,995	

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3 - Long-Term Debt (Cont'd)

NJ Environmental Infrastructure Bonds or Loans (Cont'd)

<u>Maturity Schedule Giving Effect to the</u> <u>"NJ Environmental Infrastructure Loans, Series 2002A, 2003A and 2014"</u>					
<u>Year</u>	<u>Fund Loan</u> <u>Principal</u>	<u>Trust Loan</u> <u>Principal</u>	<u>Total</u> <u>Principal</u>	<u>Trust Loan</u> <u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2018	\$ 614,242	\$ 338,423	\$ 952,665	\$ 181,219	\$ 1,133,884
2019	614,668	357,970	972,638	164,456	1,137,094
2020	614,272	372,770	987,042	146,206	1,133,248
2021	587,900	392,564	980,464	127,206	1,107,670
2022	562,488	412,160	974,648	107,582	1,082,230
2023-2027	2,248,725	1,105,000	3,353,725	334,706	3,688,431
2028-2032	2,248,725	1,200,000	3,448,725	154,756	3,603,481
2033	487,217	265,000	752,217	8,613	760,830
	<u>7,978,237</u>	<u>4,443,887</u>	<u>12,422,124</u>	<u>1,224,744</u>	<u>13,646,868</u>
Less: Short-Term Portion	<u>614,242</u>	<u>338,423</u>	<u>952,665</u>	<u>181,219</u>	<u>1,133,884</u>
Long-Term Portion	<u>\$ 7,363,995</u>	<u>\$ 4,105,464</u>	<u>\$ 11,469,459</u>	<u>\$ 1,043,525</u>	<u>\$ 12,512,984</u>

Net Pension Liability

The Public Employees' Retirement System's (PERS) net pension liability is recorded in the current and long-term liabilities of the Authority. The current portion of the net pension liability at June 30, 2017 is \$-0- and the long-term portion is \$935,616. See Note 4 for further information on the PERS.

Note 4 - Pension

Authority employees participate in a contributory, defined benefit public employee retirement system: the State of New Jersey Public Employee's Retirement System (PERS).

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 the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

Benefits Provided

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:

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4 - Pension (Cont'd)

Benefits Provided (Cont'd)

Tier	Definition
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 to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to 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.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. 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. Authority contributions to PERS amounted to \$37,531 for 2017.

The employee contribution rate was 7.20% effective July 1, 2016 and increased to 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

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

At June 30, 2017, the Authority's liability was \$935,616 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

(Continued)

Note 4 - Pension (Cont'd)

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

The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the Authority's proportion was .004%, which was an increase of 0.00008% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized actual pension expense in the amount of \$69,045. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2014	6.44	\$ 10,614	
	2015	5.72	44,707	
	2016	5.57	133,173	
	2017	5.48		\$ 187,803
				<u>188,494</u>
Changes in Proportion	2014	6.44	11,872	
	2015	5.72		\$ 26,176
	2016	5.57	10,882	
	2017	5.48	14,653	
				<u>37,407</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5.00	(11,211)	
	2015	5.00	9,564	
	2016	5.00	40,100	
	2017	5.00	(32,082)	
				<u>6,371</u>
Difference Between Expected and Actual Experience	2015	5.72	12,405	
	2016	5.57	4,041	
	2017	5.48	5,585	
				<u>22,031</u>
Authority Contribution Subsequent to the Measurement Date	2017	1.00	37,531	
			<u>\$ 291,834</u>	<u>\$ 213,979</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion and the Authority contribution subsequent to the measurement date) related to pensions will be recognized in pension expense as follows.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4 - Pension (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u>
2018	\$ 22,025
2019	33,237
2020	20,140
2021	(26,786)
2022	(19,523)
	<u>\$ 29,093</u>

Actuarial Assumptions

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

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4 - Pension (Cont'd)

Long Term Expected Rate of Return

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

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

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount 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 upon the contribution rate in the most recent fiscal year. The local employers contributed 100% of their actuarially determined contributions.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4 - Pension (Cont'd)

Discount Rate (Cont'd)

Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Authority's proportionate share of the collective net pension liability as of June 30, 2017 calculated using the discount rate as disclosed below, 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 or 1-percentage-point higher than the current rate:

	June 30, 2017		
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Authority's proportionate share of the Net Pension Liability	\$ 1,160,695	\$ 935,616	\$ 748,097

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

Note 5 - Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB, requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Authority ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 5 - Cash and Cash Equivalents and Investments (Cont'd)

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed below and on the following page.

Custodial Credit Risk – The Authority's policy with respect to custodial credit risk requires that the Authority ensures that Authority funds are only deposited in financial institutions in which NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository must provide collateral having market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a 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 obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 5 - Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2017, cash and cash equivalents and investments of the Warren County (Pequest River) Municipal Utilities Authority consisted of the following:

<u>Account</u>	<u>Cash and Cash Equivalents</u>			<u>Investments</u>	<u>Totals</u>
	<u>Checking Accounts</u>	<u>Petty Cash</u>	<u>Money Market Funds</u>	<u>Certificates of Deposit</u>	
Unrestricted	\$ 198,651	\$ 300	\$ 1,669,996	\$ 3,500,000	\$ 5,368,947
Restricted: Renewal and Replacement			38,847	1,000,000	1,038,847
	<u>\$ 198,651</u>	<u>\$ 300</u>	<u>\$ 1,708,843</u>	<u>\$ 4,500,000</u>	<u>\$ 6,407,794</u>

The carrying amount of the Authority's cash and cash equivalents and investments at December 31, 2017, was \$6,407,794, and the bank balance was \$6,490,297. The Authority did not hold any investments during the year other than certificates of deposit.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 6 - Amounts Required by Bond Resolutions

The following cash and investment accounts are required by the Authority's bond resolutions:

Renewal and Replacement Account	\$ 1,038,847
Cash and Cash Equivalents on Hand	<u>1,038,847</u>
Excess	<u>\$ -0-</u>

Note 7 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Health benefits are provided to employees through the State of New Jersey health benefits plan.

Property and Liability

The Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund (the "Fund"). The Fund is both an insured and self-administered group of local utility authorities established for the purpose of providing low-cost insurance coverage for the members in order to keep local user fees and charges at a minimum for the local utility authorities who form the membership of the joint insurance fund.

The following coverages are offered by the Fund to its members:

- a) Workers' Compensation and Employers' Liability
- b) Liability Other than Motor Vehicles
- c) Property Damage Other than Motor Vehicles
- d) Motor Vehicle
- e) Environmental

As a member of the Fund, the Authority could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body.

The December 31, 2017 audit report of the Fund is not filed as of the date of this audit. Selected, summarized financial information for the Fund as of December 31, 2016 is as follows:

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 7 - Risk Management (Cont'd)
Property and Liability (Cont'd)

	NJ Utility Authorities Joint Insurance Fund Dec. 31, 2016
Total Assets	\$ 13,657,165
Net Position	\$ 5,758,330
Total Revenue	\$ 10,828,704
Total Expenses	\$ 10,025,842
Change in Net Position	\$ 802,862
Members Dividends	\$ 1,200,000

Financial statements for the Fund are available at the offices of the Fund's Executive Director:

New Jersey Utility Authorities Joint Insurance Fund

PERMA Risk Management Services
9 Campus Drive, Suite 216
Parsippany, NJ 07054-4412
(201) 881-7632

New Jersey Unemployment Compensation Insurance

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Contributory Method". Under this plan, the Authority is required to remit employee withholdings to the State on a quarterly basis. All of the Authority's claims are paid by the State.

Note 8 - Post-Retirement Benefits

The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP.

Rules governing the operations and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/ substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body by statute to be responsible for the operations of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. The report may be obtained in writing to:

State of New Jersey Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 8 - Post-Retirement Benefits (Cont'd)

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on the pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health benefits of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget.

The Authority's portion of post-retirement benefits is funded on a pay-as-you-go basis from the operating budget. During 2017, 2016, and 2015, the Authority had two employees who met eligibility requirements and recognized expenses of approximately \$13,013, \$16,638, and \$16,638, respectively.

Note 9 - Intraentity and Interfund Transfers

In the normal course of business, the Authority will, from time to time, authorize advances between accounts. There was no transfer between the restricted and unrestricted accounts during 2017. There were no advances outstanding as of December 31, 2017.

Note 10 - Contractual Commitments

The Authority has entered into several contracts in the normal course of its business operations to provide sewer service for its customers including other local governments. Below is a summary of the significant contracts or agreements:

- On August 1, 2015, the Authority entered into a three-year contract with Accurate Waste Removal Services for transportation of liquid sludge for ultimate disposal. The cost for this service is \$0.048 per gallon to PVSC or \$0.038 per gallon to Par-Troy Hills Sewer Authority.
- In 2016, the Authority entered into a five-year agreement with the Passaic Valley Sewerage Commissioners for disposal services of residual sludge waste. The cost of this service is \$0.04 per gallon from the Belvidere plant, and \$0.045 per gallon from the Authority's Oxford plant.
- In 2016, the Authority sought bids for Contract #16-01 for the construction of the Oxford Wastewater Treatment Facility Upgrade Phase #2 – Site Improvements. The contract was awarded to Tom Barth and Son Excavating.
- The Authority has a two-year contract with Main Pool and Chemical Co., Inc. for chemicals used in the process of treating wastewater.
- The Authority has sewer service agreements with other local government agencies, namely;
 1. The Town of Belvidere
 2. Oxford Township
 3. The County of Warren
 4. Pollution Control Financing Authority of Warren County
 5. White Township
- The Authority holds sewer service agreements with several private entities, namely;
 1. Country View Village
 2. Windtryst Apartments

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 11 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses were as follows:

	<u>Operating Fund</u>	<u>Contributions Subsequent to the Measurement Date</u>	<u>Total</u>
Vendors	\$ 48,115		\$ 48,115
Due to State of New Jersey		\$ 37,531	37,531
Contracts Payable	535,598		535,598
Payroll Deductions Payable	1,939		1,939
Accrued Wages Payable	14,407		14,407
Accrued Interest Payable	92,128		92,128
Accrued Compensated Absences Payable	66,857		66,857
Developers' Escrow Payable	343		343
	<u>\$ 759,387</u>	<u>\$ 37,531</u>	<u>\$ 796,918</u>

Note 12 - Operating Leases

The Authority has commitments to lease copying equipment under operating leases which expire in 2019. Future minimum lease payments are as follows:

<u>Year Ending</u>	<u>Amount</u>
December 31, 2018	\$ 949
December 31, 2019	<u>710</u>
Total future minimum lease payments	<u>\$ 1,659</u>

Note 13 - Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenses, operating net income, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements because it is believed to not be needed.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 14 - Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority participates in federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority Management, liabilities resulting from disallowed expenditures, if any, will not be material to the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PEQUEST RIVER MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending December 31,		
	2015	2016	2017
Authority's proportion of the net pension liability	0.0038515500%	0.0039370286%	0.0040192436%
Authority's proportionate share of the net pension liability	\$ 864,596	\$ 1,166,035	\$ 935,616
Authority's covered employee payroll	\$ 239,170	\$ 268,259	\$ 274,864
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	361.50%	434.67%	340.39%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	40.14%	48.10%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the calendar year 2015.

PEQUEST RIVER MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending December 31,		
	2015	2016	2017
Contractually required contribution	\$ 34,109	\$ 33,113	\$ 37,531
Contributions in relation to the contractually required contribution	<u>(34,109)</u>	<u>(33,113)</u>	<u>(37,531)</u>
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
District's covered employee payroll	\$ 236,778	\$ 239,170	\$ 268,259
Contributions as a percentage of covered employee payroll	14.41%	13.84%	13.99%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the calendar year 2015.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 3.08% as of June 30, 2016 to 2.25% as of June 30, 2017.

SUPPLEMENTARY INFORMATION

SCHEDULE 1

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 RESTRICTED AND UNRESTRICTED
 YEAR ENDED DECEMBER 31, 2017
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Restricted	Net Investment in Capital Assets	2017	2016
Operating Revenue:					
Sewer Charges	\$ 2,308,359			\$ 2,308,359	\$ 2,430,912
Sewer Connection Fees	17,987			17,987	8,581
Other Revenue	10,607			10,607	11,707
Total Operating Revenue	2,336,953			2,336,953	2,451,200
Operating Expenses:					
Costs of Providing Services	1,156,971			1,156,971	1,230,138
Administrative and General	217,946			217,946	217,679
Depreciation	393,100			393,100	392,903
Total Operating Expenses	1,768,017			1,768,017	1,840,720
Operating Income	568,936			568,936	610,480
Nonoperating Revenue/(Expenses):					
Interest Income	56,736	\$ 39		56,775	34,012
NJ Environmental Infrastructure Trust Loan Principal Credit	2,436			2,436	3,128
Interest Expense	(221,198)			(221,198)	(251,103)
Change in Net Position (Before Transfers)	406,910	39		406,949	396,517
Transfers					
Capital Acquisitions	(51,622)		\$ 51,622		
Construction in Progress	(1,083,202)		1,083,202		
Depreciation	393,100		(393,100)		
NJ Environmental Infrastructure Loan Receivable	234,995		(234,995)		
Principal Paid on Debt Service	(934,902)		934,902		
NJ Environmental Infrastructure Trust Loan Principal Credit	(2,436)		2,436		
Amortization of Bond Premium	(7,604)		7,604		
Capital Asset Adjustment			19,000	19,000	
Change in Net Position (After Transfers)	(1,044,761)	39	1,470,671	425,949	396,517
Net Position, Beginning of Year	4,762,873	1,038,808	5,821,310	11,622,991	11,226,474
Net Position, End of Year	\$ 3,718,112	\$ 1,038,847	\$ 7,291,981	\$ 12,048,940	\$ 11,622,991

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY
OPERATING REVENUE COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	2017 Budget	Budget After Modification	2017 Actual	Excess or Deficit	2016 Actual
Operating Revenue:					
Anticipated Fund Balance	\$ 382,000	\$ 382,000	\$ 382,000		\$ 400,000
User Charges and Fees					
(Sewer Treatment Service)	2,459,744	2,459,744	2,308,359	\$ (151,385)	2,430,912
Interest on Investments and Deposits	19,955	19,955	56,775	36,820	34,012
Connection Fees			17,987	17,987	8,581
Other Revenue	10,000	10,000	10,607	607	11,707
Total Revenue	<u>2,871,699</u>	<u>2,871,699</u>	<u>2,775,728</u>	<u>(95,971)</u>	<u>2,885,212</u>
Expenses:					
Operating Expenses:					
Salaries and Wages - Operations	346,921	346,921	271,786	75,135	284,021
Maintenance	129,000	129,000	109,069	19,931	138,485
Vehicle	5,000	5,000	2,355	2,645	6,221
Education and Training	4,750	4,750	734	4,016	1,696
Uniforms	3,500	3,500	2,684	816	2,589
Permits	20,000	20,000	13,113	6,887	12,859
Renewal and Replacement	100,000	100,000		100,000	
Fuel and Gasoline	7,500	7,500	4,695	2,805	3,815
Electricity	210,000	210,000	150,851	59,149	190,838
Water	250	250	200	50	171
Telephone	10,700	10,700	9,823	877	9,923
Sludge Disposal	185,000	160,207	145,980	14,227	127,176
Insurance	32,694	32,694	27,693	5,001	25,010
Contingency	25,500	25,500		25,500	
Lab	30,000	30,000	29,146	854	23,723
Alarm System	1,000	1,020	1,020		1,028
Chemicals	59,500	61,828	61,828		58,788
Engineering	50,000	70,607	70,607		51,206
Miscellaneous	2,500	2,500	1,608	892	1,812
Workmen's Compensation	16,850	16,850	14,708	2,142	15,040
Hospitalization Insurance	151,750	151,750	144,871	6,879	139,758
Employer Social Security and Medicare Contribution	32,731	32,731	25,688	7,043	26,602
Employer Disability Contribution	2,247	2,247	1,590	657	1,624
Employer PERS Contribution	39,375	39,375	66,922	(27,547)	107,753
Total Operating Expenses	<u>1,466,768</u>	<u>1,464,930</u>	<u>1,156,971</u>	<u>307,959</u>	<u>1,230,138</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED BY
OPERATING REVENUE COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016
 (Continued)

	2017 Budget	Budget After Modification	2017 Actual	Excess or Deficit	2016 Actual
Expenses: (Cont'd):					
Administrative and General Expenses:					
Salaries and Wages - General Administration	\$ 90,475	\$ 91,111	\$ 85,175	\$ 5,936	\$ 85,984
Advertising	4,500	4,500	2,314	2,186	3,333
Postage	1,500	1,500	528	972	785
Contracted Equipment	960	960	948	12	949
Legal and Accounting Services	18,000	18,000	16,971	1,029	16,210
Miscellaneous Consultant Services	25,600	25,600	25,125	475	26,750
Garbage Disposal	82,500	83,702	83,702		79,859
Office Supplies	3,700	3,700	3,183	517	3,559
Education and Training	500	500		500	250
Total Administrative and General Expenses	<u>227,735</u>	<u>229,573</u>	<u>217,946</u>	<u>11,627</u>	<u>217,679</u>
Debt Service:					
Bond and Loan Principal	934,902	934,902	934,902		926,970
Interest on Bonds and Loans	242,294	242,294	232,924	9,370	248,582
Total Debt Service Expenses	<u>1,177,196</u>	<u>1,177,196</u>	<u>1,167,826</u>	<u>9,370</u>	<u>1,175,552</u>
Total Costs Funded by					
Operating Revenue	<u>2,871,699</u>	<u>2,871,699</u>	<u>2,542,743</u>	<u>328,956</u>	<u>2,623,369</u>
Operating Excess (Deficit) Anticipated	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 232,985</u>	<u>\$ 232,985</u>	<u>\$ 261,843</u>

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - TRUST LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

	Original		Interest Rate	Maturities of Loans		Balance Jan. 1, 2017	Matured	Defeased	Balance Dec. 31, 2017
	Date	Amount		Outstanding Dec. 31, 2017 Date	Amount				
Issue of 2002/ Refunding Series 2007A	10/15/07	\$ 2,100,000	5.00%	08/01/18	\$ 128,423	\$ 837,525	\$ 123,638		\$ 713,887
			5.00%	08/01/19	137,970				
			5.00%	08/01/20	142,770				
			5.00%	08/01/21	147,564				
			4.75%	08/01/22	157,160				
Issue of 2003	10/15/03	1,050,000	4.25%	08/01/18	65,000	490,000	57,564	\$ 2,436	430,000
			5.00%	08/01/19	65,000				
			5.00%	08/01/20	70,000				
			4.50%	08/01/21	75,000				
			4.75%	08/01/22	75,000				
		4.75%	08/01/23	80,000					

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - TRUST LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

(Continued)

Issue of 2014	Original		Interest Rate	Maturities of Loans		Balance Jan. 1, 2017	Matured	Defeased	Balance Dec. 31, 2017
	Date	Amount		Outstanding Dec. 31, 2017	Amount				
	8/1/14	\$ 3,575,000	5.000%	8/1/18	\$ 145,000	\$ 3,440,000	\$ 140,000		\$ 3,300,000
			5.000%	8/1/19	155,000				
			5.000%	8/1/20	160,000				
			5.000%	8/1/21	170,000				
			5.000%	8/1/22	180,000				
			5.000%	8/1/23	190,000				
			5.000%	8/1/24	195,000				
			3.000%	8/1/25	205,000				
			3.000%	8/1/26	215,000				
			3.000%	8/1/27	220,000				
			3.000%	8/1/28	225,000				
			3.000%	8/1/29	235,000				
			3.000%	8/1/30	240,000				
			3.000%	8/1/31	245,000				
			3.125%	8/1/32	255,000				
			3.250%	8/1/33	265,000				
						\$ 4,767,525	\$ 321,202	\$ 2,436	\$ 4,443,887
Balance Comprised of:									
						\$ 323,638	\$ 17,221	\$ (2,436)	\$ 338,423
						4,443,887	(338,423)		4,105,464
						\$ 4,767,525	\$ (321,202)	\$ (2,436)	\$ 4,443,887

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - FUND LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

Issue	Original Date	Original Amount	Interest Rate	Maturities of Loans		Balance Jan. 1, 2017	Matured	Balance Dec. 31, 2017
				Outstanding Date	Amount			
Issue of 2002	10/15/02	\$ 2,200,000	0.00%	2/1/18	\$ 12,096	\$ 676,785	\$ 113,232	\$ 563,553
				8/1/18	100,158			
				2/1/19	9,895			
				8/1/19	104,479			
				2/1/20	7,530			
				8/1/20	105,376			
				2/1/21	5,084			
				8/1/21	106,192			
				2/1/22	2,556			
8/1/22	110,187							
Issue of 2003	10/15/03	1,004,515	0.00%	2/1/18	6,205	232,015	50,723	181,292
				8/1/18	46,038			
				2/1/19	5,358			
				8/1/19	45,191			
				2/1/20	4,362			
				8/1/20	47,259			
				2/1/21	3,290			
				8/1/21	23,589			
				8/1/14	8,132,882			
Issue of 2014	8/1/14	8,132,882	0.00%	8/1/18	299,830			
				2/1/19	149,915			
				8/1/19	299,830			
				2/1/20	149,915			
				8/1/20	299,830			
				2/1/21	149,915			
				8/1/21	299,830			
				2/1/22	149,915			
8/1/22	299,830							

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE LOANS PAYABLE - FUND LOAN -
BELVIDERE WASTEWATER TREATMENT PLANT UPGRADE

(Continued)

Date	Original Amount	Interest Rate	Maturities of Loans		Balance Jan. 1, 2017	Balance Dec. 31, 2017
			Outstanding Dec. 31, 2017	Amount		
Issue of 2014 (Continued)	8/1/14	\$ 8,132,882	0.00%	2/1/23	\$ 149,915	
				8/1/23	299,830	
				2/1/24	149,915	
				8/1/24	299,830	
				2/1/25	149,915	
				8/1/25	299,830	
				2/1/26	149,915	
				8/1/26	299,830	
				2/1/27	149,915	
				8/1/27	299,830	
				2/1/28	149,915	
				8/1/28	299,830	
				2/1/29	149,915	
				8/1/29	299,830	
				2/1/30	149,915	
				8/1/30	299,830	
				2/1/31	149,915	
				8/1/31	299,830	
				2/1/32	149,915	
				8/1/32	299,830	
				2/1/33	149,915	
				8/1/33	337,302	
					\$ 8,591,937	\$ 7,978,237

Balance Comprised of:
Short-Term Portion \$ 613,700 \$ 542 \$ 614,242
Long-Term Portion 7,978,237 (614,242) 7,363,995

\$ 8,591,937 \$ 613,700 \$ 7,978,237

SINGLE AUDIT SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax
 Lawrence Business Park
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

Report on Internal Control Over Financial Reporting
 and on Compliance and Other Matters Based on an Audit of Financial Statements
 Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Honorable Chairman and Members
 of the Warren County (Pequest River)
 Municipal Utilities Authority
 Belvidere, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("the Division"), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pequest River Municipal Utilities Authority (the "Authority"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which comprise the Authority's financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable Chairman and Members
of the Warren County (Pequest River)
Municipal Utilities Authority
Page 2

Compliance and Other Matters

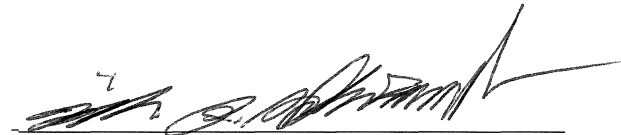
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

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 result 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 Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
April 27, 2018

NISIVOCCIA LLP



William F. Schroeder
Registered Municipal Accountant #452
Certified Public Accountant

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

NOT APPLICABLE

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

New Jersey Agency or Department	Program Account No.	Name of Program	Grant Period		Grant Award Amount	Received	Total Program Expenditures	Total Cumulative Expenditures
			From	To				
New Jersey Environmental Infrastructure Trust Fund	S340454-04	Oxford Wastewater Treatment Plant Upgrade	01/01/14	12/31/18	\$ 11,707,882	\$ 234,995	\$ 234,995	\$ 11,155,468
					\$ 234,995	\$ 234,995	\$ 234,995	\$ 11,155,468

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

A. BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards (the "Schedules") includes the federal and state grant activity of the Warren County (Pequest River) Municipal Utilities Authority under programs of the federal and state governments for the year ended December 31, 2017. The information in these schedules is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because the schedules present only a selected portion of the operations of the Authority, they are not intended to and do not present the financial position, changes in net position or cash flows of the Authority.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedules of expenditures of federal and state awards are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through identifying numbers are presented where available. The Authority has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports, as applicable.

D. LOANS PAYABLE

At December 31, 2017, the Authority had \$12,422,124 of NJ Environmental Infrastructure Loan Payable outstanding.

Currently, the Authority is in the process of repaying the NJ Environmental Infrastructure Loan Payable. There was \$234,995 of loan receipts and \$234,995 of loan expenditures in the current year. The project which relates to this loan is ongoing.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on the Authority's financial statements.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' 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*.
- No instances of noncompliance material to the financial statements of the Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- The Authority was not subject to the single audit provisions of the Uniform Guidance and New Jersey's OMB Circular 15-08 for the year ended December 31, 2017 as both state and federal grant expenditures were less than the single audit thresholds of \$750,000 identified in the Uniform Guidance and NJOMB 15-08.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

Findings and Questioned Costs for Federal Awards:

- Not Applicable – Grant expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- Not Applicable – Grant expenditures were below the single audit threshold.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

The Authority had no findings during the prior year.

COMMENTS AND RECOMMENDATIONS

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

N.J.S. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2015 the bid threshold in accordance with N.J.S.A 40A:11-3 and 40A:11-4 (as amended) is \$17,500 and with a qualified purchasing agent the threshold may be up to \$40,000.

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

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(CONTINUED)

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq. (Cont'd)

Inasmuch as the system of records did 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. None were noted.

Overexpenditure of Individual Budget Appropriations

The analysis of the Authority schedule of operating revenue and costs funded by operating revenue compared to budget has an overexpenditure in the employer PERS contribution line item. This was due to the change in net pension liability, associated pension deferred inflows and outflows and the accrual of the Authority's pension contribution subsequent to the measurement date recorded as accounts payable at year end which are not recorded in the Authority's accounting records. Therefore, no recommendation for this over-expenditure is deemed necessary.

Management Suggestion

Governmental Accounting Standards Board Statements

The next Governmental Accounting Standards Board ("GASB") statement which will have a significant impact on the Borough will be GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the fiscal year ending December 31, 2018. This standard replaces GASB No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the State of New Jersey.

Status of Prior Year's Findings/Recommendations

There were no prior year audit recommendations.

WARREN COUNTY (PEQUEST RIVER) MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

There are no recommendations for 2017.

* * * * *