

**HAMILTON TOWNSHIP MUNICIPAL
UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)**

**REPORT OF AUDIT
FOR THE YEARS ENDED
AUGUST 31, 2017 AND 2016**

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FORD - SCOTT

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Independent Auditor's Report

The Board of Commissioners
Hamilton Township Municipal Utilities Authority
(A component unit of the Township of Hamilton)
County of Atlantic, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hamilton Township Municipal Utilities Authority (A component unit of the Township of Hamilton) in the County of Atlantic, State of New Jersey, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hamilton Township Municipal Utilities Authority (A component unit of the Township of Hamilton) in the County of Atlantic, State of New Jersey, as of August 31, 2017, and the respective change in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements'

The financial statements of the Authority as of August 31, 2016 were audited by other auditors, whose report dated December 30, 2016, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hamilton Township Municipal Utilities Authority's (A component unit of the Township of Hamilton) basic financial statements. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018 on our consideration of the Hamilton Township Municipal Utilities Authority's (A component unit of the Township of Hamilton) 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 Hamilton Township Municipal Utilities Authority's (A component unit of the Township of Hamilton) internal control over financial reporting and compliance.

Very truly yours,

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Nancy Sbrolla
Nancy Sbrolla
Certified Public Accountant
Registered Municipal Accountant
No. 542

May 23, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Management's Discussion and Analysis

August 31, 2017 and 2016

This section presents management's analysis of the Authority's financial condition and activities for the year ending August 31, 2017. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

Financial Highlights

Despite the significant economic challenges faced by Atlantic County since 2008, Management was able to keep the Authority's financial condition stable.

The Authority operated within its debt covenants and the more stringent financial policies and guidelines set by the Board. The following are key financial highlights:

- The Authority continues to report the allocable share of the PERS net pension liability in accordance with Government Standards Accounting Board's Statement NO. 68 (GASB 68) "Accounting and Financial Reporting for Pensions" and No. 71 "Pension Transition for Contributions made Subsequent to the Measurement Date – and amendment of GASB Statement No.68." The New Jersey Department of Treasury's Division of Pensions and Benefits' releases reporting data pertaining to GASB 68. The Authority's allocation was included in the data found on the Division of Pensions and Benefits' website. The "Allocations" were audited by KPMG, LLC for accuracy. The Division of Pension and Benefits further noted that

"GASB reporting requirements solely govern financial reporting, but have no impact on State laws; therefore, the statements do not result in a change to the calculation of statutory assets, liabilities and contribution requirements for State and local employers. Accordingly, per statute, State and local systems are measured separately for the calculation of plan assets, liabilities and contribution requirements. It is important to keep in mind that this reporting requirement will not change the amount of funds local governments must budget for pension payments under existing law. The New Jersey Department of Treasury has communicated this to rating agencies. They have given no indication that GASB 68 disclosures will generally result in credit downgrades."

- The Authority's "allocation" in accordance with the requirements of GASB 68 & 71 results in an accrued pension liability of \$2,787,398 and \$2,402,110, which was recognized in this Report of Audit for the periods ending August 31, 2017 and 2016, respectively. The liability is reflected under the Long Term Liabilities portion of the Balance Sheet and as a deficit under the Unrestricted Net Position (Detailed information regarding these reductions is outlined on page 31 of the Audited Financials).
- Variances to anticipated revenues and expenses were favorable. As a result, no unrestricted net assets were utilized for operational activities.
- Management continued to align projected revenue sources to match how revenue is realized (i.e., a higher percentage of operating revenue and a lower percentage of non-operating revenue - allocation fees).

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

Management's Discussion and Analysis

August 31, 2017 and 2016

- The Authority's long term goal is to fund infrastructure rehabilitation projects through a combination of unrestricted net assets and low interest loans secured through the New Jersey Environmental Infrastructure Trust.
- In August 2017, the Authority's 2008 Revenue Refunding Bonds were retired. As a result additional funds will be available to offset increases in personnel costs, capital equipment purchases and future capital projects.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplemental information. The MD&A 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 capital plan, budget bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net assets; a statement of activities; a statement of cash flows; and notes to the financial statements.

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

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the *statement of activities* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets 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.

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 about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. *Supplementary information* comparing the budget to actual expenses, as well as important debt coverage data, is provided.

Summary of the Organization and Business

The Authority was created to construct and operate a water supply, water distribution system, wastewater treatment facility and a wastewater collection system to serve the Township of Hamilton, Atlantic County, New Jersey. In 1992, the existing wastewater treatment facility was demolished as part of the Coastal Alternative Project. The Authority is a component unit of the Township of Hamilton.

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

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
August 31, 2017 and 2016

The Authority has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and donated infrastructure) contributions from customers, including developers, and customer revenues.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning.

Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Financial Statements

Condensed Statement of Net Position

| | 2017 | August 31 2016 | 2015 |
|------------------------------------------------------|------------------|-------------------|---------------|
| Assets and Deferred Outflows | | | |
| Capital Assets | | | |
| Producing Assets | \$ 28,225,636.50 | 29,690,865.00 | 30,180,844.00 |
| Construction in Progress | 4,474.03 | | 631,612.00 |
| Current Assets, Restricted Assets & Bond Cost: | 4,793,438.23 | 4,099,353.00 | 4,398,085.00 |
| Deferred Outflows | 845,279.00 | 326,210.00 | 96,402.00 |
| Total Assets & Deferred Outflows | 33,868,827.76 | 34,116,428.00 | 35,306,943.00 |
| Liabilities and Deferred Inflows | | | |
| Current Liabilities | 599,200.33 | 1,773,774.00 | 1,971,040.00 |
| Long Term Liabilities | 7,551,900.81 | 7,478,288.00 | 8,269,893.00 |
| Deferred Inflows | 595,891.00 | 102,402.00 | 139,918.00 |
| Total Liabilities and Deferred Inflows | 8,746,992.14 | 9,354,464.00 | 10,380,851.00 |
| Net Position | | | |
| Restricted or Net Invested in Capital Assets | 24,254,789.59 | 25,264,228.00 | 25,420,572.00 |
| Unrestricted | 867,046.03 | (502,264.00) | (494,480.00) |
| Total Net Position | 25,121,835.62 | 24,761,964.00 | 24,926,092.00 |
| Total Liabilities, Deferred Outflows Net Position | \$ 33,868,827.76 | 34,116,428.00 | 35,306,943.00 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
August 31, 2017 and 2016

Condensed Statements of Revenues, Expenses and Changes in Net Position

| | 2017 | | 2016 | 2015 |
|--------------------------------------------|---------------|--------------|---------------|---------------|
| | Actual | Budget | Actual | Actual |
| Operating Revenues | | | | |
| User Charges and Fees | 5,590,400.20 | 5,551,200.00 | 5,572,738.25 | 5,433,688.00 |
| Other Operating Revenue | 146,010.43 | 150,150.00 | 159,234.10 | 154,206.00 |
| Total Operating Revenues | 5,736,410.63 | 5,701,350.00 | 5,731,972.35 | 5,587,894.00 |
| Operating Expenses | | | | |
| Cost of Providing Service | 3,289,083.47 | 4,062,431.00 | 3,585,270.17 | 3,693,538.00 |
| Depreciation | 1,522,893.26 | 1,147,175.27 | 1,516,173.02 | 1,498,992.00 |
| General and Administrative | 653,418.22 | 731,200.00 | 613,285.77 | 613,736.00 |
| Total Operating Expenses | 5,465,394.95 | 5,940,806.27 | 5,714,728.96 | 5,806,266.00 |
| Operating Income (Loss) | 271,015.68 | (239,456.27) | 17,243.39 | (218,372.00) |
| Non-Operating Revenue (Expense) | 88,855.19 | 991,245.00 | (181,370.64) | (307,466.00) |
| Increase (Decrease) in Net Position | 359,870.87 | 751,788.73 | (164,127.25) | (525,838.00) |
| Total Net Position - Beginning | 24,761,964.75 | | 24,926,092.00 | 25,451,930.00 |
| Total Net Position - Ending | 25,121,835.62 | | 24,761,964.75 | 24,926,092.00 |

Other Selected Information

| | 2017 | 2016 | 2015 | Change | |
|---------------------------------------------------|--------|--------|--------|--------|--------|
| | | | | Amount | % |
| Selected Data for Analysis | | | | | |
| Employees at Year End | 21 | 23 | 21 | -2 | -8.70% |
| Number of Water Service Units at Year End | 10,069 | 10,098 | 10,067 | -29 | -0.29% |
| Number of Sewer Service Units at Year End | 10,356 | 10,386 | 10,354 | -30 | -0.29% |
| Wells - Gallons Pumped (Millions of Gallons) | 671 | 715 | 723 | -44 | -6.15% |
| Wastewater Collected (Millions of Gallons) | 600 | 602 | 626 | -2 | -0.33% |
| Water Revenue Per Thousands of Gallons Pumped | 3.7 | 3.2 | 3.1 | 0.5 | 14.44% |
| Sewer Revenue Per Thousands of Gallons Collected | 5.5 | 5.3 | 5.4 | 0.2 | 3.12% |
| Expenses Per Thousands Gallons of Water Pumped | 3.8 | 3.8 | 3.8 | 0.0 | 0.94% |
| Expenses Per Thousands Gallons of Sewer Collected | 4.8 | 5.0 | 4.9 | (0.2) | -3.22% |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
August 31, 2017 and 2016

General Trends and Significant Events

The growth in the Township of Hamilton has been impacted by the economic downturn experienced by the South Jersey region and recent casino closures. During the fiscal year ended August 31, 2017, the Authority issued 125 water and 96 sewer connection permits. The current year activity is largely due to the start of an affordable housing development. The expansion of the water distribution system and the wastewater collection system was minimal over the past two years.

The fiscal year 2017 Operating Budget reflected an increase of \$.25 to each of the tiers for monthly excess water charges. Monthly residential and commercial base water rates were also increased by \$.25. The base residential water and sewer rates are as follows:

| Residential | Water | Sewer |
|--------------------|--------------|--------------|
| Monthly | \$9.25 | \$25.25 |
| Annual | \$111.00 | \$303.00 |
| Commercial | Water | Sewer |
| Monthly | \$9.25 | \$25.50 |
| Annual | \$111.00 | \$306.00 |

Financial Condition

Total assets and deferred outflows of resources decreased \$270,600.51 or .73%. The decrease was the result of a reduction in net capital assets, offset by an increase in deferred outflows related to pensions.

| | 2017 | 2016 | 2015 |
|----------------------------------------------|-------------|-------------|-------------|
| Assets and Net Position (in Millions) | | | |
| Current and Restricted Assets | 4.8 | 4.1 | 4.4 |
| Capital Assets | 28.23 | 29.69 | 30.81 |
| Net Position | 25.12 | 24.76 | 24.93 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
August 31, 2017 and 2016

Results of operations

Operating Revenues: Revenues from operations fall into three general categories: user fees, connection fees, and other. The following chart depicts revenues for the past three years.

Results of Operations - Operating Revenues (in millions)

| | | 2017 | 2016 | 2015 |
|--------------------------|----|-------------|-------------|-------------|
| User charges and fees | \$ | 5.59 | 5.57 | 5.43 |
| Service contract fees | | 0.14 | 0.15 | 0.15 |
| Other operating revenues | | 0.01 | 0.01 | 0.00 |

From 2016 to 2017, the Authority increase the base water rate for monthly charges by \$.25 and kept the base sewer rates the same. From 2015 to 2016, the Authority increased each of the tiers for monthly excess water charges by \$.25 from 2015 and kept residential and commercial base water and sewer rated the same.

Expenses: Total operating expenses of the Authority decreased approximately \$249,334. Operating expenses, including and excluding depreciation, for the last three years are graphed below:

Results of Operations - Expenses (in thousands)

| | | 2017 | 2016 | 2015 |
|--------------------------------|----|-------------|-------------|-------------|
| Total operating expenses | \$ | 5,465 | 5,715 | 5,806 |
| Excluding depreciation | | 3,943 | 4,199 | 4,307 |
| Excluding depreciation and G&A | | 3,289 | 3,585 | 3,694 |

The following chart provides percentage changes in system expenses with and without depreciation and general and administrative expenses.

| | <u>2017</u> | <u>%</u> | <u>2016</u> | <u>%</u> | <u>2015</u> |
|--------------------------------|-------------|----------|-------------|----------|-------------|
| Operating Expenses: | | | | | |
| Total | 5,465 | -4.4% | 5,715 | -1.6% | 5,806 |
| Excluding depreciation | 3,943 | -6.1% | 4,199 | -2.5% | 4,307 |
| Excluding depreciation and G&A | 3,289 | -8.3% | 3,585 | -3.0% | 3,694 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
Management's Discussion and Analysis
August 31, 2017 and 2016

Cash flow activity

The following table shows the Authority's change in net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------------------------------|-----------------|--------------|--------------|
| Cash received from customers and users | \$ 5,536,879.21 | 5,612,086.00 | 5,409,891.96 |
| Net cash provided by operating activities | 1,748,583.57 | 1,572,542.00 | 1,217,794.02 |
| Net operating cash as a % of operating revenue & debt : | 31.58% | 28.02% | 22.51% |

Capital assets and debt administration

Capital assets, net of depreciation, decreased approximately \$1,460,000 during 2017. Property and equipment placed in service, excluding depreciation, increased approximately \$259,000.

Capital Assets, Net of Depreciation

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-----------------------------------------|-------------------------|----------------------|----------------------|
| Land | \$ 1,048,250.00 | 1,048,250.00 | 1,048,250.00 |
| Machinery, Equipment and Infrastructure | 27,177,386.50 | 28,328,040.00 | 29,132,594.44 |
| Construction in Progress | 4,474.03 | 314,575.00 | 631,612.14 |
| Total | <u>\$ 28,230,110.53</u> | <u>29,690,865.00</u> | <u>30,812,456.58</u> |

At the end of the current fiscal year, the Authority had total debt outstanding of \$4,954,603.64

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------|------------------------|---------------------|---------------------|
| Revenue Bonds | \$ - | 855,000.00 | 2,005,000.00 |
| NJ EIT Loans | 4,954,603.64 | 5,246,779.00 | 5,538,844.00 |
| | <u>\$ 4,954,603.64</u> | <u>6,101,779.00</u> | <u>7,543,844.00</u> |

Economic factor and next year's budget and rates

- The growth within the service area over the next few years is expected to be minimal.
- The Authority projects rate increases over the next few years.

All of these factors were considered in preparing the Authority's budget for the fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Deputy Executive Director, HTMUA, 6024 Ken Scull Ave. Mays Landing, NJ 08330.

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FINANCIAL SECTION

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BASIC FINANCIAL STATEMENTS

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HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
COMPARATIVE STATEMENT OF NET POSITION

ASSETS

| | AUGUST 31, | |
|-------------------------------------------------------|-------------------------|----------------------|
| | 2017 | 2016 |
| Current assets: | | |
| Unrestricted assets | | |
| Cash and cash equivalents | \$ 3,349,583.59 | 1,689,689.00 |
| Consumer accounts receivable | 250,795.90 | 199,584.93 |
| Other | 13,438.19 | 380.04 |
| Interest receivable | 201.67 | 399.10 |
| | <u>3,614,019.35</u> | <u>1,890,053.07</u> |
| Restricted assets: | | |
| Cash and cash equivalents | 1,179,418.88 | 2,209,300.28 |
| | <u>1,179,418.88</u> | <u>2,209,300.28</u> |
| Total current assets | <u>4,793,438.23</u> | <u>4,099,353.35</u> |
| Capital assets: | | |
| Non- depreciable capital assets | 1,052,724.03 | 1,362,824.60 |
| Depreciable capital assets, net of depreciation | 27,177,386.50 | 28,328,040.19 |
| | <u>28,230,110.53</u> | <u>29,690,864.79</u> |
| Total assets | <u>33,023,548.76</u> | <u>33,790,218.14</u> |
| Deferred Outflow of Resources: | | |
| Deferred outflows related to pensions | 845,279.00 | 315,273.00 |
| Deferred loss on advanced refunding | - | 10,937.13 |
| Total assets and deferred outflow of resources | <u>\$ 33,868,827.76</u> | <u>34,116,428.27</u> |

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

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
COMPARATIVE STATEMENT OF NET POSITION

LIABILITIES AND FUND EQUITY

| | AUGUST 31, | |
|----------------------------------------------------------------|-------------------|----------------|
| | 2017 | 2016 |
| Current liabilities payable from unrestricted assets: | | |
| Accounts payable | \$ 101,419.72 | 87,552.02 |
| Accrued salaries | 5,115.53 | - |
| Water and sewer rent overpayments | 26,402.26 | 28,712.28 |
| Payroll deductions payable | 4,817.64 | 5,589.85 |
| Total current liabilities payable from unrestricted assets | 137,755.15 | 121,854.15 |
| Current liabilities payable from restricted assets: | | |
| Contracts payable | - | 196,159.86 |
| Loans payable - current portion | 297,322.27 | 292,175.27 |
| Revenue bonds payable - current portion | - | 855,000.00 |
| Accrued interest on bonds | 4,719.86 | 6,362.78 |
| Escrow deposits and performance guarantees | 158,929.71 | 301,838.91 |
| Escrow fund - due to operating fund | 473.34 | 383.04 |
| Total current liabilities payable from restricted assets: | 461,445.18 | 1,651,919.86 |
| Long term liabilities payable from unrestricted assets: | | |
| Net Pension Obligation | 2,787,398.00 | 2,402,110.00 |
| Compensated absences | 71,208.17 | 81,223.57 |
| Total long-term liabilities - unrestricted | 2,858,606.17 | 2,483,333.57 |
| Long term liabilities payable from restricted assets: | | |
| Loans Payable | 4,693,294.64 | 4,994,953.94 |
| Total long-term liabilities | 4,693,294.64 | 4,994,953.94 |
| Total liabilities | 8,151,101.14 | 9,252,061.52 |
| Deferred Inflow of Resources: | | |
| Deferred inflows related to pensions | 595,891.00 | 102,402.00 |
| Net position: | | |
| Net investment in capital assets | 23,234,773.76 | 23,357,150.07 |
| Restricted for capital activity and debt service | 1,020,015.83 | 1,907,078.33 |
| Unrestricted | | |
| Unfunded pension liability (deficit) | (2,787,398.00) | (2,402,110.00) |
| Fund balance | 3,654,444.03 | 1,899,846.35 |
| Total net position | 25,121,835.62 | 24,761,964.75 |
| Total liabilities and net position | \$ 33,868,827.76 | 34,116,428.27 |

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

EXHIBIT B

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
COMPARATIVE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED

| | AUGUST 31, | |
|-----------------------------------------------|-------------------|---------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| User charges and fees | \$ 5,590,400.20 | 5,572,738.25 |
| Service contract fees | 140,465.22 | 147,249.59 |
| Other operating revenues | 5,545.21 | 11,984.51 |
| Total operating revenues | 5,736,410.63 | 5,731,972.35 |
| Operating expenses : | | |
| Administration | | |
| Salaries and wages | 199,884.87 | 190,054.20 |
| Fringe benefits | 135,917.79 | 134,149.81 |
| Other expenses | 317,615.56 | 289,081.76 |
| Cost of Providing Services | | |
| Salaries and wages | 599,211.23 | 661,329.45 |
| Fringe benefits | 234,663.16 | 265,940.40 |
| Other expenses | 2,455,209.08 | 2,658,000.32 |
| Depreciation | 1,522,893.26 | 1,516,173.02 |
| Total operating expenses | 5,465,394.95 | 5,714,728.96 |
| Operating (loss) | 271,015.68 | 17,243.39 |
| Non-operating revenue (expense): | | |
| Investment income | 5,553.37 | 7,276.79 |
| Interest expense | (86,430.10) | (118,169.22) |
| Collective pension expense | (348,770.59) | (46,852.00) |
| Connection fees | 666,532.00 | 109,666.00 |
| Other non-operating revenue | 71,283.84 | 65,390.36 |
| Gain (Loss) on disposal of capital asset | (8,375.78) | 1,965.91 |
| Deferred amount on refunding | (10,937.55) | (25,648.50) |
| Payment to Hamilton Township | (200,000.00) | (175,000.00) |
| Total non-operating expense | 88,855.19 | (181,370.66) |
| Increase(decrease) in net position | 359,870.87 | (164,127.27) |
| Net position at beginning of year | 24,761,964.75 | 24,926,092.02 |
| Net position at end of year | \$ 25,121,835.62 | 24,761,964.75 |

EXHIBIT C

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED

| | <u>AUGUST 31,</u> | |
|-----------------------------------------------------------------------------------------|------------------------|-----------------------|
| | <u>2017</u> | <u>2016</u> |
| Cash flows from operating activities: | | |
| Cash received from customers and users | \$ 5,536,879.21 | 5,612,086.00 |
| Cash paid to suppliers | (3,129,537.89) | (3,350,964.81) |
| Cash paid to employees | (804,768.18) | (847,813.61) |
| Other operating receipts (expenses) | 146,010.43 | 159,234.10 |
| Net cash provided by operating activities | <u>1,748,583.57</u> | <u>1,572,541.68</u> |
| Cash flows from investing activities: | | |
| Investment Income | <u>5,751.12</u> | <u>7,264.90</u> |
| Net cash provided by investing activities | <u>5,751.12</u> | <u>7,264.90</u> |
| Cash flows from capital and related financing activities: | | |
| Principal paid on debt | (855,000.00) | (1,150,000.00) |
| Principal paid on NJEIT loans | (292,175.27) | (292,065.27) |
| Proceeds from NJEIT trust and fund receivable | - | 460,763.00 |
| Interest paid on debt | (92,410.06) | (125,365.73) |
| Additions to capital assets | (272,785.20) | (309,887.03) |
| Sale of fixed assets | 6,110.24 | 1,965.90 |
| Net cash used by capital and related activities | <u>(1,506,260.29)</u> | <u>(1,414,589.13)</u> |
| Cash flows from non financing activities: | | |
| Other non-operating revenue | 71,283.84 | 65,390.00 |
| Due to WTMUA | (12,967.85) | |
| Connection fees | 666,532.00 | 109,666.36 |
| Receipt(return) of escrow funds | (142,909.20) | 15,522.16 |
| Payment to Hamilton Township | <u>(200,000.00)</u> | <u>(175,000.00)</u> |
| Net cash provided by non financing activities | <u>381,938.79</u> | <u>15,578.52</u> |
| Increase (decreased) in cash and cash equivalents | 630,013.19 | 180,795.97 |
| Cash and cash equivalents at beginning of year | <u>3,898,989.28</u> | <u>3,718,193.31</u> |
| Cash and cash equivalents at end of year | <u>\$ 4,529,002.47</u> | <u>3,898,989.28</u> |
| <u>Reconciliation to balance sheet:</u> | | |
| Unrestricted Cash | 3,349,583.59 | 1,689,689.00 |
| Restricted Cash | <u>1,179,418.88</u> | <u>2,209,300.28</u> |
| | <u>\$ 4,529,002.47</u> | <u>3,898,989.28</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating Income(loss) | 271,015.68 | 17,243.39 |
| Adjustments: | | |
| Depreciation | 1,522,893.26 | 1,516,173.02 |
| Change in Assets and Liabilities: | | |
| (Increase) decrease in accounts receivable | (51,210.97) | 35,952.82 |
| (Increase) decrease in other | | |
| (Increase) decrease in deferred outflow - pensions | | |
| Increase(decrease) in accounts payable | 13,867.70 | (3,792.52) |
| Increase in accrued salaries | 5,115.53 | - |
| Increase in overpayments | (2,310.02) | 3,394.93 |
| Increase in payroll deductions payable | (772.21) | (197.08) |
| (Decrease) in contracts payable | | |
| Increase in compensated absences | (10,015.40) | 3,767.12 |
| Net cash provided by operating activities | <u>\$ 1,748,583.57</u> | <u>1,572,541.68</u> |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 1. Organization

The Hamilton Township Municipal Utilities Authority (the "Authority") is a public body corporate and politic of the State of New Jersey and was originally created by an ordinance adopted on October 15, 1962 as amended on February 3, 1967 by the Township of Hamilton's governing body (the "Township"), pursuant to the Municipal and County Utilities Authorities Law, Chapter 138 of the Laws of 1957, as amended.

The Authority was created for the purpose of constructing, maintaining and operating water supply, as well as, distribution and sewerage collection and treatment facilities for the relief of waters in, bordering or entering areas within the territorial boundaries of the Township from pollution or threatened pollution and for the improvement of conditions affecting public health.

The Authority currently provides water supply and sewerage collection and treatment services to all residences and businesses within the Township and a portion of Weymouth Township.

On September 6, 1992, the Authority was connected to the Atlantic County Utilities Authority (the "ACUA") System. Since that date, all sewerage and wastewater from the service area has been transferred to the ACUA.

The Authority, as a component unit of the Township of Hamilton, is financially accountable to the Township. As set forth in Government Accounting Standards Board (GASB) 14, financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The Authority, as a component unit, issues separate financial statements from the Township. However, if the Township presented its financial statements in accordance with accounting principles generally accepted in the United States of America, these financial statements would be includable with the Township's on a blended basis.

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

Note 2. Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies:

Basis of Financial Statements

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

The Authority has adopted GASB No. 1 through 71 and related interpretations issued through August 31, 2017.

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 cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

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

Recent Accounting Pronouncements Not Yet Effective

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. This statement, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority’s financial reporting.

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, “Certain Asset Retirement Obligations”. This statement is effective for fiscal periods beginning after June 15, 2018, will not have any effect on the Authority’s financial reporting.

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, “Fiduciary Activities”. This statement is effective for fiscal periods beginning after December 15, 2018, will not have any effect on the Authority’s financial reporting.

In March 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 85, “Omnibus 2017”. This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority’s financial reporting.

In May 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 86, “Certain Debt Extinguishment Issues”. This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Authority’s financial reporting.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, “Leases”. This statement is effective for fiscal periods beginning after December 15, 2019, will not have any effect on the Authority’s financial reporting.

Budgets and Budgetary Accounting

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The operating budget adopted annually covers the general fund activity only. The current operating budget details the Authority’s plans to earn and expend funds for charges incurred for the operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Risk of Loss

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds, bank deposits, government money market mutual funds and all highly-liquid investments with a maturity of three months or less at the time of purchase and are stated at costs plus accrued interest. The Authority places its temporary cash investments with high-credit quality financial institutions.

Local units are required by N.J.S.A. 40A:5-14 to annually adopt a cash management plan and must deposit funds pursuant to that plan. The cash management plan includes a designation of a depository or depositories as defined in section 1 of P.L. 1970 c.236 (C. 17.9-41). In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted

in 1970 to protect governmental units from a loss of funds on deposit with failed banking institutions in New Jersey. Public depositories include state or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to four percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Investments

Investments are carried at fair market value with associated premiums and discounts amortized over the term of the investment held.

Purchase of investments is limited by N.J.S.A. 40A:5-15.1 to bonds or obligations of or guaranteed by the federal government and to bonds or other obligations of federal or local units. These investments are required to have a maturity date not more than 397 days from the date of purchase.

Inventory

Inventory consists principally of chemicals for the treatment of water, sewerage and sludge and is valued at costs. The Authority has determined that the inventories are immaterial and are not recorded in the financial statements.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Accounts Receivable

The Authority bills its customers monthly based on actual usage. Delinquent account balances are sold by the applicable municipal tax collectors on behalf of the Authority, thereby creating a lien on the property of the delinquent account. Any collection of delinquent account balance by the municipal tax collectors is subsequently forwarded to the Authority.

NJEIT Loan Funds Receivable

The Authority receives loan monies from the New Jersey Environmental Infrastructure Trust (NJEIT) on a reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher. The receivable represents the loan funds that have yet to be received.

Restricted Assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions, grant awards, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payment, and improvements and extensions to the utility system.

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased prior to August 31, 1997 are stated at estimated costs. Assets purchased after that date are stated at actual cost. Assets contributed by developers are valued at estimated fair market value at the date of contribution. Expenditures for maintenance and repairs are expensed as incurred. Renewals and betterments that materially extend the life of the assets are capitalized.

Construction costs incurred are recorded as construction in progress. In the year that the project is completed, these costs are transferred to property, plant and equipment. Interest costs incurred during construction are not capitalized into the cost of the asset.

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$5,000 or more
- 2) Useful life or more than one year
- 3) Asset is not affected by consumption

Depreciation is computed, as established by the Local Finance Board, Division of Consumer Affairs, State of New Jersey for Municipal Utilities Authorities, using the straight-line method over the estimated useful life of the related assets in accordance with accounting principles generally accepted in the United States of America. The estimated useful lives of depreciable assets are:

| | |
|--------------------------|----------|
| Building | 50 years |
| Infrastructure | 40 years |
| Basin | 35 years |
| Wells | 20 years |
| Heavy equipment | 15 years |
| Water meters/pits | 10 years |
| Heavy vehicles | 7 years |
| Vehicle/office equipment | 5 years |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Debt Issue Costs and Prior Period Adjustment

Debt Issue Costs related to current and prior bond issues have been expensed in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and prior periods have been restated accordingly.

Net Position

Net position comprises the earnings from operating income, non-operating revenues, expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of external constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restricts the use of net position.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” This component includes net position that may be allocated for specific purposes by the Board.

Revenues and Rate Structure

Revenues from water and sewer services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principle operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities or result from non-exchange transactions or ancillary activities. When an expense is incurred for purpose for which there are both restricted and unrestricted net assets available, it is the Authority’s policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Income Taxes

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

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Pension

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from the fiduciary 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. Investments are reported at fair value.

Note 3. Significant Trust Agreement and Bond Resolution Requirements

General Bond Resolution

The Authority is subject to the provisions and restrictions of a bond resolution adopted August 1, 1992, and the supplemental resolutions adopted October 1, 1994, September 1, 1996, February 15, 1998 and August 29, 2008. In accordance with the Trust Agreement and Bond Resolutions, the Authority has established the following cash and investment accounts for the deposit of all revenue received by the Authority from operations.

The following funds and accounts are in the name of the Trustee:

Revenue Account – All monies collected by the Authority for service charges or from any other sources for operating, maintaining or repairing the system are deposited in this account. The Trustee shall make quarterly payments into the other accounts to satisfy bond resolution or operating requirements.

Debt Service Fund – The balance on deposit must be sufficient to enable the Trustee to pay the principal of bonds as they mature upon surrender thereof and the interest on bonds as it become payable. The balance on August 31, 2017 and 2016 was \$0 and \$0, respectively and meets the requirements of the bond resolution.

Debt Service Reserve Fund – The cash balance required to be maintained in this account equals 10% of the proceeds of the Authority's 2008 bonds. As of August 31, 2017 and 2016 the minimum cash balance required was \$10,937.50 and \$898,000, respectively, and the Authority met this requirement of the Bond resolution.

Renewal, Replacement and Improvement Fund – These funds are maintained for extraordinary repairs, renewals and replacements of the utility system, capital additions, and deficiencies in the construction fund. These projects must be reasonable and necessary for the proper operation of the utility system and must be of a type not recurring annually or at shorter intervals. The trustee must maintain a minimum balance in this account of \$200,000. The balances on August 31, 2017 and 2016 met the requirements of the Trust Agreement as amended by the Authority.

General Fund – All excess funds of the Authority are recorded in the General Fund. If the Authority is not in default in the payment of bond principal or interest, and all fund requirements are satisfied, the excess funds may be used by the Authority for any lawful purpose. The allocated/designated funds of the Authority are included in the General Fund.

Rebate Fund – The balance on deposit shall be used for the paying to the United States Treasury the amount required to be rebated pursuant to section 148(f) of the Code. All amounts on deposit shall be held free and clear of the lien of this bond resolution.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Construction Fund – The balance on deposit shall be used to pay the costs of specific project and is pledged, pending application to such costs, for the security of the payment of principal and interest on the Water and Sewer Revenue Bonds.

The following funds and accounts are in the name of the Authority:

Operating Fund – The balance on deposit shall be used for the normal operation, maintenance, and repair of the utility system. The balance may not be in excess of the three month's operating expenses or such greater amounts as may be required by state law.

Debt Service Coverage - Section 6.01 of the Trust Agreement dated August 1, 1992 stipulates that so long as bonds of any series shall be outstanding hereunder, the Authority covenants to charge and collect rates and charges in respect of the utility system so that its pledged revenues, exclusive of pledged grants in aid of construction and amounts held in any fund established hereunder (but inclusive of interest earnings on funds established hereunder and moneys held in the General Fund which are available to make up deficiencies in the Debt Service Fund and are so transferred), will be sufficient:

- (a) To pay the expenses of operating, maintaining and repairing the utility system, and to pay the administrative expenses of the Authority; and
- (b) To provide in each fiscal year, an additional amount which shall be at least equal to the debt service requirements for such fiscal year plus any amounts required to be transferred in such fiscal year to the Debt Service Reserve Account.

For the purposes of (b) above, Debt Service Requirements shall be deemed to be exclusive of any amount on deposit in any fund established and held hereunder representing capitalized interest or accrued interest.

In the event that the Authority's pledged revenues are insufficient to meet the obligations set forth in subsections (a) and (b) above, the Authority covenants to revise its schedule of service charges in accordance with the law so that the amounts which are reasonably expected to be collected will be sufficient to produce the amounts required in subsections (a) and (b) above.

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HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Compliance with the covenant is calculated as follows:

| | <u>2017</u> | | <u>2016</u> | |
|---------------------------|---------------------|------|---------------------|------|
| Net Revenue: | | | | |
| Operating income | \$ 271,015.68 | | 17,243.00 | |
| Connection Fees | 666,532.00 | | 109,666.00 | |
| Add: Depreciation Expense | 1,522,893.27 | | 1,516,173.00 | |
| Interest Income | 5,553.37 | | 7,277.00 | |
| Net Revenue | <u>2,465,994.32</u> | | <u>1,650,359.00</u> | |
| Debt Service: | | | | |
| Interest Charges | 86,430.10 | | 118,169.00 | |
| Bond Principal | 1,147,175.27 | | 1,150,000.00 | |
| Debt Service | <u>1,233,605.37</u> | | <u>1,268,169.00</u> | |
| Net Revenue | \$ 2,465,994.32 | 2.00 | 1,650,359.00 | 1.30 |
| Debt Service | \$ 1,233,605.37 | | 1,268,169.00 | |

The ratio meets the required debt service coverage.

Note 4. Investments

At year end, the Authority had no investments.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

New Jersey Statutes 40A:15.1(a) limits the Authority investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the authority or the local units in which the authority is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the state of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Authority places no limit on the amount the authority may invest in any one issuer.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 5. Cash

Custodial Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 18A:20-37 that are treated as cash equivalents. As of August 31, 2017 and 2016, \$0 of the government's bank balance of \$4,535,669.34 and \$3,897,859, respectively, was exposed to custodial credit risk.

Note 6. Capital Assets

Capital asset activity for the fiscal year ended August 31, 2017, was as follows:

| | Balance <u>9/1/2016</u> | <u>Additons</u> | <u>Deletions</u> | Balance <u>8/31/2017</u> |
|--------------------------------------------------------|----------------------------|-----------------------|---------------------|-----------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,048,250.00 | | | 1,048,250.00 |
| Construction in Progress | 314,574.60 | 14,929.22 | (325,029.79) | 4,474.03 |
| Total Capital Assets No Being Depreciated | 1,362,824.60 | 14,929.22 | (325,029.79) | 1,052,724.03 |
| Capital Assets Being Depreciated: | | | | |
| Buildings, Machinery, Equipment, and Infrastructure | 55,218,272.47 | 386,725.91 | (127,500.14) | 55,477,498.24 |
| Less: Accumulated Depreciation | (26,890,232.28) | (1,522,893.26) | 113,013.80 | (28,300,111.74) |
| Capital Assets, net | <u>\$ 29,690,864.79</u> | <u>(1,121,238.13)</u> | <u>(339,516.13)</u> | <u>28,230,110.53</u> |

Depreciation expense of \$1,522,893.26 and \$1,516,173 was charged to operations for the years ended August 31, 2017 and 2016, respectively.

Note 7. Long-Term Debt

Revenue bonds were paid off as of August 31, 2017:

New Jersey Environmental Infrastructure Trust

In fiscal year 2012, the Authority received several loans from the State of New Jersey under the Wastewater Treatment Trust Program/Environmental Infrastructure Trust Program ("NJEIT Trust") for improvements to the Authority's wastewater system and drinking water projects. The NJEIT Trust has issued bonds for loans to various entities. The loan is on the reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the Trust Fund. Interest and an administrative fee are charged on the trust loan and interest is credited to the Authority's account on funds not yet received. The funds on hand at

the NJEIT Trust for loans committed to the Authority are drawn down subject to the approval of the NJEIT Trust. The Trust loans have interest rates ranging from 0.22% to 5.00% and mature in various increments through 2034.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Under the Wastewater Treatment Fund Program/Environmental Infrastructure Fund Program (“NJEIT Fund”), the State extended several noninterest-bearing loans. When a project is completed the final expenditures report is submitted to the State. If the total project cost is less than the loan amount, the State will make an adjustment to the final loan payment and reduce the liability accordingly. As of August 31, 2017 and 2016 there was \$0 and \$0, respectively, in loan funds receivable from NJEIT Trust and Fund.

Additionally, some of the NJEIT loans entitle the Authority to principal forgiveness on the fund loan portion totaling \$380,533. The fund loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan. As of August 31, 2017, all of this principal forgiveness has been earned by the Authority.

As of August 31, 2017 and 2016, net loan premiums related to the NJEIT loans in the amount of \$36,013.27 and \$40,350, respectively, are being amortized using the bonds outstanding method which approximates the effective interest method. The Authority began amortizing these premiums in fiscal year 2013. The annual amortization as of August 31, 2017 and 2016 amounted to \$4,337 and \$4,537, respectively, and is recorded against interest expense.

NJEIT loans outstanding at August 31, 2017 are as follows:

| <u>Issue</u> | <u>Trust</u> | <u>Fund</u> | <u>Total</u> |
|----------------------|------------------------|---------------------|---------------------|
| Series 2012 (DW) | \$ 64,504.00 | 172,617.36 | 237,121.36 |
| Series 2012 (PF)(DW) | 228,968.00 | 222,704.67 | 451,672.67 |
| Series 2012 (PF)(CW) | 335,000.00 | 319,071.96 | 654,071.96 |
| Series 2014 (DW) | 585,000.00 | 1,612,575.20 | 2,197,575.20 |
| Series 2014 (CW) | 205,000.00 | 581,491.56 | 786,491.56 |
| Series 2015 (CW) | 160,000.00 | 467,670.89 | 627,670.89 |
| | <u>\$ 1,578,472.00</u> | <u>3,376,131.64</u> | <u>4,954,603.64</u> |

| | |
|------------------------------------|------------------------|
| Loans Payable, Due Within One Year | (297,322.27) |
| Net Unamortized Premiums | <u>36,013.27</u> |
| Long-Term Portion of Loans Payable | <u>\$ 4,693,294.64</u> |

The NJEIT Trust and NJEIT Fund Loans are subordinate to the Revenue Bonds issued under the Bond Resolution of the Authority. In the event of any insolvency or bankruptcy proceedings, holders of the Revenue Bonds shall be entitled to receive payment in full of all payments due before the holders of outstanding Authority Subordinate Bonds are entitled to receive any payment from the Gross Revenues (as defined in the General Bond Resolution).

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Debt service requirements on outstanding bonds and loans during the next five years and thereafter are:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------------|-------------------|---------------------|
| 2018 | 297,322.27 | 57,577.32 | 354,899.59 |
| 2019 | 297,514.27 | 54,384.50 | 351,898.77 |
| 2020 | 302,754.27 | 51,144.32 | 353,898.59 |
| 2021 | 303,051.27 | 47,597.46 | 350,648.73 |
| 2022 | 308,395.27 | 44,003.22 | 352,398.49 |
| 2023-2027 | 1,618,419.35 | 159,174.84 | 1,777,594.19 |
| 2028-2032 | 1,579,415.39 | 64,781.82 | 1,644,197.21 |
| 2033-2034 | 247,731.55 | 3,750.00 | 251,481.55 |
| | <u>\$ 4,954,603.64</u> | <u>482,413.48</u> | <u>5,437,017.12</u> |

The following summarizes activity in bonds and loans payable for the year ended August 31, 2017:

| | <u>Balance</u> <u>9/1/2016</u> | <u>Issued</u> | <u>Principal</u> <u>Payments</u> | <u>Balance</u> <u>8/31/2017</u> | <u>Due Within</u> <u>One Year</u> |
|----------------------------------|-----------------------------------|---------------|-------------------------------------|------------------------------------|--------------------------------------|
| Bonds Payable | \$ 855,000.00 | | (855,000.00) | - | |
| NJEIT Loans | 5,246,779.00 | | (292,175.27) | 4,954,603.73 | 297,322.27 |
| Total Bonds and Loans Payable | <u>\$ 6,101,779.00</u> | <u>-</u> | <u>(1,147,175.27)</u> | <u>4,954,603.73</u> | <u>297,322.27</u> |

Defeased Debt

During the fiscal year ended August 31, 2008, the Authority refunded the 1998 Series Bonds. The Authority issued \$8,980,000 of Revenue Refunding Bonds, Series 2008 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements.

The 2008 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$581,291.00. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations over the life of the refunding bonds using the effective interest method. The advance refunding was undertaken to reduce total debt payments over the next 9 years by \$596,866.00 and to obtain a present value economic gain of \$329,559.00. During the years ended August 31, 2017 and 2016 the Authority amortized \$10,937.13 and \$39,848, respectively, of the savings. The unamortized balance at August 31, 2017 and 2016 was \$0 and \$10,937, respectively, and is reported as a deferred outflow of resources on the statements of net position.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 (A component unit of the Township of Hamilton)
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2017 AND 2016

Note 8. Compensated Absences

An employee shall not be permitted to carry more than (1) year of earned accumulated vacation time into the succeeding year. Upon separation from the Authority, the employee will be paid for all accrued vacation time at their current hourly rate. Employees are permitted to carry all accumulated sick time to the succeeding year. Upon separation from the Authority, the employee will be paid for all accrued sick time at the current New Jersey State minimum wage. The accrued vacation and sick time at August 31, 2017 was as follows:

| | Balance <u>9/1/2016</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>8/31/2017</u> |
|----------------------|----------------------------|------------------|------------------|-----------------------------|
| Compensated Absences | 81,223.57 | 47,549.34 | (57,564.74) | 71,208.17 |

Note 9. Pension Plan

Description of Plans - Substantially all of the Authority's employees are covered by the Public Employees' Retirement System cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at http://www.state.nj.us/treasury/pensions/annrpts_archive.htm.

Public Employees' Retirement System - The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, Authority, school Authority or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

Funding Policy - The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.92% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The current PERS rate is 7.34 of% covered payroll. The Authority's contributions to PERS for the years ending August 31, 2017, 2016 and 2015 were \$100,225, \$91,998 and \$90,805 respectively, equal to the required contributions for each year.

Significant Legislation - Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- (a) New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of ¼ of 1% for each month that the member is under age 65.

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AUGUST 31, 2017 AND 2016

- (b) The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- (c) The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- (d) Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2013, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.
- (e) The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- (f) New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- (g) In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60th from 1/55th, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 10. Pension Liabilities

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the Authority's pension liabilities.

The following represents the Authority's pension liabilities as June 30, 2017:

Public Employees' Retirement System

The Authority has a liability of \$2,787,398 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 that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion would be 0.01197418110%, which would be an increase of 6.46% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Authority recognized pension expense of \$235,756. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|-------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Differences between expected & actual experience | \$ 65,634 | |
| Changes of assumptions | 561,565 | 559,506 |
| Changes in proportion | 199,100 | 36,385 |
| Net difference between projected and actual earnings on pension plan investments | 18,980 | |
| Total | <u>\$ 845,279</u> | <u>595,891</u> |

Amounts that are reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> | | |
|--------------------------------|-----------|----------------|
| 2018 | \$ | 198,407 |
| 2019 | | 288,255 |
| 2020 | | 171,222 |
| 2021 | | (228,915) |
| 2022 | | (179,582) |
| Total | <u>\$</u> | <u>249,388</u> |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 (A component unit of the Township of Hamilton)
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2017 AND 2016

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 assumptions, applied to all periods in the measurement:

| | |
|----------------------------|------------------------------|
| Inflation rate | 2.25% |
| Salary increases: | |
| Through 2026 | 1.65% - 4.15% (based on age) |
| Thereafter | 2.65% - 5.15% (based on age) |
| Investment rate of return: | 7.00% |

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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 experience deviates, the larger the impact on future financial statements.

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

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| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------------|-------------------|----------------------------------------|
| 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 estate | 2.50% | 11.83% |
| Equity related real estate | 6.25% | 9.23% |
| U.S. equity | 30.00% | 8.19% |
| Non-U.S. developed markets equity | 11.50% | 9.00% |
| Emerging markets equity | 6.50% | 11.64% |
| Buyouts/venture capital | 8.25% | 13.08% |

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 on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 5.00%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.00%) or 1-percentage point higher (6.00%) than the current rate:

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(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

| | 1% Decrease (4.00%) | Current Discount Rate (5.00%) | 1% Increase (6.00%) |
|--------------------------------------------------------------|---------------------------|-------------------------------------|---------------------------|
| Authority's proportionate share of the net pension liability | \$ 3,344,205 | 2,787,398 | \$ 2,324,110 |

Pension plan fiduciary net position.

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

Note 11. Deferred Compensation Program

The Authority offers its employees a Deferred Compensation Plan ("Plan") created in accordance with Internal Revenue Code Section 403(b). The Plan, available to all full time employees at their option, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amount, property, or rights are not included in the books and accounts of the Authority in accordance with the promulgations issued by the Division of Local Government Services and accounting principles generally accepted in the United States of America.

Note 12. Post-Retirement Health Benefits Program

The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The 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 operation 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 established by statute to be responsible for the operation 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. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pesnion/gasb-43-sept2008.pdf>.

Note 13. Intergovernmental Agreement

A service agreement was entered into on November 19, 1990 between the Authority and the Township of Hamilton. Under the service agreement, the Township agrees to pay any shortfall the Authority may encounter in making payments for either operating expenses and/or debt service (annual charges).

The purpose of this agreement is to grant temporary relief to the Authority should it experience difficulty in meeting its obligations. The agreement calls for the Township to be reimbursed for any annual charges paid by the Township when the Authority's operations permit. Ultimately, all operating expenses and debt service of the Authority are borne by revenues of the system.

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 14. Arbitrage

The Tax Reform Act of 1986 place restrictions on investments of the proceeds of certain tax-exempt bonds issued after December 31, 1986. Specifically, investment earnings which are above arbitrage bond yield are required to be rebated to the United States Treasury Department within sixty days of the end of the fifth bond year. A bond year is defined as ending on the anniversary date of bond settlement.

As of August 31, 2017 the Authority has no rebate liability, but reserves will be established if future calculations indicate a liability.

Note 15. Net Position

Net assets present the difference between assets and liabilities. The restricted net assets amounts were as follows:

| | August 31 | |
|---------------------------------------------------------------|----------------|----------------|
| | <u>2017</u> | <u>2016</u> |
| Invested in Capital Assets, Net of related Liabilities | | |
| Net plant and equipment in service | 28,230,110.53 | 29,690,865.00 |
| Debt | (4,990,616.91) | (6,142,129.00) |
| Contracts Payable | - | (196,160.00) |
| Deferred outflow on advanced refunding | - | 10,937.00 |
| Accrued interest payable | (4,719.86) | (6,363.00) |
| | 23,234,773.76 | 23,357,150.00 |
| Restricted for Capital Activity and Debt Service | | |
| Operating Reserve | 809,078.33 | 809,078.00 |
| Debt Service Reserve | 10,937.50 | 898,000.00 |
| Renewal and Replacement | 200,000.00 | 200,000.00 |
| | 1,020,015.83 | 1,907,078.00 |
| Unrestricted | | |
| Unfunded pension liability (deficit) | (2,787,398.00) | (2,402,110.00) |
| Fund balance | 3,654,444.03 | 1,899,846.00 |
| | 867,046.03 | (502,264.00) |
| Total net assets | 25,121,835.62 | 24,761,964.00 |

Note 16. Subsequent Events

The Authority has evaluated subsequent events through May 23, 2018, the date which the financial statements were available to be issued and no items were noted for disclosure.

SUPPLEMENTARY INFORMATION

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SCHEDULE 1

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF CHANGES IN REQUIRED FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

| | Unrestricted | | Restricted | | | | | | | | |
|------------------------------------------------------------|---------------------|----------------------|------------|-------------------|--------------|----------------------|-------------------------|--------------|--------|----------------------|----------------------|
| | Operating Account | General Fund | Revenue | Operating Reserve | Debt Service | Debt Service Reserve | Renewal and Replacement | Construction | Rebate | 2017 | 2016 |
| Operating Revenues: | | | | | | | | | | | |
| User charges | \$ 5,590,400.20 | | | | | | | | | 5,590,400.20 | 5,572,738.25 |
| Service contract fees | 140,465.22 | | | | | | | | | 140,465.22 | 147,249.59 |
| Other operating revenues | 5,545.21 | | | | | | | | | 5,545.21 | 11,984.51 |
| Total Operating Revenues | 5,736,410.63 | | | | | | | | | 5,736,410.63 | 5,731,972.35 |
| Operating Expenses | | | | | | | | | | | |
| Administrative and General | 653,418.22 | | | | | | | | | 653,418.22 | 613,285.77 |
| Cost of Providing Services | 3,289,083.47 | | | | | | | | | 3,289,083.47 | 3,585,270.17 |
| Depreciation | | 1,522,893.26 | | | | | | | | 1,522,893.26 | 1,516,173.02 |
| Total Operating Expenses | 3,942,501.69 | 1,522,893.26 | | | | | | | | 5,465,394.95 | 5,714,728.96 |
| Operating Income | 1,793,908.94 | (1,522,893.26) | | | | | | | | 271,015.68 | 17,243.39 |
| Non-Operating Revenues (Expenses) | | | | | | | | | | | |
| Interest income | 5,553.37 | | | | | | | | | 5,553.37 | 7,276.79 |
| Interest expense | (348,770.59) | | | | (86,430.10) | | | | | (86,430.10) | (143,818.45) |
| Collective pension expense | 666,532.00 | | | | | | | | | 666,532.00 | (46,852.00) |
| Connection fees | | | | | | | | | | | 109,666.00 |
| Other non-operating revenues | | | | 71,283.84 | | | | | | 71,283.84 | 65,390.36 |
| Amortization on gain on refunding | | | | (10,937.13) | | | | | | (10,937.13) | - |
| Gain (Loss) on disposal of capital asset | | | | (8,375.78) | | | | | | (8,375.78) | 1,965.91 |
| Payment to Hamilton Township | | | | (200,000.00) | | | | | | (200,000.00) | (175,000.00) |
| Contributed Capital | | | | | | | | | | | |
| | 323,314.78 | (148,029.07) | | | (86,430.10) | | | | | 88,855.61 | (181,371.39) |
| Net income (loss) before transfers and contributed capital | 2,117,223.72 | (1,670,922.33) | | | (86,430.10) | | | | | 359,871.29 | (164,128.00) |
| Transfers Between Funds: | | | | | | | | | | | |
| Restricted Funds | (2,117,223.72) | 2,917,856.12 | | | 86,430.10 | (887,062.50) | | | | - | - |
| Net increase (Decrease) in Fund Balance | - | 1,246,933.79 | | | - | (887,062.50) | | | | 359,871.29 | (164,128.00) |
| Fund Equity September 1 | - | 22,854,886.00 | | 809,078.33 | - | 898,000.00 | 200,000.00 | | | 24,761,964.33 | 24,926,092.00 |
| Fund Equity August 31 | - | 24,101,819.79 | | 809,078.33 | - | 10,937.50 | 200,000.00 | | | 25,121,835.62 | 24,761,964.00 |
| Ending Net Position consists of: | | | | | | | | | | | |
| Restricted Net Assets | | | | 809,078.33 | | 10,937.50 | 200,000.00 | | | 1,020,015.83 | 1,907,078.00 |
| Unreserved Net Assets | | 3,654,444.03 | | | | | | | | 3,654,444.03 | 1,899,846.00 |
| Unfunded Pension Liability (Deficit) | | (2,787,398.00) | | | | | | | | (2,787,398.00) | (2,402,110.00) |
| Investment in Fixed Capital | | 23,234,773.76 | | | | | | | | 23,234,773.76 | 23,357,150.00 |
| Total Fund Equity August 31 | \$ - | 24,101,819.79 | | 809,078.33 | | 10,937.50 | 200,000.00 | | | 25,121,835.62 | 24,761,964.00 |

SCHEDULE 2

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF REVENUES, EXPENSES and CHANGES IN NET ASSETS BY DEPARTMENT
FOR THE YEAR ENDED AUGUST 31, 2017

| | Water Department | Sewer Department | Total |
|-------------------------------------------------------|-------------------------|----------------------|----------------------|
| Operating revenues: | | | |
| User charges and fees | \$ 2,426,345.11 | 3,164,055.09 | 5,590,400.20 |
| Service contract fees | 27,823.10 | 112,642.12 | 140,465.22 |
| Other operating revenues | 3,160.77 | 2,384.44 | 5,545.21 |
| Total operating revenues | 2,457,328.98 | 3,279,081.65 | 5,736,410.63 |
| Operating expenses: | | | |
| Administration: | | | |
| Salaries and wages | 113,922.79 | 85,962.08 | 199,884.87 |
| Fringe benefits | 77,484.76 | 58,433.03 | 135,917.79 |
| Other expenses | 181,169.98 | 136,445.58 | 317,615.56 |
| Cost of providing services: | | | |
| Salaries and wages | 341,550.53 | 257,660.70 | 599,211.23 |
| Fringe benefits | 133,666.11 | 100,997.05 | 234,663.16 |
| Other expenses | 808,324.10 | 1,646,884.98 | 2,455,209.08 |
| Depreciation | 913,735.96 | 609,157.30 | 1,522,893.26 |
| Total operating expenses | 2,569,854.23 | 2,895,540.72 | 5,465,394.95 |
| Operating income | (112,525.25) | 383,540.93 | 271,015.68 |
| Nonoperating revenues (expenses) | | | |
| Interest income | 2,861.18 | 2,692.19 | 5,553.37 |
| Interest expense | (39,496.98) | (46,933.12) | (86,430.10) |
| Connection fees | 333,822.00 | 332,710.00 | 666,532.00 |
| Other nonoperating revenue | 68,909.84 | 2,374.00 | 71,283.84 |
| Loss on disposal of capital asset | - | (8,375.78) | (8,375.78) |
| Amortization of gain on refunding | (3,499.55) | (7,437.25) | (10,936.80) |
| Collective pension expense | (198,799.24) | (149,971.35) | (348,770.59) |
| Payment to Hamilton Township | (120,000.00) | (80,000.00) | (200,000.00) |
| Total nonoperating revenues (expenses) | 43,797.25 | 45,058.69 | 88,855.94 |
| Increase in net position before capital contributions | (68,727.99) | 428,599.61 | 359,871.62 |
| Capital contributions | - | - | - |
| Increase in net position | (68,727.99) | 428,599.61 | 359,871.62 |
| Total net position, beginning of year | 14,936,172.00 | 9,825,792.00 | 24,761,964.00 |
| Total net position, end of year | 14,867,444.01 | 10,254,391.61 | 25,121,835.62 |
| Net position: | | | |
| Invested in capital assets, net of related debt | 14,126,040.73 | 9,108,733.03 | 23,234,773.76 |
| Restricted | 473,494.00 | 546,521.83 | 1,020,015.83 |
| Unrestricted | | | |
| Unfunded pension liability (deficit) | (1,588,817.21) | (1,198,580.79) | (2,787,398.00) |
| Fund balance | 1,856,726.49 | 1,797,717.54 | 3,654,444.03 |
| Total net position, end of year | \$ 14,867,444.01 | 10,254,391.61 | 25,121,835.62 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET - WATER DEPARTMENT
FOR THE YEAR ENDED AUGUST 31, 2017

| | Adopted Budget | Transfers | Amended Budget | ACTUAL | UNEXPENDED BALANCE OR (EXCESS) |
|--------------------------------------|-------------------|------------|-------------------|--------------|--------------------------------------|
| Revenues: | | | | | |
| Water service fees | \$ 2,300,100.00 | | 2,300,100.00 | 2,426,345.11 | (126,245.11) |
| Service Contract Fees | 29,300.00 | | 29,300.00 | 27,823.10 | 1,476.90 |
| Other operating revenues | 96,500.00 | | 96,500.00 | 3,160.77 | 93,339.23 |
| Total operating revenues | 2,425,900.00 | - | 2,425,900.00 | 2,457,328.98 | (31,428.98) |
| Nonoperating revenues | | | | | |
| Interest on investments and deposits | 1,710.00 | | 1,710.00 | 2,861.18 | (1,151.18) |
| Connection fees | 12,095.00 | | 12,095.00 | 333,822.00 | (321,727.00) |
| Other nonoperating revenues | 322,860.00 | | 322,860.00 | 68,909.84 | 253,950.16 |
| Total nonoperating revenues | 336,665.00 | - | 336,665.00 | 405,593.02 | (68,928.02) |
| Total budget revenues | 2,762,565.00 | - | 2,762,565.00 | 2,862,922.00 | (100,357.00) |
| Operating appropriations | | | | | |
| Administration: | | | | | |
| Office and board members' salaries | 124,100.00 | | 124,100.00 | 113,922.79 | 10,177.21 |
| Fringe benefits | | | | | |
| Health benefits | 84,474.00 | | 84,474.00 | 77,484.76 | 6,989.24 |
| Other Expenses: | | | | | |
| Office expense | 31,011.00 | | 31,011.00 | 15,340.89 | 15,670.11 |
| Billing expense | 22,036.00 | | 22,036.00 | 21,827.37 | 208.63 |
| Auditing fees | 12,255.00 | | 12,255.00 | 11,400.00 | 855.00 |
| Trustee's fees | 1,520.00 | | 1,520.00 | 37,392.64 | (35,872.64) |
| Insurance and bonds | 37,600.00 | | 37,600.00 | 1,212.75 | 36,387.25 |
| Legal fees | 11,856.00 | 3,000.00 | 14,856.00 | 11,013.33 | 3,842.67 |
| Engineering | 3,990.00 | | 3,990.00 | 3,286.30 | 703.70 |
| Payroll Taxes | 10,317.00 | | 10,317.00 | 8,971.34 | 1,345.66 |
| PERS | 55,917.00 | 2,165.00 | 58,082.00 | 58,081.39 | 0.61 |
| NJEIT / DEP fees | 9,900.00 | 5.00 | 9,905.00 | 9,902.82 | 2.18 |
| Purchase of office equipment | - | | - | - | - |
| Other professional services | 500.00 | | 500.00 | 500.00 | - |
| Conservation / Public Relations | 13,865.00 | (5,170.00) | 8,695.00 | 2,241.15 | 6,453.85 |
| Total administration | 419,341.00 | - | 419,341.00 | 372,577.53 | 46,763.47 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET - WATER DEPARTMENT
FOR THE YEAR ENDED AUGUST 31, 2017

| | Adopted Budget | Transfers | Amended Budget | ACTUAL | UNEXPENDED BALANCE OR (EXCESS) |
|------------------------------------------------------------------------------------------------------|----------------------|-------------|---------------------|---------------------|--------------------------------------|
| Operating appropriations (continued) | | | | | |
| Cost of providing services | | | | | |
| Operating salaries | 436,620.00 | (11,500.00) | 425,120.00 | 341,550.53 | 83,569.47 |
| Fringe benefits | | | | | |
| Health benefits | 189,696.00 | | 189,696.00 | 133,666.11 | 56,029.89 |
| Other expenses | | | | | |
| Electricity | 332,400.00 | | 332,400.00 | 283,357.34 | 49,042.66 |
| Vehicle maintenance | 38,400.00 | | 38,400.00 | 20,537.28 | 17,862.72 |
| Chemicals | 57,792.00 | | 57,792.00 | 46,085.95 | 11,706.05 |
| Telephone | 15,245.00 | | 15,245.00 | 13,165.63 | 2,079.37 |
| Supplies | 9,320.00 | | 9,320.00 | 4,143.04 | 5,176.96 |
| Fuel oil/ Natural gas | 16,500.00 | 1,000.00 | 17,500.00 | 16,627.03 | 872.97 |
| Regulatory requirements | 26,350.00 | | 26,350.00 | 23,812.07 | 2,537.93 |
| Maintenance of buildings and grounds | 19,100.00 | | 19,100.00 | 29,281.31 | (10,181.31) |
| Payroll Taxes | 36,138.00 | | 36,138.00 | 26,596.08 | 9,541.92 |
| Licenses/permits | 3,168.00 | | 3,168.00 | 1,580.00 | 1,588.00 |
| Laboratory service | 28,339.00 | | 28,339.00 | 22,877.46 | 5,461.54 |
| Laboratory service - WTMUA | 700.00 | | 700.00 | 501.00 | 199.00 |
| Road repairs | - | | - | - | - |
| Rental/repair equipment | 2,280.00 | | 2,280.00 | 548.88 | 1,731.12 |
| Radio maintenance | - | | - | - | - |
| Uniforms | 5,410.00 | | 5,410.00 | 3,015.64 | 2,394.36 |
| Replacement of meters | 91,000.00 | 10,500.00 | 101,500.00 | 97,948.20 | 3,551.80 |
| Purchase of operations equipment | 4,560.00 | | 4,560.00 | 1,544.86 | 3,015.14 |
| Computer hardware / software | 16,450.00 | | 16,450.00 | 4,480.87 | 11,969.13 |
| Repairs | 251,200.00 | | 251,200.00 | 193,555.27 | 57,644.73 |
| Education/training | 14,223.00 | | 14,223.00 | 8,554.50 | 5,668.50 |
| GIS / asset services | 20,805.00 | | 20,805.00 | 5,874.50 | 14,930.50 |
| SCAD / Instrumentation | 26,655.00 | | 26,655.00 | 4,237.19 | 22,417.81 |
| Total cost of service | 1,642,351.00 | - | 1,642,351.00 | 1,283,540.74 | 358,810.26 |
| Total operating appropriations | 2,061,692.00 | - | 2,061,692.00 | 1,656,118.27 | 405,573.73 |
| Principal payments on debt service in lieu of depreciation | 449,131.19 | | 449,131.19 | 449,131.19 | - |
| Nonoperating appropriations: Interest payments on debt | 40,417.80 | | 40,417.80 | 39,496.98 | 920.82 |
| Total operating, principal payments and nonoperating appropriations | 2,551,240.99 | - | 2,551,240.99 | 2,144,746.44 | 406,494.55 |
| Excess anticipated revenues over operating, principal payments and nonoperating appropriations | <u>\$ 211,324.01</u> | <u>-</u> | <u>211,324.01</u> | <u>718,175.56</u> | <u>(506,851.55)</u> |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET - SEWER DEPARTMENT
FOR THE YEAR ENDED AUGUST 31, 2017

| | Adopted Budget | Transfers | Amended Budget | ACTUAL | UNEXPENDED BALANCE OR (EXCESS) |
|--------------------------------------|---------------------|------------|---------------------|---------------------|--------------------------------------|
| Revenues: | | | | | |
| Sewer service fees | \$ 3,036,084.00 | | 3,036,084.00 | 3,164,055.09 | (127,971.09) |
| Service contract fees | 57,116.00 | | 57,116.00 | 112,642.12 | (55,526.12) |
| Other operating revenues | 124,000.00 | | 124,000.00 | 2,384.44 | 121,615.56 |
| Total operating revenues | 3,217,200.00 | - | 3,217,200.00 | 3,279,081.65 | (61,881.65) |
| Nonoperating revenues | | | | | |
| Interest on investments and deposits | 1,290.00 | | 1,290.00 | 2,692.19 | (1,402.19) |
| Connection fees | 17,150.00 | | 17,150.00 | 332,710.00 | (315,560.00) |
| Other nonoperating revenues | 694,390.00 | | 694,390.00 | 2,374.00 | 692,016.00 |
| Total nonoperating revenues | 712,830.00 | - | 712,830.00 | 337,776.19 | 375,053.81 |
| Total budget revenues | 3,930,030.00 | - | 3,930,030.00 | 3,616,857.84 | 313,172.16 |
| Operating appropriations | | | | | |
| Administration: | | | | | |
| Office and board members' salaries | 93,600.00 | (1,690.00) | 91,910.00 | 85,962.08 | 5,947.92 |
| Fringe benefits | | | | | |
| Health benefits | 63,726.00 | | 63,726.00 | 58,433.03 | 5,292.97 |
| Other expenses: | | | | | |
| Office expense | 25,679.00 | | 25,679.00 | 15,298.14 | 10,380.86 |
| Billing expense | 16,624.00 | | 16,624.00 | 13,600.23 | 3,023.77 |
| Auditing fees | 9,245.00 | | 9,245.00 | 8,600.00 | 645.00 |
| Trustee's fees | 2,480.00 | | 2,480.00 | 2,462.25 | 17.75 |
| Insurance and bonds | 28,400.00 | | 28,400.00 | 28,208.46 | 191.54 |
| Legal fees | 8,944.00 | 3,000.00 | 11,944.00 | 9,140.68 | 2,803.32 |
| Engineering | 3,010.00 | | 3,010.00 | 1,421.20 | 1,588.80 |
| Payroll taxes | 7,783.00 | | 7,783.00 | 6,767.83 | 1,015.17 |
| PERS | 42,183.00 | 1,640.00 | 43,823.00 | 43,815.79 | 7.21 |
| NJEIT / DEP fees | 6,600.00 | 50.00 | 6,650.00 | 6,631.00 | 19.00 |
| Other professional services | 500.00 | | 500.00 | 500.00 | - |
| Conservation / Public Relations | 3,085.00 | (3,000.00) | 85.00 | - | 85.00 |
| Total administration | 311,859.00 | - | 311,859.00 | 280,840.69 | 31,018.31 |

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
SCHEDULE OF APPROPRIATIONS COMPARED TO BUDGET - SEWER DEPARTMENT
FOR THE YEAR ENDED AUGUST 31, 2017

| | Adopted Budget | Transfers | Amended Budget | ACTUAL | UNEXPENDED BALANCE OR (EXCESS) |
|------------------------------------------------------------------------------------------------------|---------------------|-----------|---------------------|---------------------|--------------------------------------|
| Operating appropriations (continued) | | | | | |
| Cost of providing services | | | | | |
| Operating salaries | 329,380.00 | | 329,380.00 | 257,660.70 | 71,719.30 |
| Fringe benefits | | | | | |
| Health benefits | 143,104.00 | | 143,104.00 | 100,997.05 | 42,106.95 |
| Other expenses | | | | | |
| Electricity | 66,800.00 | | 66,800.00 | 55,882.99 | 10,917.01 |
| Vehicle maintenance | 35,100.00 | | 35,100.00 | 17,292.63 | 17,807.37 |
| Chemicals | 1,300.00 | | 1,300.00 | - | 1,300.00 |
| Telephone | 14,755.00 | | 14,755.00 | 13,002.84 | 1,752.16 |
| Supplies | 4,680.00 | | 4,680.00 | 2,386.24 | 2,293.76 |
| Fuel oil/ Natural gas | 15,100.00 | | 15,100.00 | 11,086.11 | 4,013.89 |
| Maintenance of buildings and grounds | 14,400.00 | | 14,400.00 | 22,831.72 | (8,431.72) |
| Payroll taxes | 27,262.00 | | 27,262.00 | 20,063.67 | 7,198.33 |
| Licenses/permits | 1,032.00 | | 1,032.00 | - | 1,032.00 |
| Laboratory services | 500.00 | | 500.00 | - | 500.00 |
| Rental/repair equipment | 1,720.00 | | 1,720.00 | 961.92 | 758.08 |
| Uniforms | 3,990.00 | | 3,990.00 | 2,583.51 | 1,406.49 |
| Purchase of operations equipment | 3,440.00 | | 3,440.00 | 1,371.48 | 2,068.52 |
| Computer hardware / software | 12,400.00 | | 12,400.00 | 4,480.82 | 7,919.18 |
| ACUA charges | 1,585,000.00 | | 1,585,000.00 | 1,454,119.00 | 130,881.00 |
| Repairs | 114,900.00 | | 114,900.00 | 19,473.25 | 95,426.75 |
| Education / training | 14,677.00 | | 14,677.00 | 9,748.05 | 4,928.95 |
| GIS / asset services | 15,695.00 | | 15,695.00 | 4,841.04 | 10,853.96 |
| SCAD / Instrumentation | 14,845.00 | | 14,845.00 | 6,759.71 | 8,085.29 |
| Total cost of service | 2,420,080.00 | - | 2,420,080.00 | 2,005,542.73 | 414,537.27 |
| Total operating appropriations | 2,731,939.00 | - | 2,731,939.00 | 2,286,383.42 | 445,555.58 |
| Principal payments on debt service in lieu of depreciation | 698,044.08 | | 698,044.08 | 698,044.08 | - |
| Nonoperating appropriations: Interest payments on debt | 52,118.76 | | 52,118.76 | 46,933.12 | 5,185.64 |
| Total operating, principal payments and nonoperating appropriations | 3,482,101.84 | - | 3,482,101.84 | 3,031,360.62 | 450,741.22 |
| Excess anticipated revenues over operating, principal payments and nonoperating appropriations | \$ 447,928.16 | - | 447,928.16 | 585,497.22 | (137,569.06) |



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Hamilton Township Municipal Utilities Authority
(A component unit of the Township of Hamilton)
County of Atlantic, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Hamilton Township Municipal Utilities Authority (A component unit of the Township of Hamilton) in the County of Atlantic, State of New Jersey, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively Hamilton Township Municipal Utilities Authority's (A component unit of the Township of Hamilton) basic financial statements, and have issued our report thereon dated May 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hamilton Township Municipal Utilities Authority's 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 Hamilton Township Municipal Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hamilton Township Municipal Utilities Authority's basic 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 basic 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Nancy Sbrolla
Nancy Sbrolla
Certified Public Accountant
Registered Municipal Accountant
No. 542

May 23, 2018

REQUIRED SUPPLEMENTARY INFORMATION
PART 2

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HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
 (A component unit of the Township of Hamilton)
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employee Retirement System
Last Five Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|----------------------------------------------------------------------------------------------------------------------|----------------|---------------|---------------|---------------|---------------|
| Authority's proportion of the net pension liability (asset) | 0.01197418110% | 0.0107007770% | 0.0110148700% | 0.0110148700% | 0.0111202749% |
| Authority's proportionate of the net pension liability (asset) | \$ 2,787,398 | 2,402,110 | 2,062,285 | 2,125,305 | 2,062,285 |
| Authority's covered payroll | \$ 709,326 | 758,694 | 743,830 | 756,946 | 764,271 |
| Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 392.96% | 316.61% | 277.25% | 280.77% | 269.84% |
| Plan fiduciary net position as a percentage of the total pension liability | 48.10% | 47.93% | 52.08% | 52.08% | 48.72% |

Source: GASB 68 report on Public Employees' Retirement System; Authority records

HAMILTON TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
(A component unit of the Township of Hamilton)
Schedule of Authority Contributions
Public Employee Retirement System
Last Five Fiscal Years

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|----------------------------------------------------------------------|----------------|---------------|---------------|---------------|----------|
| Contractually required contribution | \$ 100,225 | 91,998 | 90,805 | 83,789 | - |
| Contributions in relation to the contractually required contribution | <u>100,225</u> | <u>91,998</u> | <u>90,805</u> | <u>83,789</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Authority's covered-employee payroll | \$ 709,326 | 758,694 | 743,830 | 756,946 | 764,271 |
| Contributions as a percentage of covered-employee payroll | 14.13% | 12.13% | 12.21% | 11.07% | 0.00% |

Source: GASB 68 report on Public Employees' Retirement System; Authority records

AUDIT FINDINGS AND RESPONSES

None

**Status of Prior Year Findings and Questioned Costs
For the Year Ended August 31, 2017**

None