



**Hamilton Township Municipal Utilities Authority
(A component unit of the Township of Hamilton)**

Financial Statements

August 31, 2016 and 2015

With Independent Auditors' Reports

Hamilton Township Municipal Utilities Authority
August 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To 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 Hamilton Township Municipal Utilities Authority (the "Authority"), a component unit of the Township of Hamilton in the County of Atlantic, State of New Jersey, which comprise the statements of net position as of August 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of August 31, 2016 and 2015 and the respective changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Hamilton Township Municipal Utilities Authority (a component unit of the Township of Hamilton), for the year ended August 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on November 11, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary 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. These schedules are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016 on our consideration of 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 Hamilton Township Municipal Utilities Authority's (a component unit of the Township of Hamilton) internal control over financial reporting and compliance.



December 30, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Hamilton Township Municipal Utilities Authority Management's Discussion and Analysis August 31, 2016 and 2015

This section presents management's analysis of the Authority's financial condition and activities for the year ending August 31, 2016. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements, required supplementary information and other 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 by utilizing unrestricted net assets as part of a rate stabilization program.

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 their 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 – an 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 Pension's and Benefit's website at <http://www.nj.gov/treasury/pensions/gasb-68-notice.shtml>. The "Allocations" were audited by KMPG 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 \$2,402,110 and \$2,062,285, which was recognized for the periods ending August 31, 2016 and 2015. 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 starting on page 25 of the Audited Financials).

- Variances to anticipated revenues and expenses were favorable. As a result, less 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, 2016 and 2015

- 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 will be retired, which will provide funds 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 position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and the notes to the financial statements.

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses and changes in net position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

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. *Required supplementary information* providing required schedules in accordance with Government Standards Accounting Board's Statement No. 68 (GASB 68). *Other supplementary information* comparing the budget to actual expenses, as well as important debt coverage data, is also 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

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Management's Discussion and Analysis
August 31, 2016 and 2015

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.

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 Statements of Net Position

	<u>2016</u>	<u>August 31 2015</u>	<u>2014</u>
Assets and Deferred Outflows			
Capital assets			
Producing assets	\$ 29,690,865	\$ 30,180,844	\$ 27,859,797
Construction in progress	-	631,612	3,780,750
Current assets, restricted assets & bond costs	4,099,353	4,398,085	6,881,295
Deferred outflows	326,210	96,402	141,283
Total assets and deferred outflows	<u>\$ 34,116,428</u>	<u>\$ 35,306,943</u>	<u>\$ 38,663,125</u>
Liabilities and Deferred Inflows			
Current liabilities	1,773,774	1,971,040	4,016,600
Long term liabilities	7,478,288	8,269,893	9,054,677
Deferred inflows	102,402	139,918	139,918
Total liabilities and deferred inflows	<u>9,354,464</u>	<u>10,380,851</u>	<u>13,211,195</u>
Net Position			
Restricted or net invested in capital assets	25,264,228	25,420,572	26,068,268
Unrestricted	(502,264)	(494,480)	(616,338)
Total net position	<u>24,761,964</u>	<u>24,926,092</u>	<u>25,451,930</u>
Total Liabilities, Deferred Outflows and Net Position	<u>\$ 34,116,428</u>	<u>\$ 35,306,943</u>	<u>\$ 38,663,125</u>

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Condensed Statements of Revenues, Expenses and Changes in Net Position

	2016		2015	Restated 2014
	Actual	Budget	Actual	Actual
Operating Revenues				
User charges and fees	\$ 5,572,738	\$ 5,444,400	\$ 5,433,688	\$ 5,233,842
Other operating revenues	159,235	150,650	154,206	158,577
Total operating revenues	<u>5,731,973</u>	<u>5,595,050</u>	<u>5,587,894</u>	<u>5,392,419</u>
Operating Expenses				
Cost of providing service	3,585,270	4,151,611	3,693,538	3,594,085
Depreciation	1,516,173	1,442,065	1,498,992	1,476,667
General and administrative	613,287	702,860	613,736	617,727
Total operating expenses	<u>5,714,730</u>	<u>6,296,536</u>	<u>5,806,266</u>	<u>5,688,479</u>
Operating Income (Loss)	17,243	(701,486)	(218,372)	(296,060)
Non-operating revenue (expense) net	<u>(181,371)</u>	<u>(15,769)</u>	<u>(307,466)</u>	<u>(278,793)</u>
Increase (decrease) in net position	<u>(164,128)</u>	<u>(717,255)</u>	<u>(525,838)</u>	<u>(574,853)</u>
Total Net Position - Beginning	<u>24,926,092</u>		<u>25,451,930</u>	<u>26,026,783</u>
Total Net Position - Ending	<u>\$ 24,761,964</u>		<u>\$ 24,926,092</u>	<u>\$ 25,451,930</u>

Other Selected Information

	2016	2015	2014	Change	
				Amount	%
Selected data for analysis					
Employees at year end	23	21	21	2.0	9.52%
Number of water service units at year end	10,098	10,067	10,012	31.0	0.31%
Number of sewer service units at year end	10,386	10,354	10,301	32.0	0.31%
Wells - gallons pumped (millions of gallons)	715	723	728	-8.0	-1.11%
Wastewater collected (millions of gallons)	602	626	633	-24.0	-3.83%
Water revenue per thousands of gallons pumped	3.3	3.2	3.1	0.1	3.12%
Sewer revenue per thousands of gallons collected	5.3	5.4	5.2	-0.1	-1.85%
Expenses per thousands gallons of water pumped	3.8	3.8	3.5	0.0	0.53%
Expenses per thousands gallons of wastewater collected	5.0	4.9	4.2	0.1	2.45%

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General Trends and Significant Events

The growth in the Township of Hamilton was impacted by the economic downturn experienced by the South Jersey region and recent casino closures. During the fiscal year ended August 31, 2016, the Authority issued 21 water and 18 sewer connection permits. The current year activity is largely due to the completion of existing developments. The expansion of the water distribution system and the wastewater collection system was minimal over the past two years.

The fiscal year 2015/2016 Operating Budget reflected an increase of \$.25 to each of the tiers for monthly excess water charges while residential and commercial base water and sewer rates remained unchanged. The base residential water and sewer rates are as follows:

Residential	Water	Sewer
Monthly	\$9.00	\$25.25
Annual	\$108.00	\$303.00
Commercial	Water	Sewer
Monthly	\$9.00	\$25.50
Annual	\$108.00	\$306.00

Financial Condition

Total assets and deferred outflows of resources decreased \$1,190,515 or 3.37%. The decrease was the result of the following: a reduction in net capital assets, a decrease in accounts receivable, a decrease in NJEIT receivables and a decrease in cash and cash equivalents utilized to fund construction projects and as revenue in the budget.

Assets and Net Position (in millions)

	2016	2015	2014
Current and restricted assets	\$ 4.10	\$ 4.40	\$ 6.88
Capital assets	\$ 29.69	\$ 30.81	\$ 31.64
Net position	\$ 24.76	\$ 24.93	\$ 25.45

Net investment in capital assets decreased approximately \$243,000.

Results of operations

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

Results of Operations - Operating Revenues (in millions)

	2016	2015	2014
User charges and fees	\$ 5.57	\$ 5.43	\$ 5.23
Service contract fees	\$ 0.15	\$ 0.15	\$ 0.15
Other operating revenues	\$ 0.01	\$ 0.00	\$ 0.01

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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 rates the same. From 2014 to 2015, the Authority increased residential and commercial water rates by \$.55 per month and kept residential and commercial base sewer rates the same.

Expenses: Total operating expenses of the Authority decreased approximately \$44,000. Operating expenses, including and excluding depreciation, for the last three years are graphed below:

Results of Operations - Expenses (in thousands)

	2016	2015	2014
Total operating expenses	\$ 5,715	\$ 5,806	\$ 5,688
Excluding depreciation	\$ 4,199	\$ 4,307	\$ 4,212
Excluding depreciation and G&A	\$ 3,585	\$ 3,694	\$ 3,594

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

Results of Operations - Expenses Percentages

	2016	%	2015	%	2014
Operating expenses					
Total	\$ 5,715	-1.6%	\$ 5,806	2.1%	\$ 5,688
Excluding depreciation	\$ 4,199	-2.5%	\$ 4,307	2.3%	\$ 4,212
Excluding depreciation and general & admin.	\$ 3,585	-2.9%	\$ 3,694	2.8%	\$ 3,594

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.

Cash Flow Activity

	2016	2015	(Restated) 2014
Cash received from customers and users	\$ 5,612,086	\$ 5,409,892	\$ 5,241,463
Net cash provided by operating activities	\$ 1,572,542	\$ 1,217,794	\$ 1,255,470
Net operating cash as % of cash received from customers and users	28.02%	22.51%	23.95%

Capital assets and debt administration

Capital assets, net of depreciation, decreased approximately \$1,120,000 during 2016. Property and equipment placed in service, excluding depreciation, increased approximately \$711,000.

Capital Assets, Net of Depreciation

	2016	2015	2014
Land	\$ 1,048,250	\$ 1,048,250	\$ 1,048,250
Machinery, equipment, and infrastructure	28,328,040	29,132,594	26,811,547
Construction in progress	314,575	631,612	3,780,750
Total	<u>\$ 29,690,865</u>	<u>\$ 30,812,456</u>	<u>\$ 31,640,547</u>

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At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$6,142,129.

	2016	2015	2014
Revenue bonds	\$ 855,000	\$ 2,005,000	\$ 3,115,000
NJEIT loans	5,246,779	5,538,844	5,170,459
Total	<u>\$ 6,101,779</u>	<u>\$ 7,543,844</u>	<u>\$ 8,285,459</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 2016/2017 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.



FINANCIAL STATEMENTS

Hamilton Township Municipal Utilities Authority
Statements of Net Position
August 31, 2016 and 2015

	2016	2015
Assets and Deferred Outflow of Resources		
Current assets		
Unrestricted assets		
Cash and cash equivalents	\$ 1,689,689	\$ 1,611,577
Consumer accounts receivable	199,585	235,538
Other	380	310
Interest receivable	399	387
Total unrestricted assets	<u>1,890,053</u>	<u>1,847,812</u>
Restricted assets		
Cash and cash equivalents	2,209,300	2,106,616
Due from NJEIT trust and fund	-	443,657
Total restricted assets	<u>2,209,300</u>	<u>2,550,273</u>
Total current assets	<u>4,099,353</u>	<u>4,398,085</u>
Capital assets		
Non-depreciable capital assets	1,362,825	1,679,862
Depreciable capital assets, net of depreciation	<u>28,328,040</u>	<u>29,132,594</u>
Total non-current assets	<u>29,690,865</u>	<u>30,812,456</u>
Total assets	<u>33,790,218</u>	<u>35,210,541</u>
Deferred outflows of resources		
Deferred outflows related to pensions	315,273	59,816
Deferred loss on advanced refunding	10,937	36,586
Total assets and deferred outflows of resources	<u>\$ 34,116,428</u>	<u>\$ 35,306,943</u>

The Notes to Financial Statements are an integral part of these statements.

Hamilton Township Municipal Utilities Authority
Statements of Net Position
August 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities payable from unrestricted assets		
Accounts payable	\$ 87,552	\$ 91,345
Water and sewer rent overpayments	28,712	25,317
Payroll deductions payable	5,590	5,787
Total current liabilities payable from unrestricted assets	<u>121,854</u>	<u>122,449</u>
Current liabilities payable from restricted assets		
Contracts payable	196,160	111,466
Loans payable - current portion	292,175	292,065
Revenue bonds payable - current portion	855,000	1,150,000
Accrued interest on bonds	6,363	8,430
Escrow deposits and performance guarantees	301,839	286,317
Escrow fund - due to operating fund	383	313
Total current liabilities payable from restricted assets	<u>1,651,920</u>	<u>1,848,591</u>
Long-term liabilities payable from unrestricted assets		
Net pension obligation	2,402,110	2,062,285
Compensated absences	81,224	77,456
Total long-term liabilities payable from unrestricted assets	<u>2,483,334</u>	<u>2,139,741</u>
Long-term liabilities payable from restricted assets		
Loans payable	4,994,954	5,275,152
Revenue bonds payable - long term portion	-	855,000
Total long-term liabilities payable from restricted assets	<u>4,994,954</u>	<u>6,130,152</u>
Total liabilities	<u>9,252,062</u>	<u>10,240,933</u>
Deferred inflow of resources		
Deferred inflows related to pensions	102,402	139,918
Net position		
Net investment in capital assets	23,357,150	23,600,586
Restricted for capital activity and debt service	1,907,078	1,819,986
Unrestricted		
Unfunded pension liability (deficit)	(2,402,110)	(2,062,285)
Fund balance	1,899,846	1,567,805
Total net position	<u>24,761,964</u>	<u>24,926,092</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 34,116,428</u>	<u>\$ 35,306,943</u>

The Notes to Financial Statements are an integral part of these statements.

Hamilton Township Municipal Utilities Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2016 and 2015

	2016	2015
Operating Revenues		
User charges and fees	\$ 5,572,738	\$ 5,433,688
Service contract fees	147,250	152,476
Other operating revenues	11,985	1,730
Total operating revenues	<u>5,731,973</u>	<u>5,587,894</u>
Operating Expenses		
Administration		
Salaries and wages	190,054	185,342
Fringe benefits	134,150	130,015
Other expenses	289,083	298,379
Cost of providing services		
Salaries and wages	661,329	645,956
Fringe benefits	265,941	210,154
Other expenses	2,658,000	2,837,428
Depreciation	1,516,173	1,498,992
Total operating expenses	<u>5,714,730</u>	<u>5,806,266</u>
Operating Income (Loss)	<u>17,243</u>	<u>(218,372)</u>
Non-Operating Revenues (Expenses)		
Investment income	7,277	7,881
Interest expense	(143,818)	(210,897)
Collective pension expense	(46,852)	-
Connection fees	109,666	132,920
Other non-operating revenue	65,390	34,104
Gain (loss) on disposal of capital asset	1,966	(71,474)
Payment to Hamilton Township	(175,000)	(200,000)
Total non-operating expenses	<u>(181,371)</u>	<u>(307,466)</u>
Increase (Decrease) in Net Position	(164,128)	(525,838)
Net Position - Beginning of Year	<u>24,926,092</u>	<u>25,451,930</u>
Net Position - End of Year	<u>\$ 24,761,964</u>	<u>\$ 24,926,092</u>

The Notes to Financial Statements are an integral part of these statements.

Hamilton Township Municipal Utilities Authority
Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers and users	\$ 5,612,086	\$ 5,409,892
Cash paid to suppliers	(3,350,967)	(3,508,715)
Cash paid to employees	(847,812)	(837,589)
Other operating receipts (expenses)	159,235	154,206
Net cash provided by operating activities	<u>1,572,542</u>	<u>1,217,794</u>
Cash Flows From Investing Activities		
Investment income	7,265	8,422
Net cash provided by investing activities	<u>7,265</u>	<u>8,422</u>
Cash Flows from Capital and Related Financing Activities		
Principal paid on debt	(1,150,000)	(1,110,000)
Principal paid on NJEIT loans	(292,065)	(277,803)
Proceeds from NJEIT trust and funds receivable	460,763	2,900,491
Interest paid on debt	(125,366)	(175,551)
Additions to capital assets	(309,887)	(2,822,559)
Sale of fixed assets	1,966	2,087
Net cash used by capital and related activities	<u>(1,414,589)</u>	<u>(1,483,335)</u>
Cash Flows from Non-Financing Activities		
Other non-operating revenue	65,390	34,104
Connection fees	109,666	132,920
Receipt (return) of escrow funds	15,522	7,528
Payment to Hamilton Township	(175,000)	(200,000)
Net cash provided (used) by non-financing activities	<u>15,578</u>	<u>(25,448)</u>
Increase (Decrease) in Cash and Cash Equivalents	180,796	(282,567)
Cash and Cash Equivalents		
Beginning of year	3,718,193	4,000,760
End of year	<u>\$ 3,898,989</u>	<u>\$ 3,718,193</u>
Cash and Cash Equivalents - Statements of Net Position		
Unrestricted cash and cash equivalents	\$ 1,689,689	\$ 1,611,577
Restricted cash and cash equivalents	2,209,300	2,106,616
Total cash and cash equivalents - statements of net position	<u>\$ 3,898,989</u>	<u>\$ 3,718,193</u>
Reconciliation of Operating Loss To Net Cash Provided By Operating Activities		
Operating income (loss)	\$ 17,243	\$ (218,372)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	1,516,173	1,498,992
Changes in operating assets and liabilities:		
Consumer accounts receivable	35,953	(22,600)
Other	-	(2,120)
Pensions (non-cash)	-	5,033
Accounts payable	(3,793)	(35,653)
Accrued salaries	-	(7,562)
Overpayments	3,395	(1,196)
Payroll deductions payable	(197)	211
Compensated absences	3,768	1,061
Net cash provided by operating activities	<u>\$ 1,572,542</u>	<u>\$ 1,217,794</u>

The Notes to Financial Statements are an integral part of these statements.

Hamilton Township Municipal Utilities Authority

Notes to the Financial Statements

August 31, 2016 and 2015

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 183 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 by the Government Accounting Standards Board (GASB) 34, 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. The Township does not follow GAAP for accounting and financial reporting purposes. Rather, it follows a regulatory basis, utilizing accounting principles which differ, in some cases significantly, from GAAP. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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 as applicable to governmental entities.

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
Notes to the Financial Statements
August 31, 2016 and 2015

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to government entities. The Government Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

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

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 Authority follows these procedures in establishing the operating fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board. No authority budget can be finally adopted until the Director has approved the budget. Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

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 affect 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.

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

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

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

At year end, the Authority had no investments. The Authority's policy is to carry investments at fair market value with associated premiums and discounts amortized over the term of the investment held.

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
Notes to the Financial Statements
August 31, 2016 and 2015

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. These items are expensed as acquired.

Accounts Receivable

The Authority bills its customers monthly based on actual usage. Service charges unpaid by the twenty-fifth day of the month the bill was issued in shall be classified as delinquent. Interest shall be charged on the unpaid balance at the statutory rate, which is currently 1.5% per month. 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.

Due From NJEIT Trust and Fund

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 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 depreciable capital assets. Interest costs incurred during construction are minimal, therefore, 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.

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

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

Debt Issue Costs

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*.

Net Position

Net position comprises the earnings from operating income, reductions for operating losses, 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 less the unamortized portion of deferred loss on advance refunding, 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 principal 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

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
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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.

Pension

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 / deductions to and 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.

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 becomes payable. The balance on August 31, 2016 and 2015 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, 2016 and 2015, the minimum cash balance required was \$898,000 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, 2016 and 2015 met the requirements of the Trust Agreement as amended by the Authority.

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

- *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.
- *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 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.

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

Compliance with the covenant is calculated as follows:

	2016	2015
Net Revenue		
Operating income (loss)	\$ 17,243	\$ (218,372)
Connection fees	109,666	132,920
Depreciation	1,516,173	1,498,992
Investment income	7,277	7,881
Net revenue	<u>\$ 1,650,359</u>	<u>\$ 1,421,421</u>
Debt Service		
Interest charges	\$ 118,169	\$ 171,049
Bond principal	1,150,000	1,110,000
Debt service	<u>\$ 1,268,169</u>	<u>\$ 1,281,049</u>
Net Revenue	\$ 1,650,359	\$ 1,421,421
Debt Service	\$ 1,268,169	\$ 1,281,049
Ratio	1.3	1.1

The ratio meets the required debt service coverage.

4. 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, 2016 and 2015, \$0 of the government's bank balance of \$3,897,859 and \$3,727,884, respectively, was exposed to custodial credit risk.

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

5. CAPITAL ASSETS

Capital asset activity for the fiscal years ended August 31, 2016 and 2015, was as follows:

	Balance 09/01/15	Additions	Deletions	Balance 08/31/16
Capital assets not being depreciated:				
Land	\$ 1,048,250	\$ -	\$ -	\$ 1,048,250
Construction in progress	631,612	354,759	(671,796)	314,575
Total capital assets not being depreciated	<u>1,679,862</u>	<u>354,759</u>	<u>(671,796)</u>	<u>1,362,825</u>
Capital assets being depreciated:				
Buildings, Machinery, Equipment, and Infrastructure	54,527,813	711,619	(21,160)	55,218,272
Less accumulated depreciation	(25,395,219)	(1,516,173)	21,160	(26,890,232)
Total capital assets being depreciated	<u>29,132,594</u>	<u>(804,554)</u>	<u>-</u>	<u>28,328,040</u>
Capital assets, net	<u>\$30,812,456</u>	<u>\$ (449,795)</u>	<u>\$ (671,796)</u>	<u>\$29,690,865</u>
	Balance 09/01/14	Additions	Deletions	Balance 08/31/15
Capital assets not being depreciated:				
Land	\$ 1,048,250	\$ -	\$ -	\$ 1,048,250
Construction in progress	3,780,750	-	(3,149,138)	631,612
Total capital assets not being depreciated	<u>4,829,000</u>	<u>-</u>	<u>(3,149,138)</u>	<u>1,679,862</u>
Capital assets being depreciated:				
Buildings, Machinery, Equipment, and Infrastructure	50,976,025	3,893,600	(341,812)	54,527,813
Less accumulated depreciation	(24,164,478)	(1,498,992)	268,251	(25,395,219)
Total capital assets being depreciated	<u>26,811,547</u>	<u>2,394,608</u>	<u>(73,561)</u>	<u>29,132,594</u>
Capital assets, net	<u>\$31,640,547</u>	<u>\$2,394,608</u>	<u>\$ (3,222,699)</u>	<u>\$30,812,456</u>

Depreciation expense of \$1,516,173 and \$1,498,992 was charged to operations for the years ended August 31, 2016 and 2015, respectively.

6. LONG-TERM DEBT

Revenue bonds payable consisted of the following at August 31, 2016:

\$8,980,000 Revenue Refunding Bonds dated 8/15/08 payable in annual installments through 8/15/17. Interest is paid semi-annually at an interest rate of 3.75% per annum	\$ 855,000
Less: Revenue Bond Payable, Due within One Year	<u>(855,000)</u>
Long-Term Portion of Revenue Bonds Payable, Net	<u>\$ -</u>

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

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. 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, 2016 and 2015 there was \$0 and \$443,657, 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, 2016, all of this principal forgiveness has been earned by the Authority.

As of August 31, 2016 and 2015, net loan premiums related to the NJEIT loans in the amount of \$40,350 and \$28,373, 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, 2016 and 2015 amounted to \$4,537 and \$3,157, respectively, and is recorded against interest expense.

NJEIT loans outstanding at August 31, 2016 are as follows:

Issue	Trust	Fund	Total
Series 2012 (DW)	\$ 68,732	\$ 185,588	\$ 254,320
Series 2012 (PF) (DW)	243,312	238,612	481,924
Series 2012 (PF) (CW)	350,000	341,863	691,863
Series 2014 (DW)	610,000	1,715,656	2,325,656
Series 2014 (CW)	215,000	617,835	832,835
Series 2015 (CW)	165,000	495,181	660,181
	<u>\$ 1,652,044</u>	<u>\$ 3,594,735</u>	<u>\$ 5,246,779</u>
			Loans payable, due within one year (292,175)
			Net Unamortized Premiums 40,350
			<u>Long-term portion of loans payable \$ 4,994,954</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
Notes to the Financial Statements
August 31, 2016 and 2015

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

Year	Principal	Interest	Total
2017	\$ 1,147,175	\$ 92,537	\$ 1,239,712
2018	297,322	57,577	354,899
2019	297,514	54,385	351,899
2020	302,754	51,144	353,898
2021	303,051	47,598	350,649
2022-2026	1,596,158	179,335	1,775,493
2027-2031	1,673,138	83,200	1,756,338
2032-2034	484,667	9,175	493,842
	<u>\$ 6,101,779</u>	<u>\$ 574,951</u>	<u>\$ 6,676,730</u>

The following summarizes activity in bonds and loans payable, net of unamortized premiums for the year ended August 31, 2016:

	Balance 9/1/2015	Issued	Principal Payments	Balance 8/31/2016	Amount Due Within One Year
Bonds payable	\$ 2,005,000	\$ -	\$ (1,150,000)	\$ 855,000	\$ 855,000
NJEIT loans	5,538,844	-	(292,065)	5,246,779	292,175
Total bonds and loans payable	<u>\$ 7,543,844</u>	<u>\$ -</u>	<u>\$ (1,442,065)</u>	<u>\$ 6,101,779</u>	<u>\$ 1,147,175</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. 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 and to obtain a present value economic gain of \$329,559. During the years ended August 31, 2016 and 2015 the Authority amortized \$25,649 and \$39,848, respectively, of the savings. The unamortized balance at August 31, 2016 and 2015 was \$10,937 and \$36,586, respectively, and is reported as a deferred outflow of resources on the statements of net position.

7. 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

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

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, 2016 was as follows:

	Balance 9/1/2015		Additions		Deletions		Balance 8/31/2016
Compensated absences	\$ 77,456	\$	3,768	\$	-	\$	81,224

8. PENSION PLAN

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

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

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 and 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Employer and Employee Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The local employer's contribution amounts are based on an actuarially determined rate which includes the normal cost and

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

unfunded accrued liability. During the year ended August 31, 2016 and 2015, the PERS received employer and employee contributions as follows:

	<u>2016</u>	<u>2015</u>
Employer contributions	\$ 91,998	\$ 90,805
Employee contributions	\$ 53,730	\$ 51,635
Salary basis for contributions	\$ 758,694	\$ 743,830
Percent of base wages	7.06% - 7.20%	6.92%-7.06%

Summary of Significant Accounting Policies

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 PERS and contribution's to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by 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.

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

The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014. In accordance with GASB 68, the measure date shall not be earlier than 1 year from the statement of net position date, therefore, the Authority has elected to utilize June 30, 2015 and 2014 as the measurement dates, respectively.

The Authority's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. At August 31, the Authority's proportionate share and net pension liability was as follows:

	<u>2016</u>	<u>2015</u>
PERS net pension liability - local	\$ 22,447,996,119	\$ 18,722,735,003
Authority net pension liability	\$ 2,402,110	\$ 2,062,285
Authority's proportion	0.010700777%	0.011014870%

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Pension expense, net is comprised of the following at August 31:

	<u>2016</u>	<u>2015</u>
Proportionate share of allocable plan pension expense	\$ 157,578	\$ 106,027
Pension expense related to specific liabilities of individual employers	--	368
Net amortization of deferral amounts from changes in proportion	<u>(13,698)</u>	<u>(3,128)</u>
Total employer pension expense excluding that attributable to employer-paid member contributions	<u>\$ 143,880</u>	<u>\$ 103,267</u>

At August 31, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$ 257,967	\$ --	\$ 64,849	\$ --
Net difference between projected and actual earnings on pension plan investments	57,306	38,621	--	122,901
Changes in proportion and differences between Authority contributions and proportionate share of contributions	--	63,781	--	17,017
Authority contributions subsequent to the measurement date	--	--	(5,033)	--
	<u>\$ 315,273</u>	<u>\$ 102,402</u>	<u>\$ 59,816</u>	<u>\$ 139,918</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:
 Years Ended August 31:

	PERS (local)	Authority Share
2016	\$ 470,662,998	\$ 38,753
2017	470,662,998	38,753
2018	470,663,000	38,753
2019	749,606,320	61,721
2020	423,749,895	34,891
	<u>\$ 2,585,345,211</u>	<u>\$ 212,871</u>

Hamilton Township Municipal Utilities Authority
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Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Inflation rate	3.04%	3.01%
Salary increases from 2012-2021	2.15-4.40% based on age	2.15-4.40% based on age
Thereafter	3.15-5.40% based on age	3.15-5.40% based on age
Investment rate of return	7.90%	7.90%

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S treasuries	1.75%	1.64%
Investment grade credits	10.00%	1.79%
Mortgages	2.10%	1.62%
High yield bonds	2.00%	4.03%
Inflation-indexed bonds	1.50%	3.25%
Broad US equities	27.25%	8.52%
Developed foreign equities	12.00%	6.88%
Emerging market equities	6.40%	10.00%
Private equity	9.25%	12.41%
Hedge funds / absolute return	12.00%	4.72%
Real estate (property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

For the years ended June 30, 2015 and 2014, mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) with adjustments for mortality improvements from the base year of 2012 Based on Projection Scale AA.

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, 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

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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 average of the last five years of contributions made in relation to the last five years of recommended 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, 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 measured as of June 30, 2015 and 2014, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point than the current rate:

	June 30, 2015		
	At 1 % decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
PERS as a whole (local only)	<u>\$ 27,900,112,533</u>	<u>\$ 22,447,996,119</u>	<u>\$ 17,876,981,108</u>
Authority's proportionate share of the net pension liability	<u>\$ 2,985,529</u>	<u>\$ 2,402,110</u>	<u>\$ 1,912,976</u>
	June 30, 2014		
	At 1 % decrease (4.39%)	At current discount rate (5.39%)	At 1% increase (6.39%)
PERS as a whole (local only)	<u>\$ 23,553,838,159</u>	<u>\$ 18,722,735,003</u>	<u>\$ 14,665,837,859</u>
Authority's proportionate share of the net pension liability	<u>\$ 2,594,425</u>	<u>\$ 2,062,285</u>	<u>\$ 1,615,423</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>.

9. 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 amounts, property, or rights are not included in the books

Hamilton Township Municipal Utilities Authority
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August 31, 2016 and 2015

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.

10. POST-RETIREMENT HEALTH BENEFITS PROGRAM

The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiemployer 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/pensions/health-benefits.shtml>.

11. 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. During the years ended August 31, 2016 and 2015 the Authority made payments to the Township in the amounts of \$175,000 and \$200,000, respectively. Ultimately, all operating expenses and debt service of the Authority are borne by revenues of the system.

12. 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, 2016 the Authority has no rebate liability, but reserves will be established if future calculations indicate a liability.

Hamilton Township Municipal Utilities Authority
Notes to the Financial Statements
August 31, 2016 and 2015

13. COMMITMENTS AND CONTINGENCIES

The Authority has commitments outstanding at August 31 as follows:

	2016	2015
Sewer projects	\$ 196,160	\$ 144,956
Capital assets	20,028	-
	<u>\$ 216,188</u>	<u>\$ 144,956</u>

14. NET POSITION

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The restricted amounts were as follows:

	2016	2015
Net Investment in Capital Assets		
Net plant and equipment in service	\$ 29,690,865	\$ 30,812,456
Debt	(6,142,129)	(7,572,217)
Due from NJEIT	-	443,657
Contracts Payable	(196,160)	(111,466)
Deferred outflow on advanced refunding	10,937	36,586
Accrued interest payable	(6,363)	(8,430)
	<u>\$ 23,357,150</u>	<u>\$ 23,600,586</u>
Restricted for Capital Activity and Debt Service		
Operating reserve	\$ 809,078	\$ 721,986
Debt service reserve	898,000	898,000
Renewal & replacement	200,000	200,000
	<u>\$ 1,907,078</u>	<u>\$ 1,819,986</u>
Unrestricted		
Unfunded pension liability (deficit)	(2,402,110)	(2,062,285)
Fund balance	1,899,846	1,567,805
	<u>\$ (502,264)</u>	<u>\$ (494,480)</u>
Total Net Position	<u>\$ 24,761,964</u>	<u>\$ 24,926,092</u>

15. SUBSEQUENT EVENTS

Management has evaluated events occurring after August 31, 2016 for possible adjustment to or disclosure in the financial statements through December 30, 2016, the date on which the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred that require recognition or disclosure in the financial statements.



REQUIRED SUPPLEMENTARY INFORMATION

**Hamilton Township Municipal Utilities Authority
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 Public Employee Retirement System (PERS)
 Years Ended August 31, 2016 through 2013**

Schedule 1

	2016	2015	2014	2013
Authority's proportion (percentage) of the collective net pension liability	0.010700777%	0.011014870%	0.011014870%	0.011120275%
Authority's proportionate share (amount) of the collective net pension liability	\$ 2,402,110	\$ 2,062,285	\$ 2,125,305	\$ 2,062,285
Authority's covered-employee payroll	\$ 758,694	\$ 743,830	\$ 756,946	\$ 764,271
The Authority's proportionate share(amount) of the collective net pension liability as a percentage of it's covered-employee payroll	316.61%	277.25%	280.77%	269.84%
Plan fiduciary net position as a percentage of the total collective pension liability (local only)	47.93%	52.08%	52.08%	48.72%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Notes to Required Supplementary Information:

Benefit Changes

None.

Changes of Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015.

**Hamilton Township Municipal Utilities Authority
Schedule of the Authority's Contribution
Public Employee Retirement System (PERS)
Years Ended August 31, 2016 through 2007**

Schedule 2

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 91,998	\$ 90,805	\$ 83,789	\$ --	n/a	n/a	n/a	n/a	n/a	n/a
Contributions in relation to the contractually required contribution	<u>(91,998)</u>	<u>(90,805)</u>	<u>(83,789)</u>	<u>-</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Percent of base wages	7.06%-7.20%	6.92%-7.06%	6.78%-6.92%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Authority's covered-employee payroll	\$ 758,694	\$ 743,830	\$ 756,946	\$ 764,271	n/a	n/a	n/a	n/a	n/a	n/a
Contributions as a percentage of authority's covered-employee payroll	12.13%	12.21%	11.07%	0.00%	n/a	n/a	n/a	n/a	n/a	n/a

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:

Benefit Changes

None.

Changes in Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015.



OTHER SUPPLEMENTARY INFORMATION

Hamilton Township Municipal Utilities Authority
Schedule of Changes in Required Funds
Year Ended August 31, 2016 (with summarized comparative information for 2015)

Schedule 3

	Unrestricted		Restricted							2016	2015	
	Operating Account	General Fund	Revenue	Operating Reserve	Debt Service	Debt Service Reserve	Renewal and Replacement	Construction	Rebate			
Operating Revenues												
User charges	\$ 5,572,738	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,572,738	\$ 5,433,688
Service contract fees	147,250	-	-	-	-	-	-	-	-	-	147,250	152,476
Other operating revenues	11,985	-	-	-	-	-	-	-	-	-	11,985	1,730
Total operating revenues	<u>5,731,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,731,973</u>	<u>5,587,894</u>
Operating Expenses												
Administrative and general	613,287	-	-	-	-	-	-	-	-	-	613,287	613,736
Cost of providing services	3,585,270	-	-	-	-	-	-	-	-	-	3,585,270	3,693,538
Depreciation	-	1,516,173	-	-	-	-	-	-	-	-	1,516,173	1,498,992
Total operating expenses	<u>4,198,557</u>	<u>1,516,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,714,730</u>	<u>5,806,266</u>
Operating income	<u>1,533,416</u>	<u>(1,516,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,243</u>	<u>(218,372)</u>
Non-Operating Revenues (Expenses)												
Investment income	7,277	-	-	-	-	-	-	-	-	-	7,277	7,881
Interest expense	-	(25,649)	-	-	(118,169)	-	-	-	-	-	(143,818)	(210,897)
Collective pension expense	(46,852)	-	-	-	-	-	-	-	-	-	(46,852)	-
Connection fees	109,666	-	-	-	-	-	-	-	-	-	109,666	132,920
Other non-operating revenues	-	65,390	-	-	-	-	-	-	-	-	65,390	34,104
Gain (loss) on disposal of capital asset	-	1,966	-	-	-	-	-	-	-	-	1,966	(71,474)
Contributed capital	-	-	-	-	-	-	-	-	-	-	-	-
Payment to Hamilton Township	-	(175,000)	-	-	-	-	-	-	-	-	(175,000)	(200,000)
	<u>70,091</u>	<u>(133,293)</u>	<u>-</u>	<u>-</u>	<u>(118,169)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(181,371)</u>	<u>(307,466)</u>
Net Income (Loss) Before Transfers and Contributed Capital	<u>1,603,507</u>	<u>(1,649,466)</u>	<u>-</u>	<u>-</u>	<u>(118,169)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(164,128)</u>	<u>(525,838)</u>
Transfers Between Funds - Restricted Funds	<u>(1,603,507)</u>	<u>1,398,246</u>	<u>-</u>	<u>87,092</u>	<u>118,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Fund Balance	<u>-</u>	<u>(251,220)</u>	<u>-</u>	<u>87,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(164,128)</u>	<u>(525,838)</u>
Fund Equity September 1	<u>-</u>	<u>23,106,106</u>	<u>-</u>	<u>721,986</u>	<u>-</u>	<u>898,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,926,092</u>	<u>25,451,930</u>
Fund Equity August 31	<u>\$ -</u>	<u>\$ 22,854,886</u>	<u>\$ -</u>	<u>\$ 809,078</u>	<u>\$ -</u>	<u>\$ 898,000</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,761,964</u>	<u>\$ 24,926,092</u>
Ending Net Position Consists of:												
Restricted net assets	\$ -	\$ -	\$ -	\$ 809,078	\$ -	\$ 898,000	\$ 200,000	\$ -	\$ -	\$ -	\$ 1,907,078	\$ 1,819,986
Unreserved net assets	-	1,899,846	-	-	-	-	-	-	-	-	1,899,846	1,567,805
Unfunded pension liability (deficit)	-	(2,402,110)	-	-	-	-	-	-	-	-	(2,402,110)	(2,062,285)
Investment in fixed capital	-	23,357,150	-	-	-	-	-	-	-	-	23,357,150	23,600,586
Total fund equity, August 31	<u>\$ -</u>	<u>\$ 22,854,886</u>	<u>\$ -</u>	<u>\$ 809,078</u>	<u>\$ -</u>	<u>\$ 898,000</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,761,964</u>	<u>\$ 24,926,092</u>

Hamilton Township Municipal Utilities Authority
Schedule of Revenues, Expenses and Changes in Net Assets by Department
For the Year Ended August 31, 2016

Schedule 4

	Water Department	Sewer Department	Total
Operating Revenues			
User charges and fees	\$ 2,362,294	\$ 3,210,444	\$ 5,572,738
Service contract fees	29,795	117,455	147,250
Other operating revenues	6,960	5,025	11,985
Total operating revenues	<u>2,399,049</u>	<u>3,332,924</u>	<u>5,731,973</u>
Operating Expenses			
Administration			
Salaries and wages	108,331	81,723	190,054
Fringe benefits	76,465	57,685	134,150
Other expenses	163,095	125,988	289,083
Cost of providing services			
Salaries and wages	376,958	284,371	661,329
Fringe benefits	151,485	114,456	265,941
Other expenses	920,169	1,737,831	2,658,000
Depreciation	911,036	605,137	1,516,173
Total operating expenses	<u>2,707,539</u>	<u>3,007,191</u>	<u>5,714,730</u>
Operating income (loss)	(308,490)	325,733	17,243
Non-Operating Revenues (Expenses)			
Investment income	3,530	3,747	7,277
Interest expense	(41,428)	(76,741)	(118,169)
Collective pension expense	(26,706)	(20,146)	(46,852)
Connection fees	49,515	60,151	109,666
Other non-operating revenues	61,384	4,006	65,390
Gain (loss) on disposal of capital asset	1,121	845	1,966
Amortization of loss on refunding	(8,208)	(17,441)	(25,649)
Payment to Hamilton Township	(25,000)	(150,000)	(175,000)
Total non-operating revenues (expenses)	<u>14,208</u>	<u>(195,579)</u>	<u>(181,371)</u>
Increase (Decrease) In Net Position Before Capital Contributions	(294,282)	130,154	(164,128)
Capital Contributions	-	-	-
Increase (Decrease) in Net Position	(294,282)	130,154	(164,128)
Total Net Position, Beginning of Year	15,230,454	9,695,638	24,926,092
Total Net Position, End of Year	<u>\$ 14,936,172</u>	<u>\$ 9,825,792</u>	<u>\$ 24,761,964</u>
Net Position			
Net Invested in capital assets	\$ 14,594,020	\$ 8,763,130	\$ 23,357,150
Restricted	757,354	1,149,724	1,907,078
Unrestricted			
Unfunded pension liability (deficit)	(1,369,203)	(1,032,907)	(2,402,110)
Fund balance	954,001	945,845	1,899,846
Total Net Position, End of Year	<u>\$ 14,936,172</u>	<u>\$ 9,825,792</u>	<u>\$ 24,761,964</u>

See Independent Auditors' Report.

Hamilton Township Municipal Utilities Authority
Schedule of Appropriations Compared to Budget – Water Department
Year Ended August 31, 2016

Schedule 5

	Adopted Budget	Transfers	Amended Budget	Actual	Unexpended Balance or (Excess)
Operating Revenues					
Water Service Fees	\$ 2,287,700	\$ -	\$ 2,287,700	\$ 2,362,294	\$ 74,594
Service Contract Fees	29,300	-	29,300	29,795	495
Other	5,500	-	5,500	6,960	1,460
Total Operating Revenues	<u>2,322,500</u>	<u>-</u>	<u>2,322,500</u>	<u>2,399,049</u>	<u>76,549</u>
Non-Operating Revenues					
Interest on Investments and Deposits	1,710	-	1,710	3,530	1,820
Connection Fees	11,780	-	11,780	49,515	37,735
Other Non-Operating Revenues	35,500	-	35,500	61,384	25,884
Total Non-Operating Revenues	<u>48,990</u>	<u>-</u>	<u>48,990</u>	<u>114,429</u>	<u>65,439</u>
Total Budgeted Revenues	<u>2,371,490</u>	<u>-</u>	<u>2,371,490</u>	<u>2,513,478</u>	<u>141,988</u>
Operating Appropriations					
Administration					
Office Salaries/Board	109,896	-	109,896	108,331	1,565
Health Insurance	81,624	-	81,624	76,465	5,159
Office Expense	27,150	-	27,150	16,880	10,270
Billing Expense	22,036	-	22,036	13,454	8,582
Auditing Fees	12,255	-	12,255	11,400	855
Trustee's Fees	1,520	-	1,520	1,213	307
Insurance & Bonds	40,014	-	40,014	33,241	6,773
Legal Fees	11,856	-	11,856	8,855	3,001
Engineering	3,990	-	3,990	3,725	265
Payroll Taxes	9,006	-	9,006	8,660	346
P.E.R.S	55,917	-	55,917	52,439	3,478
Purchase of Equipment	-	-	-	-	-
NJEIT / DEP Fees	14,700	-	14,700	12,251	2,449
Other Professional Service	500	-	500	500	-
Conservation / Public Relations	13,865	-	13,865	477	13,388
Total Administration	<u>404,329</u>	<u>-</u>	<u>404,329</u>	<u>347,891</u>	<u>56,438</u>

See Independent Auditors' Report.

Hamilton Township Municipal Utilities Authority
Schedule of Appropriations Compared to Budget – Water Department
Year Ended August 31, 2016

Schedule 5

	Adopted Budget	Transfers	Amended Budget	Actual	Unexpended Balance or (Excess)
Other Expenses					
Operating Salaries	431,091	(1,000)	430,091	376,958	53,133
Electricity	333,100	-	333,100	265,984	67,116
Vehicle Maintenance	34,120	-	34,120	19,084	15,036
Chemicals	58,200	-	58,200	48,512	9,688
Telephone	15,645	1,000	16,645	12,555	4,090
Supplies	9,320	-	9,320	6,238	3,082
Fuel Oil/Natural Gas	15,122	-	15,122	13,959	1,163
Regulatory Requirements	27,500	-	27,500	23,193	4,307
Maintenance/Bldg & Grds	16,644	-	16,644	13,775	2,869
Payroll Taxes	35,682	-	35,682	29,621	6,061
Health Benefits	181,944	-	181,944	151,485	30,459
Licenses/Permits	3,168	-	3,168	1,586	1,582
Const. of Laterals/Water	-	-	-	-	-
Const. of Laterals/Sewer	-	-	-	-	-
Laboratory Service	19,900	-	19,900	15,654	4,246
Laboratory Service - WTMUA	700	-	700	481	219
Road Repairs	-	-	-	-	-
Rental/Repair of Equipment	2,280	-	2,280	595	1,685
Radio Maintenance	-	-	-	-	-
Uniforms	3,871	-	3,871	3,152	719
Replacement/Meters&Monitor	85,500	-	85,500	82,622	2,878
Purchase of Equipment	8,721	-	8,721	3,753	4,968
Alarm System	-	-	-	-	-
Computer Hardware / Software	12,740	-	12,740	8,691	4,049
ACUA Charges	-	-	-	-	-
Repairs/Water	401,700	-	401,700	343,168	58,532
Repairs/Sewer	-	-	-	-	-
Education/Training	14,223	-	14,223	7,111	7,112
GIS/Asset Services	25,650	-	25,650	9,558	16,092
SCADA/Instrumentation	26,655	-	26,655	10,877	15,778
Total Cost of Service	<u>1,763,476</u>	<u>-</u>	<u>1,763,476</u>	<u>1,448,612</u>	<u>314,864</u>
Total Operating Appropriations	2,167,805	-	2,167,805	1,796,503	371,302
Principal Payments on Debt Service in Lieu of Depreciation	543,421	-	543,421	543,421	-
Non-Operating Appropriations					
Interest Payments on Debt Service	55,077	-	55,077	41,428	13,649
Payment to Hamilton Township	25,000	-	25,000	25,000	-
Excess Anticipated Revenues (Expenses) over Operating, Principal Payments and Non-Operating Appropriations	<u>\$ (419,813)</u>	<u>\$ -</u>	<u>\$ (419,813)</u>	<u>\$ 107,126</u>	<u>\$ 526,939</u>

See Independent Auditors' Report.

Hamilton Township Municipal Utilities Authority
Schedule of Appropriations Compared to Budget – Sewer Department
Year Ended August 31, 2016

Schedule 6

	Adopted Budget	Transfers	Amended Budget	Actual	Unexpended Balance or (Excess)
Operating Revenues					
Sewer Service Fees	\$ 3,156,700	\$ -	\$ 3,156,700	\$ 3,210,444	\$ 53,744
Service Contract Fees	115,850	-	115,850	117,455	1,605
Other	-	-	-	5,025	5,025
Total Operating Revenues	<u>3,272,550</u>	<u>-</u>	<u>3,272,550</u>	<u>3,332,924</u>	<u>60,374</u>
Non-Operating Revenues					
Interest on Investments and Deposits	1,290	-	1,290	3,747	2,457
Connection Fees	16,695	-	16,695	60,151	43,456
Other Non-Operating Revenues	25,000	-	25,000	4,006	(20,994)
Total Non-Operating Revenues	<u>42,985</u>	<u>-</u>	<u>42,985</u>	<u>67,904</u>	<u>24,919</u>
Total Budgeted Revenues	<u>3,315,535</u>	<u>-</u>	<u>3,315,535</u>	<u>3,400,828</u>	<u>85,293</u>
Operating Appropriations					
Administration					
Office and Board Members' Salaries	82,904	-	82,904	81,723	1,181
Health Insurance	61,576	-	61,576	57,685	3,891
Office Expense	22,900	-	22,900	16,841	6,059
Billing Expense	16,624	-	16,624	10,109	6,515
Auditing Fees	9,245	-	9,245	8,600	645
Trustee's Fees	2,480	-	2,480	2,462	18
Insurance & Bonds	30,186	-	30,186	25,076	5,110
Legal Fees	8,944	-	8,944	5,518	3,426
Engineering	3,010	-	3,010	2,757	253
Payroll Taxes	6,794	-	6,794	6,533	261
P.E.R.S	42,183	-	42,183	39,560	2,623
NJEIT / DEP Fees	5,600	2,500	8,100	8,032	68
Other Professional Service	500	-	500	500	-
Conservation / Public Relations	3,085	-	3,085	-	3,085
Total Administration	<u>296,031</u>	<u>2,500</u>	<u>298,531</u>	<u>265,396</u>	<u>33,135</u>

See Independent Auditors' Report.

Hamilton Township Municipal Utilities Authority
Schedule of Appropriations Compared to Budget – Sewer Department
Year Ended August 31, 2016

Schedule 6

	Adopted Budget	Transfers	Amended Budget	Actual	Unexpended Balance or (Excess)
Other Expenses					
Operating Salaries	325,209	(16,500)	308,709	284,371	24,338
Electricity	59,000	10,000	69,000	55,540	13,460
Vehicle Maintenance	31,880	-	31,880	24,489	7,391
Chemicals	1,300	-	1,300	-	1,300
Telephone	13,555	1,000	14,555	12,385	2,170
Supplies	4,680	3,000	7,680	3,762	3,918
Fuel Oil/Natural Gas	14,378	-	14,378	10,694	3,684
Maintenance/Bldg & Grds	12,556	-	12,556	9,151	3,405
Payroll Taxes	26,918	-	26,918	22,346	4,572
Health Benefits	137,256	-	137,256	114,456	22,800
Licenses/Permits	1,032	-	1,032	4	1,028
Laboratory Service	-	-	-	-	-
Rental/Repair of Equipment	1,720	-	1,720	449	1,271
Uniforms	2,829	-	2,829	2,362	467
Replacement/Meters&Monitor	-	-	-	-	-
Purchase of Equipment	6,579	-	6,579	4,543	2,036
Alarm System	-	-	-	-	-
Computer Harware / Software	9,611	-	9,611	8,473	1,138
ACUA Charges	1,585,000	-	1,585,000	1,540,792	44,208
Repairs/Water	-	-	-	-	-
Repairs/Sewer	109,900	-	109,900	16,766	93,134
Education/Training	14,677	-	14,677	11,047	3,630
GIS/Asset Services	19,350	-	19,350	6,574	12,776
SCADA/Instrumentation	13,205	-	13,205	8,454	4,751
Total Cost of Service	<u>2,390,635</u>	<u>(2,500)</u>	<u>2,388,135</u>	<u>2,136,658</u>	<u>251,477</u>
Total Operating Appropriations	2,686,666	-	2,686,666	2,402,054	284,612
Principal Payments on Debt Service in Lieu of Depreciation	898,644	-	898,644	898,644	-
Non-Operating Appropriations					
Payment to Hamilton Township	150,000	-	150,000	150,000	-
Interest Payments on Debt Service	82,744	-	82,744	76,741	6,003
Excess Anticipated Revenues (Expenses) over Operating, Principal Payments and Non-Operating Appropriations	<u>\$ (502,519)</u>	<u>\$ -</u>	<u>\$ (502,519)</u>	<u>\$ (126,611)</u>	<u>\$ 375,908</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To 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 Hamilton Township Municipal Utilities Authority (a component unit of the Township of Hamilton) in the County of Atlantic, State of New Jersey, which comprise the statement of financial position as of August 31, 2016, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hamilton Township Municipal Utilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 Hamilton Township Municipal Utilities Authority's internal control.

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

Our consideration of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton Township Municipal Utilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Withum Smith + Brown, PC

December 30, 2016

**Hamilton Township Municipal Utilities Authority
Comments and Recommendations
Year Ended August 31, 2016**

None noted.