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Financial Report

of

The Township of Hillsborough Municipal Utilities Authority

For the Years Ended November 30, 2017 and 2016

Prepared By

The Township of Hillsborough Municipal Utilities Authority

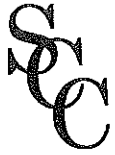
Finance Department

**THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY**

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INDEPENDENT AUDITOR'S REPORT

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Hillsborough Municipal Utilities Authority, as of and for the years ended November 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Township of Hillsborough Municipal Utilities Authority, as of November 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to accounting and reporting for pensions in Schedules R-1 through R-3 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.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hillsborough Municipal Utilities Authority's basic financial statements. The supplemental data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018 on our consideration of the Township of Hillsborough Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hillsborough Municipal Utilities Authority' internal control over financial reporting and compliance.



May 31, 2018



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

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

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 Township of Hillsborough Municipal Utilities Authority as of and for the year ended November 30, 2017, and the related notes to the financial statements, which collectively comprise the Township of Hillsborough Municipal Utilities Authority's financial statements, and have issued our report thereon dated May 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Hillsborough Municipal Utilities Authority's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Township of Hillsborough Municipal Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Hillsborough 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 the Township of Hillsborough 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Suplee, Clooney & Company". The signature is written in a cursive, flowing style.

May 31, 2018

Management's Discussion and Analysis **Unaudited**

In this section of the annual report, management of The Township of Hillsborough Municipal Utilities Authority (the "Authority") presents a narrative discussion and analysis of the Authority's financial activities for the years ended November 30, 2017 and 2016. This section of the report should be read in conjunction with the Authority's audited financial statements and supplementary information for the years ended November 30, 2017 and 2016. The Authority's audited financial statements are presented in conformity with U.S. generally accepted accounting principles.

Financial Highlights

Total assets and Deferred Outflow of Resources at year-end totaled \$19.6 million largely comprised of investments and fixed assets. This represents an increase of \$442 thousand over the prior year with an increase in Investments. Total Liabilities and Deferred Inflows total \$3.4 million comprised of bonds payable financing the investments and fixed assets and a Net Pension Liability of \$2.5 million. This is a decrease of \$1.1 million from the prior year largely due to reduced Net Pension Liability. Working capital balances are adequate to meet the operational needs of the Authority.

Operating Revenues totaled \$6.4 million, an increase of 1.2% from the prior year. Operating Expenses totaled \$5.4 million a decrease of 3.3% from the prior year. Revenues are generated largely from sewer service charges and connection charges.

Cash and Investments total \$10.2 million increased \$1.2 million or 13.0% over the prior year's total of \$9.0 million.

Bonds Payable of \$601 thousand decreased \$187 thousand due to scheduled principal payments during the year.

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 supplementary 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 budget, 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. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes to Net Position; a Statement of Cash Flows; and notes to the financial statements.

The Statement of Net Position presents the Assets, Liabilities, Deferred Inflows and Outflows of Resources and Total Net Position of the Authority on a historical cost basis. Over time, increases and decreases in the components of the Authority's Total Net Position are indicators 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 to 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.

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 Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Authority participates in the pension plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Authority employees participating in PERS (Public Employee Retirement System) be reported in the audited financial statements to promote better financial clarity. Understandably, the net pension liability of \$2,517,976, shown within non-current liabilities, is a significant amount at November 30, 2017. Notes to the Financial Statements No. 2, 10 and 11 explain pension plan accounting in greater detail.

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.

Summary of Organization and Business

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 166 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

Financial Analysis

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

Condensed Financial Statements

Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>%</u>	<u>2015</u>
<u>Assets</u>					
Current Assets	\$ 10,159,675	\$ 8,994,687	\$ 1,164,988	13.0%	\$ 8,068,114
Fixed Assets	8,598,543	8,892,856	(294,313)	-3.3%	9,089,481
Deferred Outflows	822,751	1,251,159	(428,408)	-34.2%	631,842
Total Assets and Deferred Outflow of Resources	<u>\$ 19,580,969</u>	<u>\$ 19,138,702</u>	<u>\$ 442,267</u>	<u>2.3%</u>	<u>\$ 17,789,437</u>
<u>Liabilities</u>					
Current Liabilities	\$ 261,710	\$ 297,691	\$ (35,981)	-12.1%	\$ 287,683
Bonds Payable	600,932	787,663	(186,731)	-23.7%	965,697
Net Pension Liability	2,517,976	3,591,518	(1,073,542)	-29.9%	2,889,384
Total Liabilities	<u>3,380,618</u>	<u>4,676,872</u>	<u>(1,296,254)</u>	<u>-27.7%</u>	<u>4,142,764</u>
Deferred Inflows of Resources	<u>948,227</u>	<u>278,040</u>	<u>670,187</u>	<u>241.0%</u>	<u>245,199</u>
<u>Net Position</u>					
Net Investment in Capital Assets	8,014,538	8,116,536	(101,998)	-1.3%	8,417,661
Restricted	2,143,957	2,121,581	22,376	1.1%	2,126,051
Unrestricted	5,093,629	3,945,673	1,147,956	29.1%	2,857,762
Total Net Position	<u>15,252,124</u>	<u>14,183,790</u>	<u>1,068,334</u>	<u>7.5%</u>	<u>13,401,474</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 19,580,969</u>	<u>\$ 19,138,702</u>	<u>\$ 442,267</u>	<u>2.3%</u>	<u>\$ 17,789,437</u>

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

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>%</u>	<u>2015</u>
Operating Revenues	\$ 6,424,636	\$ 6,346,240	\$ 78,396	1.2%	\$ 6,587,082
Operating Expenses	<u>5,375,490</u>	<u>5,558,147</u>	<u>(182,657)</u>	<u>-3.3%</u>	<u>5,770,250</u>
Operating Income	1,049,146	788,093	261,053	33.1%	816,832
Non Operating Revenues (Expenses)	<u>19,188</u>	<u>(5,777)</u>	<u>24,965</u>	<u>-432.1%</u>	<u>(34,769)</u>
Change in Net Position	1,068,334	782,316	286,018	36.6%	782,063
Net Position, Beginning of Year	<u>14,183,790</u>	<u>13,401,474</u>	<u>782,316</u>	<u>5.8%</u>	<u>12,619,411</u>
Net Position, End of Year	<u>\$ 15,252,124</u>	<u>\$ 14,183,790</u>	<u>\$ 1,068,334</u>	<u>7.5%</u>	<u>\$ 13,401,474</u>

Bonds Payable

The Authority issued bonds for the purpose of paying construction costs relating to the Authority's collection system. A summary of the Bonds Payable activity for the year is as follows:

Bonds Payable at November 30, 2016	\$787,662
Principal Payments on Bonds	<u>186,730</u>
Bonds Payable at November 30, 2017	<u>\$ 600,932</u>

Contacting the Authority's Management

Any questions about the Authority's report or if additional information is needed, please contact the Executive Director of The Township of Hillsborough Municipal Utilities Authority, 220 Triangle Road, Suite 234, Hillsborough, New Jersey 08844.

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Restricted Assets:		
Revenue Account:		
Cash	\$ 339,359	\$ 568,520
Investments	1,441,217	937,570
Accounts Receivable:		
Sewer Charges	268,218	232,191
Connection Charges	74,692	80,307
	<u>342,910</u>	<u>312,498</u>
Less: Allowance for Doubtful Accounts	-	-
	<u>342,910</u>	<u>312,498</u>
General Account:		
Cash	7,756	8,253
Investments	7,416,748	6,557,696
Construction Account:		
Cash	335	335
Investments	16,592	11,008
Bond Service Account:		
Cash	-	11
Investments	210,674	223,072
Bond Reserve Account:		
Investments	212,527	217,280
Renewal and Replacement Account:		
Investments	100,000	100,000
Inspection Trust Account:		
Cash	71,557	58,444
	<u>71,557</u>	<u>58,444</u>
<u>TOTAL RESTRICTED ASSETS</u>	<u>10,159,675</u>	<u>8,994,687</u>
Fixed Assets:		
Collection System	22,885,838	22,885,838
Facilities	1,855,884	1,741,367
Equipment	1,642,791	1,631,705
	<u>26,384,513</u>	<u>26,258,910</u>
Less: Accumulated Depreciation	17,785,970	17,366,054
	<u>17,785,970</u>	<u>17,366,054</u>
<u>NET FIXED ASSETS</u>	<u>8,598,543</u>	<u>8,892,856</u>
Deferred Outflow of Resources:		
Pension Related	822,751	1,251,159
	<u>822,751</u>	<u>1,251,159</u>
<u>TOTAL ASSETS</u>	<u>\$ 19,580,969</u>	<u>\$ 19,138,702</u>

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

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2017 AND 2016

<u>LIABILITIES AND NET POSITION</u>	<u>2017</u>	<u>2016</u>
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	\$ 95,434	\$ 153,080
Payroll Deductions Payable	13,123	12,009
Overpayments-Service Charges	28,602	25,610
Miscellaneous Deposits	72,724	58,444
Accrued Vacation and Sick Pay	49,624	45,660
Accrued Interest Payable	2,203	2,888
Revenue Bonds Payable-Current Portion	<u>190,271</u>	<u>186,730</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>451,981</u>	<u>484,421</u>
Noncurrent Liabilities:		
Long-Term Portion of Bonds Payable	410,661	600,933
Net Pension Liability	<u>2,517,976</u>	<u>3,591,518</u>
Total Noncurrent Liabilities	<u>2,928,637</u>	<u>4,192,451</u>
<u>TOTAL LIABILITIES</u>	<u>3,380,618</u>	<u>4,676,872</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related	<u>948,227</u>	<u>278,040</u>
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	<u>948,227</u>	<u>278,040</u>
Net Position :		
Net Investment in Capital Assets	8,014,538	8,116,536
Restricted:		
Operating Cost	1,620,756	1,581,218
Debt Service	423,201	440,363
Renewal and Replacement	100,000	100,000
Unrestricted:		
System Replacement	1,400,000	1,400,000
Capital Improvements	4,600,000	3,500,000
Rate Stabilization	1,296,605	1,264,975
Operating	<u>(2,202,976)</u>	<u>(2,219,302)</u>
<u>TOTAL NET POSITION</u>	<u>15,252,124</u>	<u>14,183,790</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u> <u>AND NET POSITION</u>	<u>\$ 19,580,969</u>	<u>\$ 19,138,702</u>

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

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
NOVEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Sewer Service Charges	\$ 5,719,986	\$ 5,624,651
Connection Charges	622,578	643,408
Inspection Fees	30,552	18,150
Plan Review Fees	1,480	2,095
Other	3,566	8,724
Interest on Delinquent Accounts	46,474	49,212
<u>Total Operating Revenues</u>	<u>6,424,636</u>	<u>6,346,240</u>
Operating Expenses:		
Operating Costs	2,079,670	2,246,794
Sewerage Treatment	2,853,330	2,822,425
Depreciation Expense	442,490	488,928
<u>Total Operating Expenses</u>	<u>5,375,490</u>	<u>5,558,147</u>
<u>Operating Income</u>	1,049,146	788,093
Non-Operating Revenue (Expense):		
Interest Income	53,016	31,221
Interest Expense	(29,864)	(37,921)
Other	(3,964)	923
	<u>19,188</u>	<u>(5,777)</u>
<u>Change in Net Position</u>	1,068,334	782,316
Net Position, Beginning of Year	<u>14,183,790</u>	<u>13,401,474</u>
Net Position, End of Year	<u>\$ 15,252,124</u>	<u>\$ 14,183,790</u>

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Sewer Service Charges	\$ 5,658,350	\$ 5,616,845
Receipts from Connection Charges	628,192	618,697
Miscellaneous Receipts	124,954	78,181
Payments to Suppliers	(4,112,697)	(4,031,074)
Payments to Employees	(847,818)	(884,967)
<u>Net Cash Provided by Operating Activities</u>	<u>1,450,981</u>	<u>1,397,682</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets	(148,177)	(298,920)
Principal Payments on Long-Term Debt	(186,731)	(178,034)
Interest Paid on Bonds	(30,549)	(37,921)
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(365,457)</u>	<u>(514,875)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	53,016	31,221
Sale/(Purchase) of Investments	(1,351,232)	(872,567)
Other Receipts/(Expenses)	(3,964)	923
<u>Net Cash Provided(Used) by Investing Activities</u>	<u>(1,302,180)</u>	<u>(840,423)</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(216,656)	42,384
Cash and Cash Equivalents, Beginning of Year	<u>635,663</u>	<u>593,279</u>
Cash and Cash Equivalents, End of Year	<u>\$ 419,007</u>	<u>\$ 635,663</u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities:		
Net Income (Loss) From Operations	\$ 1,049,146	\$ 788,093
Add Expenses Not Using Working Capital:		
Depreciation	442,490	488,928
Add (Deduct) Changes in Non-Cash Working Capital:		
Accounts Receivable	(30,412)	(5,758)
Accounts Payable	(57,646)	(3,438)
Payroll Deductions Payable	1,114	2,620
Overpayments-Service Charges	2,992	(1,539)
Miscellaneous Deposits	14,280	13,841
Accrued Vacation and Sick Pay	3,964	(923)
Net Pension Liability	25,053	115,658
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 1,450,981</u>	<u>\$ 1,397,482</u>

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(1) GENERAL

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 169 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

The service contract with the Township dated September 1, 1966 requires that service charges be sufficient to provide in each fiscal year all operating, maintenance, debt service and reserve requirements necessary to operate the system.

The service agreement further provides that the Authority will charge the Township and the Township will pay to the Authority annual charges sufficient to cover in each fiscal year any short-fall in meeting the expenses of the System (including operation and maintenance, debt service, deficits resulting from failure to receive sums due to the Authority from others, and such reserves or sinking funds as may be required or deemed desirable) out of the funds and revenues of the Authority (including service charges bond proceeds, insurance proceeds, investments proceeds, contributions and reserves on hand).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the GASB's accounting policies are described below.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include the operations of the wastewater collection system for which the Board Members of the Authority exercise financial accountability. The Board members are appointed to five-year terms by the Township of Hillsborough. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

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

Accounting and Financial Reporting for Pensions

The Authority implemented GASB 68 in the Year 2015. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

The Authority has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events.

At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Under GAAP, Authorities are required to recognize the pension liability in Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority has one item that qualifies for reporting in this category, deferred amounts related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies in this category, deferred amounts related to pension.

Cash Equivalents

Cash equivalents are stated at cost, which approximates market. The Authority considers investments with maturities of three months or less to be cash equivalents.

Investments

Investments in marketable securities and debt securities are valued at their fair values based on quoted market prices or prices which are provided by investment managers in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Authority considers all other accounts receivable to be fully collectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

Fixed Assets

Fixed assets are stated at cost which includes direct construction costs and other expenditures related to construction. Depreciation is determined on a straight-line basis, for all plant and equipment. Depreciation is provided for over the following estimated useful lives:

Collection System	20-40 years
Facilities	30 years
Machinery and Equipment	10-20 years
Computer Equipment	3-5 years
Furniture and Fixtures	10 years
Vehicles	5 years

Details of fixed assets as of November 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Collection System	\$22,885,838	\$22,885,838
Facilities	1,855,884	1,741,367
Equipment	<u>1,642,791</u>	<u>1,631,705</u>
	\$26,384,513	\$26,258,910
Less: Accumulated Depreciation	<u>17,785,970</u>	<u>17,366,054</u>
Net Fixed Assets	<u>\$8,598,543</u>	<u>\$8,892,856</u>

Management has elected not to include depreciation expense in the service charge rate structure.

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation and Sick Leave

Authority employees are granted vacation in varying amounts and earn certain sick leave time. In the event of termination, an employee is reimbursed for accumulated vacation days. All employees are eligible for the reimbursement of accumulated sick leave which is capped. Accumulated unpaid vacation and sick leave amounted to \$49,624 and \$45,660 at November 30, 2017 and 2016, respectively.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Equity is classified as net position and displayed in three components:

1. Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond resolution), grantors, or laws or regulations of other governments or b) imposed by law.
3. Unrestricted - any other net position that does not meet the definition of "restricted" or "invested in capital assets."

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

In accordance with the General Bond Resolution adopted April 26, 1983, and as amended and supplemented, including supplemental resolutions for the purpose of bond issuance, the Authority has established various cash and investment accounts with the Trustee. In addition, the resolutions provide restrictions on the use of these accounts.

1. Revenue Account

The Revenue Account is established by the Bond resolution to receive all revenues due to the Authority. Periodic withdrawals are made from the Revenue Account to each of the related accounts to provide the financial resources necessary for the other accounts to carry out their required activities. The Revenue Account is under the direct control of the Trustee for the Bondholders.

2. General Account

The General Account is established to:

- A. Provide a source of cash that could be used to increase the amount in the Bond Reserve Account so that it equals the Bond Service Account requirement.
- B. Make up deficiencies in the Bond Reserve Account and Sinking Fund Account.
- C. To permit the Authority to transfer cash to the Revenue Account or withdraw cash for any other lawful purpose.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

3. Construction Account

The Construction Account has been established to receive and disburse cash for a construction project, or projects, undertaken by the Authority. The Trustee will credit the Construction Account with cash received from the Federal Government, State Grants, proceeds from sale of bonds, insurance proceeds and cash made available by the Authority. Cash may be withdrawn by a requisition certified by the consulting engineer's certificate as to the need, receipt or performance of the items indicated in the requisition. Upon completion of the construction project, any excesses shall be transferred to:

- A. Bond Reserve Account to the extent as shall not cause the amount in the Bond Reserve Account to exceed the Bond Reserve Requirements.
- B. Renewal and Replacement Account, to the extent if any, needed to increase the amount in the Renewal and Replacement Accounts so that is equals the System Reserve Requirement.
- C. The General Account to the extent of any remaining balance of such monies.

4. Bond Service Account

The Bond Service Account is established to pay the principal and interest to the bondholders as such obligations become due. The Bond Resolution requires that the Trustee withdraw from the Revenue Account and deposit into the Bond Service Account the principal and interest requirements for the current year.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

5. Bond Reserve Account

The Bond Reserve Account is established to provide additional security to the Bondholders. This account is required to have a balance of the sum equal to the maximum annual Debt Service. In the event that the amount of the Bond Reserve Account balance exceeds the required annual Debt Service and, if the amount in the Invested Sinking Fund Account equals or exceeds the aggregate amount of all Sinking Fund installments, the Trustee shall withdraw from the Bond Reserve Account the amount of any excess and at the option of the Authority, apply the excess to the redemption of bonds or transfer such excess to the Construction Account.

6. Revolving Account for Operating Expenses

The Trustee shall pay from the Revenue Account to the Authority, upon its requisitions thereof, at one time or from time to time, a sum or sums aggregating not more than \$125,000, exclusive of and in addition to reimbursements as hereinafter in this section authorized, such sums and such reimbursements to be used by the Authority as a revolving account for the payment, in accordance with the applicable Annual Budget of Operating Expenses. Such revolving account shall be reimbursed by the Trustee from time to time for such operating expense so paid, by payments from the Revenue Account upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and the particular purpose of each payment from such revolving account for which such reimbursement is requested and certifying that each such payment was necessary for the operation, maintenance or repair of the system and was for an item of operating expenses which was provided for within the Annual Budget then applicable. In making such reimbursements, the Trustee may rely upon such requisitions and accompanying certificates.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

7. Renewal and Replacement Account

This account shall be used for:

- a. Payments to the Bond Reserve Account if the amount in the account is less than the requirements.
- b. Major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

In addition to the above, the Authority has also established the following Dedicated Accounts:

1. Inspection Trust Account deposits received from customers to assure payment of fees relative to connection inspections.
2. System Replacement Account:
This account is reserved for improvements and replacements of the system.
3. Capital Improvement:
This account is reserved for capital improvement.
4. Rate Stabilization:
This account is established as a reserve to fund future rate changes.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(3) BUDGETARY PROCEDURES

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 Director 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.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(4) CASH AND CASH EQUIVALENTS

As of November 30, 2017 and 2016, cash and cash equivalents of the Authority consisted of the following:

	<u>2017</u>	<u>2016</u>
Checking and Money Market Accounts	<u>\$419,007</u>	<u>\$635,562</u>

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), or by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. New Jersey statutes permit the deposit of public funds only in banks which meet the requirements of the Governmental Unit Deposit Protection Act or the State of New Jersey Cash Management Fund. This Act, commonly referred to as "GUDPA", requires that banks which accept public funds to be a public depository. The statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits.

The Authority does not have a policy for either credit risk or custodial credit risk. However, it is the Authority's policy only to invest with banks that are approved by the board.

The Authority does not have a policy to limit interest rate risk. Investments consist of U.S. government agency obligations.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(5) INVESTMENTS

The Authority's investments include restricted and unrestricted investments which are held by a bank or bank trust department in the Authority's name. Restricted and Unrestricted investments are summarized as follows:

<u>Restricted Investments</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
November 30, 2017:		
Federated Money Market Treasury Obligations	<u>\$9,397,758</u>	<u>\$9,397,758</u>
November 30, 2016:		
Federated Money Market Treasury Obligations	<u>\$8,046,626</u>	<u>\$8,046,626</u>

Cost of Investments approximates Fair Value due to the short-term nature of the investments.

(6) CHANGES IN FIXED ASSETS

The following is a summary of the changes in fixed assets for the period ending November 30, 2017:

	<u>Balance November 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance November 30, 2017</u>
Collection System	\$22,885,838			\$22,885,838
Facilities	1,741,367	\$114,517		1,855,884
Equipment	<u>1,631,705</u>	<u>33,660</u>	<u>\$(22,574)</u>	<u>1,642,791</u>
	\$26,258,910	\$148,177	\$(22,574)	\$26,384,513
Less: Accumulated Depreciation	<u>17,366,054</u>	<u>442,490</u>	<u>(22,574)</u>	<u>17,785,970</u>
	<u>\$ 8,892,856</u>	<u>\$(294,313)</u>	<u>\$ -0-</u>	<u>\$ 8,598,543</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(7) BONDS PAYABLE

The indebtedness of the Authority and its operations are pursuant to the general bond resolution adopted April 26, 1983, as amended and supplemented, including supplemental resolutions.

For the purpose of paying construction costs relating to the Authority's collection system, the Authority has issued the following bonds:

1. 1983 Revenue Bonds - Series A, \$5,000,000
As of November 30, 2017, none of these bonds were outstanding.
2. Revenue Bonds - Series 1986, \$4,000,000
As of November 30, 2017, none of these bonds were outstanding.
3. Revenue Bonds - Series 1995, \$3,000,000
As of November 30, 2017, none of these bonds were outstanding.

For the purpose of reducing interest expense, the Authority on October 4, 2006 advance refunded \$2,115,000 Revenue Refunding Bonds – Series 1995 by issuing \$2,147,176 Revenue Refunding Bonds – Series 2006. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an irrevocable escrow fund managed by a trustee. The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the Revenue Refund Bonds – Series 1995.

Since the Revenue Refunding Bonds – Series 1995 are fully secured by the escrowed securities; they are not regarded as direct obligations of the Authority.

As of November 30, 2017, \$600,932 of the Revenue Refunding Bonds – Series 2006 was outstanding.

The following schedule sets forth the principal payment requirement for the next three years:

2018	\$190,271
2019	198,700
2020	<u>211,961</u>
	<u>\$600,932</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(8) ACCRUED VACATION AND SICK LEAVE

Certain employees are permitted to accrue unused vacation and sick leave. The Authority estimates its liability for such accrued time at November 30, 2017 and 2016 to be as follows:

	<u>2017</u>	<u>2016</u>
Vacation Pay	\$11,305	\$ 9,372
Sick Pay	<u>38,319</u>	<u>36,288</u>
	<u>\$49,624</u>	<u>\$45,660</u>

(9) NET POSITION

The components of net position as of November 30 are as follows:

	<u>2017</u>	<u>2016</u>
Net Position:		
Net Investment in Capital Assets	\$8,014,538	\$ 8,116,536
Restricted:		
Operating Cost	1,620,756	1,581,218
Debt Service	423,201	440,363
Renewal and Replacement	<u>100,000</u>	<u>100,000</u>
Total Restricted	\$2,143,957	\$ 2,121,581
Unrestricted:		
System Replacement	\$ 1,400,000	\$ 1,400,000
Capital Improvements	4,600,000	3,500,000
Rate Stabilization	1,296,605	1,264,975
Net Pension Liability	<u>(2,202,976)</u>	<u>(2,219,302)</u>
Total Unrestricted	<u>5,093,629</u>	<u>3,945,673</u>
	<u>\$15,252,124</u>	<u>\$14,183,790</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(10) PENSION AND RETIREMENT PLAN

All required full-time employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes financial statements and required supplementary information for the system. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or online at www.state.nj.ustreasury/pensions.

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provision of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

The Defined Contribution Retirement Program (DCRP) was established under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage to elected and certain appointed officials and part-time employees, effective July 1, 2007. Part-time employees that earn an annual salary of at least \$5,000 and work less than 35 hours per week are eligible to enroll in the New Jersey Defined Contribution Plan (DCRP). The DCRP is offered through the Prudential Retirement Insurance and Annuity Company. Employees contribute 5.5% of salary and the Authority contributes 3% of salary. Membership is mandatory for such individuals with vesting occurring after one year of membership.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(10) PENSION AND RETIREMENT PLAN (CONTINUED)

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS was changed. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30-year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PFRS), the UAAL will be amortized over a closed 30-year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20-year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by N.J.S.A. 43:15A and 43.3B. All benefits vest after ten years of service, except for post-retirement healthcare benefits that vest after 25 years of service.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts

Contribution Requirements

The contribution policy is set by N.J.S.A. 43:15A, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Effective June 28, 2011, P.L. 2011, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for PERS.

Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(10) PENSION AND RETIREMENT PLAN (CONTINUED)

Contribution Requirements (Continued)

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. The Authority was required to contribute \$100,206 to the plan for the year ended November 30, 2017 and \$107,730 for the year ended November 30, 2016.

Five Year Trend Information for PERS

Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2017	\$100,206	100%	\$100,206
2016	\$107,730	100%	\$107,730
2015	\$110,660	100%	\$110,660
2014	\$116,425	100%	\$116,425
2013	\$106,830	100%	\$106,830

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 "Accounting and Financial Reporting for Public Employees Pensions" and is effective for fiscal years beginning after June 15, 2014. This statement requires the State of New Jersey to calculate and allocate, for note disclosure purposes only, the unfunded net pension liability of Public Employees Retirement System (PERS) of the participating Authority as of December 31, 2017. The statement does not alter the amounts of funds that must be budgeted for pension payments under existing state law.

At June 30, 2017, the State reported a net pension liability of \$2,517,976 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.0108167892 percent, which was a decrease of 0.0013097002 percent from its proportion measured as of June 30, 2016.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

For the year ended June 30, 2017, the State recognized an actuarially determined pension expense of \$117,733 for the Authority's proportionate share of the total pension expense. The pension expense recognized in the Authority's financial statement based on the April 1, 2017 billing was \$107,730.

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>
Differences between expected and actual experience		\$59,290
Changes of assumptions	\$505,426	507,285
Net difference between projected and actual earnings on pension plan investments		17,146
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>442,801</u>	<u>138,824</u>
	<u>\$948,227</u>	<u>\$722,545</u>

Other local amounts reported by the State as the Authority's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the State's actuarially calculated pension expense as follows:

Year Ended	
<u>June 30</u>	<u>Amount</u>
2018	\$ (8,980)
2019	(8,980)
2020	(8,980)
2021	(111,757)
2022	<u>(86,986)</u>
	<u>\$(225,683)</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Inflation	2.25 Percent	3.08 Percent
Salary Increases (based on age):		
Though 2026	1.65-4.15 Percent	1.65-4.15 Percent
Thereafter	2.65-5.15 Percent	2.65-5.15 Percent
Investment Rate of Return	7.00 Percent	7.65 Percent

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

In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017 and 7.65 at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2017</u>	
	<u>Target</u>	<u>Long-Term</u>
	<u>Allocation</u>	<u>Expected Real</u>
		<u>Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U. S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
US Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65%, and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, 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 projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2017 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2017		
	1% Decrease <u>4.00%</u>	At Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Authority's proportionate share of the pension liability	\$3,123,720	\$2,517,976	\$2,013,316

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS):

(12) POST-RETIREMENT HEALTH BENEFITS

The Authority provides post-retirement health benefits to all employees who retire with 25 years or more of service. There are currently eight (7) retirees who meet this requirement and are receiving benefits. In addition, there are two (2) employees who are eligible upon their retirement.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the 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>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's contributions to SHBP for the years ended November 30, 2017 and 2016 were \$126,176 and \$142,691, respectively, which equaled the required contributions for each year.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(13) INSURANCE

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (JIF).

The Fund was created on September 15, 1991, in accordance with P.L. 1983, C. 372, entitled "An act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of "Title 40A of the New Jersey statutes." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

The following coverage's are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability other than Motor Vehicles
- c. Property Damage other than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability
- f. Public Officials
- g. Employment Practices Liability

The Joint Insurance Fund is also a member of The Municipal Excess Liability Joint Insurance Fund which provides excess coverage.

A participating utility authority must remain in the Fund for the full term of membership unless earlier terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for non-payment of assessments or continued non-compliance after written notice to comply with the by-laws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's by-laws.

(14) DEVELOPERS' DEPOSITS

The balances for deposits received from developers for tie-in charges, application review costs, performance guarantees and inspection fees at November 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Revenue Fund:		
Application Review Costs	\$ -0-	\$ -0-
Inspection Trust Account	<u>71,557</u>	<u>58,444</u>
	<u>\$ 71,557</u>	<u>\$ 58,444</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2017 AND 2016

(15) SUBSEQUENT EVENTS

The Township of Hillsborough Municipal Utilities Authority has evaluated subsequent events occurring after the financial statement date through May 31, 2018, which is the date the financial statements were available to be issued. Based on this evaluation, the Township of Hillsborough Municipal Utilities Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

(16) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2017, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

Fiscal Year Ending <u>June 30,</u>	Authority's Proportion Share of the Net Pension <u>Liability (Asset)</u>		Authority's Proportionate Share of the Net Pension <u>Liability (Asset)</u>		Authority's Covered-Employee <u>Payroll</u>	Authority's Proportion Share of the Net Pension Liability (Asset) as a percentage of it's Covered- <u>Employee Payroll</u>	Plan Fiduciary Net Position as a percentage of the total <u>Pension Liability</u>
2014	0.0141226391%	\$	1,644,144	\$	1,037,476	158.48%	40.71%
2015	0.0128714559%	\$	2,889,384	\$	787,641	366.84%	42.74%
2016	0.0121264894%	\$	3,591,518	\$	885,867	405.42%	42.32%
40 2017	0.0108167892%	\$	2,517,976	\$	851,782	295.61%	42.32%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Contractually</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Contractually</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Authority's</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>	<u>Contributions as</u> <u>a Percentage of</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>
2014	\$ 116,425	\$ 116,425	\$ -0-	\$ 1,037,476	11.22%
2015	\$ 110,660	\$ 116,425	\$ -0-	\$ 787,641	14.78%
2016	\$ 107,730	\$ 107,730	\$ -0-	\$ 885,867	12.16%
2017	\$ 100,206	\$ 100,206	\$ -0-	\$ 851,782	11.76%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)
NOTE TO RSI III
FOR THE YEAR ENDED NOVEMBER 30, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (2.85%) to the current measurement date (3.58%), resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
NOVEMBER 30, 2017

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	<u>UNRESTRICTED</u>	<u>SYSTEM REPLACEMENT</u>	<u>OPERATING COST</u>	<u>DEBT SERVICE</u>	<u>RENEWAL AND REPLACEMENT</u>	<u>CAPITAL IMPROVEMENTS</u>	<u>RATE STABILIZATION</u>	<u>TOTAL</u>
Operating Revenues:								
Sewer Service Charges	\$ 5,719,986	\$	\$	\$	\$	\$	\$	\$ 5,719,986
Connection Charges	622,578							622,578
Inspection Fees	30,552							30,552
Plan Review Fees	1,480							1,480
Other	3,566							3,566
Interest on Delinquent Accounts	46,474							46,474
<u>Total Operating Revenues</u>	<u>6,424,636</u>							<u>6,424,636</u>
Operating Expenses:								
Operating Costs	2,079,670							2,079,670
Sewerage Treatment	2,853,330							2,853,330
Depreciation Expense	442,490							442,490
<u>Total Operating Expenses</u>	<u>5,375,490</u>							<u>5,375,490</u>
Operating Income	<u>1,049,146</u>							<u>1,049,146</u>
Non-Operating Revenue (Expense):								
Interest Income	51,050			1,602	364			53,016
Interest Expense	(29,864)							(29,864)
Other	(3,964)							(3,964)
	<u>17,222</u>			<u>1,602</u>	<u>364</u>			<u>19,188</u>
Net Income (Loss) Before Transfers	1,066,368			1,602	364			1,068,334
Transfers:								
Interest Income	1,154			(790)	(364)			
Interfunds	(1,153,194)		39,538	(17,974)		1,100,000	31,630	
Increase (Decrease) in Net Position	(85,672)		39,538	(17,162)		1,100,000	31,630	1,068,334
Net Position, Beginning of Year	<u>5,897,234</u>	<u>1,400,000</u>	<u>1,581,218</u>	<u>440,363</u>	<u>100,000</u>	<u>3,500,000</u>	<u>1,264,975</u>	<u>14,183,790</u>
Net Position, End of Year	\$ <u>5,811,562</u>	\$ <u>1,400,000</u>	\$ <u>1,620,756</u>	\$ <u>423,201</u>	\$ <u>100,000</u>	\$ <u>4,600,000</u>	\$ <u>1,296,605</u>	\$ <u>15,252,124</u>

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2017

	TOTAL	REVENUE ACCOUNT	GENERAL ACCOUNT	CONSTRUCTION ACCOUNT	BOND SERVICE ACCOUNT	BOND RESERVE ACCOUNT	RENEWAL AND REPLACEMENT ACCOUNT	INSPECTION TRUST ACCOUNT
Balance, December 1, 2016	\$ 8,682,188	\$ 1,506,089	\$ 6,565,949	\$ 11,343	\$ 223,083	\$ 217,280	\$ 100,000	\$ 58,444
Increased by:								
Sewer Service Charges	5,658,350	5,658,350						
Sewer Connection Charges	628,192	628,192						
Interest on Investments	53,054	4,396	46,614	41	811	790	364	38
Interest on Delinquent Accounts	46,474	46,474						
Service Charges Overpaid	28,602	28,602						
Plan Review Fees	30,552	30,552						
Inspection Fees	972	972						
Developers Deposits	50,074	6,447						43,627
Miscellaneous	3,571	3,571						
Interfunds	1,169,721	-	960,119	5,543	204,059			
	<u>7,669,562</u>	<u>6,407,556</u>	<u>1,006,733</u>	<u>5,584</u>	<u>204,870</u>	<u>790</u>	<u>364</u>	<u>43,665</u>
Total	16,351,750	7,913,645	7,572,682	16,927	427,953	218,070	100,364	102,109
Decreased by:								
Accounts Payable	45,350	45,350						
Operating Expenses	4,923,907	4,923,907						
Interest on Bonds	30,549				30,549			
Sewerage System Costs	148,177		148,177					
Bonds Redeemed	186,730				186,730			
Inspection Costs	30,552							30,552
Interfunds	1,169,721	1,163,814	-			5,543	364	
Total	<u>6,534,986</u>	<u>6,133,071</u>	<u>148,177</u>	<u>-</u>	<u>217,279</u>	<u>5,543</u>	<u>364</u>	<u>30,552</u>
Balance, November 30, 2017	<u>9,816,764</u>	<u>1,780,574</u>	<u>7,424,505</u>	<u>16,927</u>	<u>210,674</u>	<u>212,527</u>	<u>100,000</u>	<u>71,557</u>
Cash	419,007	339,359	7,756	335				71,557
Investments	9,397,757	1,441,216	7,416,748	16,592	210,674	212,527	100,000	
	<u>\$ 9,816,764</u>	<u>\$ 1,780,575</u>	<u>\$ 7,424,504</u>	<u>\$ 16,927</u>	<u>\$ 210,674</u>	<u>\$ 212,527</u>	<u>\$ 100,000</u>	<u>\$ 71,557</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2017

	2017 ADOPTED BUDGET	2017 ACTUAL	2016 ACTUAL
<u>REVENUE</u>			
Sewer Service Charges	\$ 5,646,725	\$ 5,719,986	\$ 5,624,651
Connection Charges	275,000	622,578	643,408
Interest Income	28,000	4,396	674
Inspection Fees	25,000	30,552	18,150
Plan Review Fees	2,000	1,480	2,095
Miscellaneous	5,000	3,566	8,724
Interest on Delinquent Accounts	50,000	46,474	49,212
Unrestricted Net Assets	293,148	-	-
	<u>6,324,873</u>	<u>6,429,032</u>	<u>6,346,914</u>
<u>TOTAL REVENUE</u>			
<u>OPERATING EXPENSES</u>			
Administrative:			
Salaries and Wages	390,000	214,677	228,866
Office Rent and Overhead	70,000	71,182	68,659
Equipment Service and Maintenance	35,000	28,494	21,002
Postage	24,000	23,108	22,093
Printing and Stationery Supplies	15,000	11,777	7,071
Dues, Subscriptions, Tuition and Seminars	25,000	8,373	8,834
Trustee Fees and Expenses	12,000	2,200	2,203
Miscellaneous	7,500	3,725	3,274
System Operating Expense:			
Salaries and Wages	622,000	637,105	657,001
Utilities	195,000	143,225	134,468
Service, Repairs and Replacements	100,000	100,695	88,534
Vehicle Operation and Maintenance	43,000	27,519	29,259
Tools, Materials and Supplies	42,000	26,845	24,567
State Mandated Programs-Permits	6,000	2,660	4,472
Bioxide	60,000	33,612	38,505
Professional Services:			
Legal	6,000	6,000	6,000
Financial	15,500	15,000	14,400
Engineering	15,000	11,464	6,592
Operations Consulting	82,000	77,354	72,294
Insurance and Bonding:			
Group Insurance Plan for Employees	541,594	426,050	445,012
Other Insurance and Bond Premiums	63,000	58,759	57,910
Statutory Expenditures:			
Social Security	95,000	66,276	68,228
Disability/Unemployment Insurance	8,000	3,466	3,721
Public Employees' Retirement System	135,000	112,197	114,485
	<u>2,607,594</u>	<u>2,111,765</u>	<u>2,127,450</u>
<u>TOTAL</u>	<u>\$ 2,607,594</u>	<u>\$ 2,111,765</u>	<u>\$ 2,127,450</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2017

	2017 ADOPTED BUDGET	<u>2017 ACTUAL</u>	<u>2016 ACTUAL</u>
Sewerage Treatment - Somerset-Raritan Valley Sewerage Authority	\$ 3,500,000	\$ 2,853,330	\$ 2,822,425
<u>TOTAL OPERATING EXPENSES</u>	<u>6,107,594</u>	<u>4,965,095</u>	<u>4,949,875</u>
<u>OTHER COSTS</u>			
Principal on Bonds	186,730	186,730	178,034
Interest Expense	30,549	29,864	38,574
	<u>217,279</u>	<u>216,594</u>	<u>216,608</u>
<u>TOTAL COSTS FUNDED BY OPERATING REVENUES</u>	<u>\$ 6,324,873</u>	<u>\$ 5,181,689</u>	<u>\$ 5,166,483</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF BONDS PAYABLE
NOVEMBER 30, 2017

<u>YEAR</u>	<u>TOTAL</u>	<u>INTEREST RATE</u>	<u>REVENUE REFUNDING BONDS SERIES 2006</u>
2018	\$ 190,272	4.40%	\$ 190,271
2019	198,700	4.40%	198,700
2020	<u>211,961</u>	4.40%	<u>211,961</u>
	<u>\$ 600,933</u>		<u>\$ 600,932</u>

SCHEDULE 5

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF SEWER CHARGES RECEIVABLE
NOVEMBER 30, 2017

Balance, December 1, 2016		\$	232,191
Increased by:			
2017 Charges			<u>5,719,986</u>
			5,952,177
Decreased by:			
Collected	\$	5,658,350	
Overpayments Applied		<u>25,609</u>	
			<u>5,683,959</u>
Balance, November 30, 2017		\$	<u><u>268,218</u></u>

SCHEDULE 6

SCHEDULE OF SEWER CONNECTION CHARGES RECEIVABLE
NOVEMBER 30, 2017

Balance, December 1, 2016		\$	80,307
Increased by:			
2017 Charges			<u>622,578</u>
			702,885
Decreased by:			
Collected			<u>628,192</u>
Balance, November 30, 2017		\$	<u><u>74,692</u></u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOVEMBER 30, 2017

GENERAL COMMENTS AND RECOMMENDATIONS

NONE