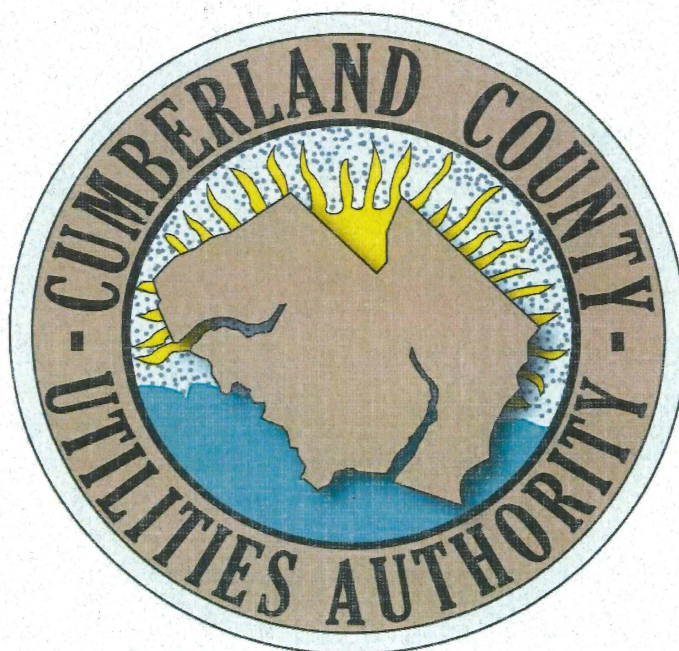


CUMBERLAND COUNTY UTILITIES AUTHORITY

AUDIT REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016



Romano, Hearing, Testa & Knorr
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

CUMBERLAND COUNTY UTILITIES AUTHORITY
AUDIT REPORT
YEARS ENDED DECEMBER 31, 2017 AND 2016

**CUMBERLAND COUNTY UTILITIES AUTHORITY
 AUDIT REPORT
 YEARS ENDED DECEMBER 31, 2017 AND 2016
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INDEPENDENT AUDITORS' REPORT

Chairman and Commissioners of the
Cumberland County Utilities Authority
Bridgeton, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the Cumberland County Utilities Authority as of and for the years ended December 31, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cumberland County Utilities Authority as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows 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, schedule of proportionate share of net pension liability and schedule of employer contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cumberland County Utilities Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary schedules as listed in the table of contents and the schedule of expenditures of federal awards 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 supplementary schedules and the schedule of expenditures of federal awards as listed in the table of contents 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 June 7, 2018 on our consideration of the Cumberland County 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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cumberland County Utilities Authority's internal control over financial reporting and compliance.

ROMANO, HEARING, TESTA & KNORR

A handwritten signature in blue ink that reads "Romano, Hearing, Testa & Knorr". The signature is written in a cursive, flowing style.

Certified Public Accountants

June 7, 2018

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

Chairman and Commissioners of the
Cumberland County Utilities Authority
Bridgeton, 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; and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Cumberland County Utilities Authority, as of and for the years ended December 31, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Cumberland County Utilities Authority's basic financial statements, and have issued our report thereon dated June 7, 2018.

Internal Control Over Financial Reporting

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

Internal Control Over Financial Reporting (Continued)

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

ROMANO, HEARING, TESTA & KNORR

A handwritten signature in blue ink that reads "Romano, Hearing, Testa & Knorr". The signature is written in a cursive, flowing style.

Certified Public Accountants

June 7, 2018

**REQUIRED SUPPLEMENTARY INFORMATION
PART I**



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Cumberland County Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's overall financial position and results of operations for the year that ended on December 31, 2017. Please read it in conjunction with the financial statements, which follow this section.

AUTHORITY OVERVIEW

The Authority was founded for the purpose of protecting and preserving the area's vital environment for current and future generations and by so doing ensure a healthy ecology, a robust economy and a high quality of life for our citizens.

The skilled and dedicated men and women at the Authority accomplish this by effectively collecting and treating wastewater from our service areas' customers and then recycling safe, clean water back into the natural ecosystem.

Our philosophy is to never lose sight of those who we are committed to serve; residents, businesses, and public institutions located within our service region.

All of the plans, improvements and system changes are made to ensure that we continue to meet or surpass all mandated federal and state regulations and standards, and to operate the Authority at as low a cost to our customers as possible.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority is a corporate public body originally created by resolution of the Board of Chosen Freeholders of Cumberland County adopted November 11, 1971, under Chapter 123 of the Laws of 1946 of the State of New Jersey and reorganized on April 13, 1978 under P.L. 1977 Chapter 384, and the Sewerage Authorities Law, constituting Chapter 38 of the Pamphlet Laws of 1946 of the State as amended.

The Authority is authorized to design, finance, construct, acquire, maintain, and operate a district sewer system for the purpose of relief of waters in or bordering within the county from pollution or threatened pollution from causes arising within Cumberland County.

The Authority is governed by seven Commissioners who are appointed by the Board of Chosen Freeholders of Cumberland County. All Members of the Authority are appointed to five-year terms. The Authority is administered by the Director appointed by the Members and directly responsible to them. The Authority has approximately 32 employees.

The Authority has no power to levy or collect taxes. Operation and maintenance costs are funded from service fees and other charges. The acquisition and construction of capital assets are funded by operating revenue, net position, wastewater revenue bonds, New Jersey Environmental Infrastructure Trust Financing Program loans and Federal and State grants, when available.

RESPONSIBILITY AND CONTROLS

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial condition is strong. The stringent financial policies and guidelines set by the Board of Commissioners and Management, with the adoption of the Cash Management and Investment Policy and the Five-Year Capital Improvement Plan in particular, add to the financial strength of the Authority. The following are key financial highlights for 2017 and 2016:

- During 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68)* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 (GASB 71)*. The notes to the financial statements provide a more thorough discussion of the implementation of GASB 68 and 71 and the effects to the financial statements.
- For fiscal years 2017 and 2016, the Authority treated flow from Customers of 1,241.37 and 1,271.30 million gallons of wastewater, respectively. Treatment Fees from Customers increased approximately 1.57 % for the fiscal year 2017 as compared to 2016.

- Septage fees decreased 7% for the fiscal year 2017 as compared to 2016 primarily due to a decrease in the volume of wastewater delivered in by individual haulers.
- Operating expenses decreased approximately \$266,000 in fiscal year 2017 as compared to 2016. This can be attributed to a decrease in administrative and operation salaries due to retirements and a decrease in sludge/waste/recycling disposal.
- Net position increased approximately \$930,000 and \$884,000 for the years ended December 31, 2017 and 2016, respectively.

AUDIT ASSURANCE

The unmodified opinion of our independent external auditors, Romano, Hearing, Testa & Knorr, is included in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a single enterprise fund. The Authority's Audit Report includes the required Basic Financial Statements, as described below, the Notes to Financial Statements, required supplementary information, which consists of this Management Discussion and Analysis and required pension schedules, and finally, supplementary information.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The **Statement of Net Position** includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the **Statement of Revenues, Expenses, and Changes in Net Position**. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its wastewater treatment user fees and other charges. This statement also measures the Authority's profitability and credit worthiness. The other required financial statement is the **Statement of Cash Flows**. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them.

You can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The Authority's total net position increased from last year by \$930,000. The analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year.

				2017-2016 Increase(Decrease)	
	2017	2016	2015	\$	%
Current Assets	\$ 12,313	\$ 8,252	\$ 9,332	\$ 4,061	49.21%
Noncurrent Assets	<u>15,204</u>	<u>17,749</u>	<u>15,795</u>	<u>(2,545)</u>	(14.34)%
Total Assets	<u>27,517</u>	<u>26,001</u>	<u>25,127</u>	<u>1,516</u>	5.83%
Deferred Loss on Defeasance of Debt	31	33		(2)	(6.06)%
Deferred Amount Relating to Pensions	<u>1,601</u>	<u>2,211</u>	<u>1,066</u>	<u>(610)</u>	(27.59)%
Total Deferred Outflows of Resources	<u>1,632</u>	<u>2,244</u>	<u>1,066</u>	<u>(612)</u>	(27.27)%
Current Liabilities	1,197	2,392	1,704	(1,195)	(49.96)%
Long-Term Liabilities	<u>11,842</u>	<u>11,818</u>	<u>11,322</u>	<u>496</u>	0.20%
Total Liabilities	<u>13,039</u>	<u>14,210</u>	<u>13,026</u>	<u>(1,171)</u>	(8.24)%
Deferred Amount Relating to Pensions	<u>1,219</u>	<u>74</u>	<u>91</u>	<u>1,145</u>	1547.3%
Total Deferred Inflows of Resources	<u>1,219</u>	<u>74</u>	<u>91</u>	<u>1,145</u>	1547.3%
Net Investment in Capital Assets	8,525	9,236	9,080	(711)	(7.70)%
Restricted Net Position	1,940	2,054	2,217	(114)	(5.60)%
Unrestricted Net Position	<u>4,425</u>	<u>2,670</u>	<u>1,779</u>	<u>1,755</u>	65.73%
Total Net Position	<u>\$ 14,890</u>	<u>\$ 13,960</u>	<u>\$ 13,076</u>	<u>\$ 930</u>	6.65%

The increase in current assets is primarily the net result of the increase in investments and decrease in accounts receivable and inventory.

The decrease in noncurrent assets is the net result of the decrease in investments and increase in net capital assets.

The decrease in current liabilities includes decreases in due to users, and a short-term construction loan from the New Jersey Environmental Infrastructure Trust (NJEIT).

The increase in long-term liabilities is due to the net of the increase in principal payments on bonds and loans payable and the decrease in net pension liability.

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

Table 2
Statement of Revenues, Expense and Changes in Net Position
(Dollars in Thousands)

	2017	2016	2015	2017-2016 Increase(Decrease)	
				\$	%
Operating Revenue					
Treatment Fees	\$ 6,497	\$ 6,396	\$ 6,476	\$ 101	1.58%
Septage Fees	397	425	390	(28)	(6.59)%
Other Operating	63	364	163	(301)	(82.69)%
Nonoperating Revenue	95	69	76	26	37.68%
Total Revenue	<u>7,051</u>	<u>7,254</u>	<u>7,105</u>	<u>(203)</u>	<u>(2.80)%</u>
Operating Expenses					
Cost of Providing Services	3,631	3,718	3,470	(87)	(2.34)%
Administrative and General	1,317	1,503	1,255	(185)	(12.38)%
Depreciation	1,021	1,014	990	7	0.69%
Non Operating Expense					
Interest	88	131	215	(43)	(32.82)%
Other Non Operating	63	3		60	2000.0%
Total Expenses	<u>6,121</u>	<u>6,369</u>	<u>5,930</u>	<u>(248)</u>	<u>(3.89)%</u>
Change in Net Position	930	885	1,175	45	5.08%
Beginning Net Position	13,961	13,076	11,901	885	6.77%
Ending Net Position	<u>\$ 14,891</u>	<u>\$ 13,961</u>	<u>\$ 13,076</u>	<u>\$ 930</u>	<u>6.66%</u>

REVENUES

The Authority's total revenues are approximately \$7.051 million for the year ended December 31, 2017 as compared to \$7.254 million for the year ended December 31, 2016. Treatment Fees were \$6.497 million, accounting for 92% of total revenue.

EXPENSES

Operating expenses of \$5.970 million for the year ended December 31, 2017 decreased \$.265 million or 4% from operating expenses of \$6.235 million for the year ended December 31, 2016 primarily due to the decrease in employee salaries, employee benefits (pension related) and sludge/waste disposal.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 2017, the Authority had \$14.749 million invested in a broad range of capital assets. More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year was \$1.021 million.

The following table summarizes the Authority's capital assets, net of accumulated depreciation, and changes therein, for the years ended December 31, 2017 and 2016.

Table 3
Capital Assets, Net of Accumulated Depreciation
(Dollars in Thousands)

	2017	2016	2017-2016 Increase(Decrease)	
			\$	%
Land	\$ 1,135	\$ 1,135	\$ -	
Land Improvements	58	64	(6)	(9.38)%
Treatment Plant and Facilities	8,071	8,532	(461)	(5.40)%
Pumping Stations and Interceptors	2,486	2,636	(150)	(5.69)%
Machinery and Equipment	986	1,032	(46)	(4.46)%
Vehicles	387	375	12	3.20%
Office Equipment	26	16	10	62.50%
Construction in Progress	1,600	390	1210	310.26%
Total	\$ <u>14,749</u>	\$ <u>14,180</u>	\$ <u>569</u>	4.01%

The Authority's fiscal year 2018 capital budget plans for investing another \$724,000 in capital projects, including:

Plant/Motor/Pump Replacement	\$ 514
Buildings, Grounds and Vehicles	<u>210</u>
Total	<u>\$ 724</u>

The Authority plans to fund the above capital projects from year 2018 revenue and unrestricted net position.

DEBT ADMINISTRATION

At December 31, 2017, the Authority had several outstanding bond issues and loans payable in the amount of \$6,285,820 that will mature in various amounts through the year 2032 with interest rates ranging from 3.0% to 5.0%.

NEXT YEAR'S BUDGETS AND RATES

The Authority has adopted appropriate strategic operating, finance and capital improvement plans to ensure that the Authority will continue to provide the residents of our operating area with an exemplary level of service while maintaining reasonable rates. The Authority's 2018 Operating Budget reflects a 0.18% increase from the 2017 Amended Budget. The Authority plans to fund the capital expenditures of \$724,000 from year 2018 revenue and unrestricted net position. The proposed budget reflects a 2% rate increase to the Users. Growth within our service area has stalled and the 2018 Budget was developed to work within those limitations.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Authority's customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Authority's Director at the Cumberland County Utilities Authority, 333 Water Street, Bridgeton, New Jersey 08302.

BASIC FINANCIAL STATEMENTS

**CUMBERLAND COUNTY UTILITIES AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS - UNRESTRICTED:		
Cash and Cash Equivalents	\$ 2,596,503	\$ 2,557,552
Investments	2,981,155	871,654
Accounts Receivable	39,622	212,069
Interest Receivable	30,361	29,398
Prepaid Expenses	365	500
Inventory	45,715	73,957
	<u>5,693,721</u>	<u>3,745,130</u>
CURRENT ASSETS- RESTRICTED:		
Accounts Required by the Authority's Bond Resolutions:		
Cash and Cash Equivalents	1,054,953	1,059,749
Investments	1,472,928	1,135,319
Interest Receivable	18,307	15,740
Other Restricted Accounts:		
Cash and Cash Equivalents	108,994	15,439
Investments	2,274,462	1,733,109
Due from Unrestricted Assets	31,861	100,216
Interest Receivable	32,379	23,351
Due from New Jersey Environmental Infrastructure Trust	1,625,569	424,112
	<u>6,619,453</u>	<u>4,507,035</u>
NONCURRENT ASSETS:		
Investments - Unrestricted		2,065,144
Investments - Required by Authority's Bond Resolutions	131,160	766,066
Investments - Other Restricted Accounts	323,384	736,807
Capital Assets, Net	14,748,799	14,180,329
	<u>15,203,343</u>	<u>17,748,346</u>
TOTAL ASSETS	<u>27,516,517</u>	<u>26,000,511</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Loss on Defeasance of Debt	30,781	33,247
Deferred Amount Relating to Pensions	1,600,813	2,210,889
	<u>1,631,594</u>	<u>2,244,136</u>

(Continued)

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

**CUMBERLAND COUNTY UTILITIES AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
LIABILITIES		
CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS:		
Accounts Payable - Operations	\$ 155,835	\$ 186,688
Due to Restricted Assets	31,861	100,216
Due to Users		132,844
Accrued Liabilities	<u>294,678</u>	<u>280,085</u>
Total Current Liabilities Payable From Unrestricted Assets	<u>482,374</u>	<u>699,833</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction Contracts Payable	53,744	25,637
Retainage Payable		931
Loans Payable - NJEIT Interim Financing Program		424,112
Sewer Revenue Bonds Payable - Current Portion	255,000	890,000
New Jersey Environmental Infrastructure Trust Loans Payable - Current Portion	355,221	289,354
Sensor Escrow	7,000	7,000
Accrued Interest Payable - Bonds and Loans	<u>43,270</u>	<u>55,227</u>
Total Current Liabilities Payable From Restricted Assets	<u>714,235</u>	<u>1,692,261</u>
LONG-TERM LIABILITIES:		
Sewer Revenue Bonds Payable	849,758	1,104,699
New Jersey Environmental Infrastructure Trust Loans Payable	5,009,504	3,218,613
Net Pension Liability	5,784,112	7,321,457
Accrued Liabilities - Related to Pensions	115,093	109,806
Accrued Compensated Absences	<u>83,688</u>	<u>62,947</u>
Total Long-Term Liabilities	<u>11,842,155</u>	<u>11,817,522</u>
TOTAL LIABILITIES	<u>13,038,764</u>	<u>14,209,616</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred Amount Relating to Pensions	<u>1,219,138</u>	<u>74,388</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,219,138</u>	<u>74,388</u>
NET POSITION:		
Net Investment in Capital Assets	8,525,195	9,235,789
Restricted:		
Current Debt Service	453,255	1,076,520
Future Debt Service	478,465	323,478
Renewal and Replacement	600,000	600,000
Construction	408,347	55,009
Unrestricted	<u>4,424,947</u>	<u>2,669,847</u>
TOTAL NET POSITION	<u>\$14,890,209</u>	<u>\$13,960,643</u>

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

**CUMBERLAND COUNTY UTILITIES AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE:		
Treatment Fees	\$ 6,447,099	\$ 6,347,649
User Surcharge Revenue	49,627	48,447
Septage Fees	396,742	425,170
Service Fees	2,630	3,993
Finance Charges	1,047	2,052
Industrial Pretreatment Program Revenue	21,000	260,500
Connection Fees	23,680	47,360
Other Operating Income	14,321	49,492
	<u>6,956,146</u>	<u>7,184,663</u>
OPERATING EXPENSES:		
Cost of Providing Services	3,631,446	3,718,157
Administrative and General	1,317,485	1,502,605
Depreciation	1,021,146	1,013,934
	<u>5,970,077</u>	<u>6,234,696</u>
OPERATING INCOME	<u>986,069</u>	<u>949,967</u>
NON-OPERATING REVENUE (EXPENSES):		
Interest Income	139,279	128,976
Interest Expense	(87,812)	(131,098)
Debt Issuance Costs	(63,311)	(2,885)
Gain on Disposal of Capital Assets	7,983	
Realized Loss on Investments	(39,928)	(102,186)
Increase/(Decrease) in Fair Value of Investments	(12,714)	42,025
	<u>(56,503)</u>	<u>(65,168)</u>
CHANGE IN NET POSITION	929,566	884,799
TOTAL NET POSITION-BEGINNING	<u>13,960,643</u>	<u>13,075,844</u>
TOTAL NET POSITION-ENDING	<u>\$ 14,890,209</u>	<u>\$ 13,960,643</u>

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

**CUMBERLAND COUNTY UTILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers and Users	\$6,981,428	\$7,088,671
Cash Payments to Suppliers for Goods and Services	(1,772,694)	(1,706,317)
Cash Payments for Employee Services	(2,918,892)	(2,967,392)
Other Receipts (Payments)	<u>12,602</u>	<u>44,732</u>
Net Cash Provided by Operating Activities	<u>2,302,444</u>	<u>2,459,694</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,610,120)	(436,277)
Proceeds from Issuance of Debt	530,000	671,312
Premiums Received from Issuance of Debt	30,045	
Refunded Escrow Deposits		(685,482)
Principal Paid on Bonds	(890,000)	(865,000)
Principal Paid on Loans Payable	(289,354)	(291,302)
Debt Issuance Costs Paid	(23,461)	
Interest Paid on Bonds and Loans	<u>(120,933)</u>	<u>(158,843)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,373,823)</u>	<u>(1,765,592)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Securities	(7,180,512)	(6,880,569)
Proceeds from Sale and Maturities of Investment Securities	7,252,880	6,355,503
Interest Received on Non-Operating Investments	<u>126,721</u>	<u>121,849</u>
Net Cash Provided (Used) by Investing Activities	<u>199,089</u>	<u>(403,217)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	127,710	290,885
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>3,632,740</u>	<u>3,341,855</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$3,760,450</u>	<u>\$3,632,740</u>
CASH AND CASH EQUIVALENTS - STATEMENT OF NET POSITION:		
Cash and Cash Equivalents - Unrestricted	\$2,596,503	\$2,557,552
Cash and Cash Equivalents - Accounts Required by Authority's Bond Resolution	1,054,953	1,059,749
Cash and Cash Equivalents - Other Restricted Accounts	108,994	15,439
Cash Held by Fiscal Agent		
	<u>\$3,760,450</u>	<u>\$3,632,740</u>

(Continued)

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

**CUMBERLAND COUNTY UTILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	<u>\$ 986,069</u>	<u>\$ 949,967</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,021,146	1,013,934
Increase (Decrease) in Cash Resulting From Changes in:		
Accounts Receivable	172,447	(179,544)
Prepaid Expenses	135	(141)
Inventory	28,242	1,105
Deferred Outflows - Amount Related to Pensions	610,076	(1,144,780)
Accounts Payable - Non Capital	(30,853)	23,242
Accrued Liabilities	19,880	11,066
Due to Users	(132,844)	132,844
Sensor Escrow	-	200
Net Pension Liability	(1,537,345)	1,669,769
Accrued Compensated Absences	20,741	(1,488)
Deferred Inflows - Amount Related to Pensions	<u>1,144,750</u>	<u>(16,480)</u>
Total Adjustments	<u>1,316,375</u>	<u>1,509,727</u>
Net Cash Provided by Operating Activities	<u><u>\$2,302,444</u></u>	<u><u>\$2,459,694</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cumberland County Utilities Authority (formerly the Cumberland County Sewerage Authority) is a corporate public body originally created by resolution of the Board of Chosen Freeholders of Cumberland County adopted November 11, 1971, under Chapter 123 of the Laws of 1946 of the State of New Jersey and reorganized on April 13, 1978 under P.L. 1977 Chapter 384. The commissioners of the Authority are appointed by the Board of Chosen Freeholders of Cumberland County and therefore, the Authority is a related organization of the County as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, but not a component unit of the County. The Authority does not have any component units for which it is accountable.

The Authority is authorized to design, finance, construct, acquire, maintain, and operate a district sewer system for the purpose of relief of waters in or bordering within the county from pollution or threatened pollution from causes arising within Cumberland County. As a public body, under existing statute the Authority is exempt from both federal and state taxes.

Service Contracts

The Authority has entered into Service Contracts (the "Contracts") with the City of Bridgeton, the Township of Upper Deerfield, the Township of Hopewell, TIP'S Trailer Park Corporation, located in Fairfield Township, the County of Cumberland, the Cumberland County Technical Education Center, the Township of Deerfield, the Township of Fairfield and the United States Government (for the federal correctional institution) (the "Participants"). The Township of Deerfield has not delivered any flows to the Authority through December 31, 2017, and therefore, has not been required to pay any service charges.

The Contracts provide, among other things, for the payment of service charges by the Participants to the Authority in return for their usage of the System and the Authority's construction, operation and maintenance of the System.

The Authority is obligated under the Contracts to charge rates sufficient to provide for all expenses of operation, maintenance and repair of the System, the payment of the principal of and interest on any bonds or obligations issued or to be issued and maintenance of such reserves or sinking funds for any of the foregoing purposes as may be required by the terms of any Contract or other obligation of the Authority.

Each Participant's obligation is limited to payment of rates and charges made by the Authority for the disposal of sewage delivered by such Participant to the System. Such Participant is not responsible for payments which are charged to but not paid by any other Participants.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accounts of the Authority are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing 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 the change in net assets is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority are treatment fees and septage fees. The Authority also recognizes user surcharge revenue, service fees, lab fees, finance charges, industrial pretreatment program revenues, connection fees and miscellaneous operating income as operating revenue. Operating expenses include cost of providing services, administrative and general expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. The budget must be introduced by the governing body at least 60 days prior to the end of the current fiscal year, and adopted no later than the beginning of the Authority’s fiscal year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal.

Depreciation and amortization expense are not included as budget appropriations. The Authority may make budget transfers and amendments at any time, which must be approved by resolution of the Authority and by the State of New Jersey Division of Local Government Services if the legal level line items are affected. Detailed line item transfers not affecting the legal level line items may be made by management at any time. There are no statutory provisions that budgetary line items not be over-expended.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase. Investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to adopt a cash management plan and to deposit and/or invest its funds pursuant to that plan. The governing body of the Authority has adopted a cash management plan (“the plan”) and, as required, approves the plan annually. The plan includes the designation of the public depositories to be utilized by the Authority to deposit public funds.

Eligible depositories are defined in section 1 of P.L. 1970, c.236 (C. 17.9-41) and are limited to banks or trust companies having their place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or with the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey governments and their component units.

N.J.S.A. 17:9-41 et. seq., which establishes the requirements for the security of deposits of governmental units, requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings banks or associations located in another state with 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 of at least five percent (5%) 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 full amount of their deposits to the governmental units.

The cash management plan adopted by the Cumberland County Utilities Authority requires it to deposit funds in public depositories protected from loss under the provisions of GUDPA.

Accounts Receivable

The Authority has provided for doubtful accounts by the allowance method. The allowance for doubtful accounts is based upon management’s estimate of potentially uncollectible accounts.

Prepaid Expenses

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the year end.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists principally of chemicals and supplies used in the treatment process and are stated at cost determined on a first-in, first-out basis.

Capital Assets

Capital assets, which consist of property, plant and equipment, are stated at cost which includes direct construction costs and other expenditures related to construction.

Capital assets are defined by the Authority as assets with an initial, individual cost of \$3,000 or more and an estimated useful life in excess of one year.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and put into operation. Construction in Progress includes interest expense incurred during construction. The Authority reduces the capitalized project costs by the amount of interest earned from the investment of project funds and amortization of the premium received in connection with the issuance of debt; which has the effect of reducing the cost of borrowing.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Treatment plant and facilities	5 - 50 years
Pumping stations, interceptors and improvements	15 - 40 years
Machinery and equipment	2 - 20 years
Office furniture	5 - 10 years
Vehicles	5 - 15 years

Bond/Loan Premiums, Discounts

Bond and loan premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds and loans payable are reported net of the applicable bond premium or discount.

Deferred Outflows and Deferred Inflows of Resources

The Schedule of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after Total Assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after Total Liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflow of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Amount on Refunding

The deferred amount on refunding is recorded as a deferred outflow of resources. It is amortized over the shorter of the remaining life of the old debt or new debt based upon the interest method as a component of interest expense.

Defined Benefit Pension Plans

The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. 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.

Postemployment Benefits Other than Pensions

In 2009 the Authority implemented Governmental Accounting Standards Board (GASB) Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. Since the Authority participates in a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pension and Benefits, the Authority's portion of this liability and cost is calculated and recorded at the State of New Jersey level and included in the State's Comprehensive Annual Financial Report.

The Authority records its other postemployment benefits cost (expense) based on billings from the State of New Jersey PERS. Required financial statement disclosures are included in Note 5.

Grants

Contributions received from various sources as grants are recorded in the period earned. Developer financed construction is recorded in the period in which applicable construction costs are incurred. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified as non-operating revenue. Grants externally restricted for non-operating purposes are recorded as capital contributions.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The estimates and assumptions affect the amounts reported in the financial statements. The actual results may differ from these estimates.

Adoption of Accounting Pronouncements

For the year ended December 31, 2017, the Authority adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 became effective for periods beginning after June 15, 2016. The adoption of GASB 74 does not directly apply to the Authority's financial reporting activity and therefore, has no material impact on the current year's financial statements. However, upon the adoption of GASB 75 in 2018, the Authority expects the combination of GASB 74 and GASB 75 to have a material impact on the Authority's financial statements (See GASB 75 in the Recent Accounting Pronouncements Not Yet Effective section below).

For the year ended December 31, 2017, the Authority adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* (GASB 80). This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 80 became effective for periods beginning after June 15, 2016. Since the Authority currently has no component units that fall within the scope of GASB 80, the adoption of GASB 80 does not have a material impact on the Authority's financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. GASB 81 became effective for periods beginning after December 15, 2016. Since the Authority currently has no irrevocable split interest agreements, as defined by GASB 81, the adoption of GASB 81 does not have a material impact on the Authority's financial statements.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Pronouncements (Continued)

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB 82 became effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 became effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. While GASB 82 does not directly materially affect the Authority's financial statements, it impacts GASB 68 which did have a material impact on the Authority's financial statements.

Recent Accounting Pronouncements Not Yet Effective

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This Statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements and expects the impact to be material.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. GASB 83 will be effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements although no impact is expected.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements Not Yet Effective (Continued)

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 will be effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements although no impact is expected.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 will be effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements although no impact is expected.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements and no material impact on the Authority's previously defeased debt is expected, however, it will have a material change on how the Authority records any potential future defeasances.

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements and a material impact is expected.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events through June 7, 2018, the date the financial statements were available for issue.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Revenue - All revenue received by the Authority and transfers to the various accounts described below.

Operating - Amount to be required to pay reasonable and necessary operating expenses in accordance with the annual budget for the quarter.

Bond Service (Current Debt Service) - An amount equal to (1) any unpaid interest due on outstanding bonds, plus the interest to become due on all outstanding bonds on the interest payment date next ensuing and (2) the principal amount of any unpaid bonds then matured, plus the principal amount of outstanding bonds, if any, maturing on the principal maturity date next ensuing.

Bond Reserve (Future Debt Service) - An amount equal to the largest of the amount of maturing principal of and interest on all bonds outstanding at such date which will become due and payable in the then current or any future fiscal year. Transfers to meet minimum levels in the Bond Service Fund; any excess is to be withdrawn by the trustee and credited to the Revenue Fund.

Renewal and Replacement - An amount deemed reasonably necessary for costs and expenses, with respect to the system, of reconstruction or of required replacements, renewals, major repairs or maintenance items of a non-recurring nature. Transfers to the Bond Service Fund if necessary to meet the minimum requirements, or payment, if any, of the necessary costs and expenses of reconstruction, replacements, renewals, major repairs or maintenance items of a non-recurring nature.

Construction - Proceeds from the sale of bonds, government grants with respect to the initial project and any amount for the project directed into the fund by the Authority. Costs of construction of the project or costs of replacements, renewals, major repairs or non-recurring maintenance.

General - Funds remaining in the Construction Fund after a project has been completed and all construction costs have been paid and the balance of revenues remaining after making the necessary transfers to the foregoing accounts. May be applied to any purpose. In addition to the accounts required by the General Bond Resolution, the Authority has also established the following restricted accounts:

**CUMBERLAND COUNTY UTILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2017 AND 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Plant Reconstruction or Replacement - The account is reserved for the future reconstruction or replacement of the Sewerage Treatment Facility or components thereof.

Sensor Escrow - The account consists of funds collected from septage haulers as a deposit on a gate opening sensor mechanism issued to the haulers.

User Revenue Reserve – The account is used to minimize the impact of flow fluctuations from the Authority’s Users, particularly from any unanticipated loss or reduction in flow and related revenue.

COMPLIANCE WITH GENERAL BOND RESOLUTION

Section 720 of the Authority’s General Bond Resolution requires that the Authority calculate, certify and charge rates (service charges) so that the total Revenues, as defined in the Resolution, shall at least equal the amount of all Operating Expenses for the fiscal year, plus the amount required to pay the principal of and interest on Outstanding Bonds as the same become due and payable.

Revenues for the years 2017 and 2016 as defined in the Authority’s General Bond Resolution were greater than the total of Operating Expenses paid plus Debt Service paid. As a result, the Authority met the rate covenant contained in Section 720 of the Authority’s General Bond Resolution.

AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and investment accounts are required by the General Bond Resolution:

	Bond Service Fund	Bond Reserve Fund
Cash and Investments	\$ 328,308	\$ 1,318,977
Required Amount	496,525	778,090
	* \$ (168,217)	\$ 540,887

*Account was fully funded January 2018.

ARBITRAGE RULES

The Authority is subject to certain arbitrage rules added to the Internal Revenue Code in 1969 and amended by TEFRA in 1992 and by the 1986 TRA. Under these rules, interest earnings on certain investments of proceeds of the Authority’s bonds are subject to the limitations imposed by the arbitrage provisions of the Internal Revenue Code. The Authority is required to rebate certain arbitrage profits on non-purpose investments at least once every five years. At December 31, 2017 there were no material arbitrage profits subject to rebate.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 3 DETAIL NOTES – ASSETS

CASH AND CASH EQUIVALENTS

At December 31, 2017, the carrying amount and bank balance of the Authority's time and demand deposits were \$377,443 and \$2,549,721, respectively. All of the time and demand deposits were covered by either federal deposit insurance or by the Governmental Unit Deposit Protection Act (GUDPA).

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). The Authority's public funds in excess of the FDIC insured amounts are protected by GUDPA. As of December 31, 2017, \$250,000 of the Authority's bank balance of \$2,549,721 was insured and \$2,299,721 was uninsured and collateralized.

In addition to the bank deposits described above, the Authority also had \$3,382,992 invested in a government money market fund which is not covered by federal deposit insurance or by GUDPA, but which invests exclusively in general obligations issued by the U.S. Government and backed by its full faith and credit and which carries a credit rating of AAA.

At December 31, 2017 the Authority had \$15 invested in the New Jersey Cash Management Fund ("the Fund") which is not covered by either federal deposit insurance or by GUDPA. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above.

INVESTMENTS

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

All of the Authority's \$7,183,089 investment obligations are held in the name of the counterparty, as trustee for the Authority, not in the name of the Authority.

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 3 DETAIL NOTES – ASSETS (CONTINUED)

INVESTMENTS (CONTINUED)

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Authority may purchase in order to limit the exposure of governmental units to credit risk. The Authority's Cash Management Plan also limits its investment choices to those permitted by N.J.S.A. 40A:5-15.1.

Concentration of Credit Risk – The Authority does not place a limit on the amount that may be invested in any one issuer. All of the Authority's investments are government bonds held in various Federal Agencies, NJ State Agencies, NJ Counties, NJ Municipalities or NJ School Districts.

As of December 31, 2017, the Authority had the following investments and maturities:

<u>Quality/Rating</u>	<u>Total Fair Value</u>
AAA	\$ 654,681
AA	1,228,819
A	818,843
Other	4,480,746
Total Investments	<u>\$ 7,183,089</u>

<u>Investment</u>	<u>Investment Maturities (in Years)</u>		
	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Total Investments	<u>\$ 6,728,545</u>	<u>\$ 287,723</u>	<u>\$166,821</u>

As of December 31, 2016, the Authority had the following investments and maturities:

<u>Quality/Rating</u>	<u>Total Fair Value</u>
Treasury/Agency	\$ 124,972
AAA	901,494
AA	1,820,621
A	1,169,384
Other	3,291,628
Total Investments	<u>\$ 7,308,099</u>

<u>Investment</u>	<u>Investment Maturities (in Years)</u>		
	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Total Investments	<u>\$ 6,518,183</u>	<u>\$ 623,072</u>	<u>\$166,844</u>

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 3 DETAIL NOTES – ASSETS (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2017 and 2016:

	2017		2016
Users Charges	\$ -		\$ 13,672
Septage Haulers	43,854		35,107
Delinquent Fees	153		51
Industrial Pretreatment Penalty			166,750
Less:			
Allowance for Doubtful Accounts	(4,385)		(3,511)
	\$ 39,622		\$ 212,069

DUE FROM NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

In 2016 the Authority received loan approval from the New Jersey Environmental Infrastructure Interim Financing Program in the amount of \$2,146,339 to fund certain Wastewater Treatment Plant and pumping station upgrades. Through December 31, 2016, the Authority had incurred eligible costs under the program in the amount of \$424,112. In 2017 the Authority permanently funded the projects through the issuance of its Series 2017 NJEIT Trust Loan and Fund Loan in the amounts of \$530,000 and \$1,609,755 respectively. The cumulative costs incurred through December 31, 2017 totaled \$2,146,339 and amount received totaled \$520,770 resulting in an amount due of \$1,625,569 at December 31, 2017.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 3 DETAIL NOTES – ASSETS (CONTINUED)

CAPITAL ASSETS

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

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Non-Depreciable Capital Assets:				
Land	\$ 1,135,342	\$ -	\$ -	\$ 1,135,342
Construction In Progress	389,656	1,210,538		1,600,194
Total Non-Depreciable Capital Assets	1,524,998	1,210,538	-	2,735,536
Depreciable Capital Assets:				
Land Improvements	522,358			522,358
Treatment Plant	25,416,984	160,003		25,576,987
P/S And Interceptors	7,710,670			7,710,670
Machinery And Equipment	3,878,842	150,932		4,029,774
Vehicles	1,062,449	53,476	91,730	1,024,195
Office Equipment	129,313	14,667	4,964	139,016
Total Depreciable Capital Assets	38,720,616	379,078	96,694	39,003,000
Less Accumulated Depreciation:				
Land Improvements	458,079	5,711		463,790
Treatment Plant	16,885,477	621,756		17,507,233
P/S And Interceptors	5,075,093	150,048		5,225,141
Machinery and Equipment	2,846,577	197,056		3,043,633
Vehicles	687,191	41,675	91,730	637,136
Office Equipment	112,868	4,900	4,964	112,804
Total Accumulated Depreciation	26,065,285	1,021,146	96,694	26,989,737
Net Depreciable Capital Assets	12,655,331	(642,068)	-	12,013,263
Total Capital Assets, Net	\$ 14,180,329	\$ 568,470	\$ -	\$ 14,748,799

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 4 DETAIL NOTES – LIABILITIES

LONG-TERM LIABILITIES

Bonds Payable

In April 2006, the Authority issued its Sewer Revenue Refunding Bonds (Series 2006A), in the principal amount of \$6,055,000. The proceeds derived from the issuance and sale of the Bonds were used to advance refund the \$5,020,000 aggregate principal amount of Sewer Revenue Refunding Bonds, Series 1997, originally issued in the aggregate principal amount of \$7,915,000, dated September 1, 1997 and maturing on March 1 in each of the years 2011 through 2017, inclusive, advance refund \$810,000 aggregate principal amount of Sewer Revenue Bonds, Series 2001A, originally issued in the aggregate principal amount of \$1,200,000, dated November 15, 2001 and maturing on December 1 in each of the years 2012 through 2021, inclusive and pay the costs and expenses associated with the issuance of the Bonds.

The Series 2006A Bonds maturing on or after March 1, 2017 shall be redeemable at the option of the Authority in whole or in part at any time on any date on or after March 1, 2017, at par, plus in each case accrued interest to the date fixed for redemption. The Series 2006A Bonds maturing on March 1, 2021 are subject to mandatory sinking fund redemption on March 1 in each year at the redemption price equal to the principal portion thereof being redeemed.

The outstanding balance of the Series 2006A Bonds consist of term bonds due from 2018-2021 in the principal amounts ranging from \$70,000 to \$85,000 with an interest rate of 4.00%. The outstanding balance of the Series 2006A Bonds at December 31, 2017 is \$310,000.

In April 2006, the Authority issued its Sewer Revenue Bonds (Series 2006B), in the principal amount of \$2,430,000 to provide funds for certain capital improvements, to fund the amount required to be deposited in the bond reserve fund and to pay the costs and expenses associated with the issuance of the bonds.

The Series 2006B Bonds maturing prior to March 1, 2017 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after March 1, 2017 shall be redeemable at the option of the Authority in whole or in part at any time on any date on or after March 1, 2017, at par, plus in each case accrued interest to the date fixed for redemption.

The Series 2006B Bonds maturing on March 1, 2018 and 2021 are subject to mandatory sinking fund redemption on March 1 in each year at the redemption price equal to the principal portion thereof being redeemed plus the interest portion thereon accrued to the date of redemption

The outstanding balance of the Series 2006B Bonds consist of term bonds maturing in various amounts ranging from \$185,000 to \$210,000 with interest rates ranging from 4.10% to 4.20% from 2018 to 2021. The outstanding balance of the Series 2006B Bonds at December 31, 2017 is \$795,000.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 4 DETAIL NOTES – LIABILITIES (CONTINUED)

LONG-TERM LIABILITIES (CONTINUED)

Loans Payable

The Authority received loans from the State of New Jersey under the 2001 New Jersey Environmental Infrastructure Trust Program (“Trust”). The loans have interest rates ranging from 4.75% to 5.00% and mature in amounts ranging from \$65,000 to \$75,000 through 2021. In 2007 the Trust issued its Series 2007A Wastewater Treatment Refunding Bonds partially refunding the Series 2001 Bonds, which will result in savings credits to be applied to the Authority’s interest payments in 2018 through 2021. The outstanding balance of \$280,000 is included in loans payable as of December 31, 2017.

Under the 2001 New Jersey Environmental Infrastructure Fund Program (“Fund”), the State extended \$1,000,000 of non-interest-bearing loan funds to the Authority. The loans mature in various increments through 2021. The outstanding balance of \$204,250 is included in loans payable as of December 31, 2017.

The Authority issued its 2010 Series, dated December 2, 2010 to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance the replacement of the lower portion of the Upper Deerfield sewer force main.

The Trust Loan was issued in the amount of \$875,000 at an interest rate of 5.00% with repayment commencing August 1, 2012 through August 1, 2030. This Loan was partially refunded by Series 2016 R-2. The outstanding loan balance of the non-refunded portion is \$80,000 as of December 31, 2017, with maturities of \$40,000 in 2018 and 2019. The loan balance of \$80,000 is included in loans payable as of December 31, 2017.

The Fund Loan was originally issued in the amount of \$938,785 at zero interest. The undrawn portion (unexpended project funds) relating to the Fund Loan in the amount of \$232,143 was deobligated and applied to the loan balance, making the revised loan amount \$706,642. The principal payments commenced on August 1, 2011 with the final payment due on August 1, 2026. The loans mature in various increments through that date. The outstanding loan balance of \$388,409 is included in loans payable as of December 31, 2017.

The Authority issued 2013 Series A and B bonds, dated May 22, 2013 to the New Jersey Environmental Infrastructure Trust to securitize its participation in the state sponsored financing program to finance upgrades projects for the Treatment Plant.

The Trust Loan (Series 2013 A) was issued in the amount of \$485,000 at interest rates of 3.00% to 5.00% with repayment commencing August 1, 2013 through August 1, 2032. The loan amounts mature in amounts ranging from \$20,000 to \$35,000 through that date. The outstanding loan balance of \$405,000 is included in loans payable as of December 31, 2017.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 4 DETAIL NOTES – LIABILITIES (CONTINUED)

LONG-TERM LIABILITIES (CONTINUED)

Loans Payable (Continued)

The Fund Loan (Series 2013 B) was issued in the amount of \$1,511,250 at zero interest. The principal payments commenced on August 1, 2013 with the final payment on August 1, 2032. The loans mature in various increments through that date. The outstanding loan balance of \$1,152,648 is included in loans payable as of December 31, 2017.

The State of New Jersey Environmental Infrastructure Trust issued Series 2016A R-2 (2010B) Bonds, dated May 11, 2016 that partially refunded the Authority's Series 2010B Trust Loan in the amount of \$531,000 at an interest rate of 5.00%. The principal payments vary in amounts from \$40,000 to \$61,000 and will commence February 1, 2020 through August 1, 2030. The outstanding balance of \$531,000 is included in loans payable as of December 31, 2017.

The Authority issued its Series 2017 A-2 Trust and Fund loans through the New Jersey Environmental Infrastructure Trust (NJEIT) to fund certain improvements to its Wastewater Treatment Plant and upgrades to the Upper Deerfield Pumping Station.

The 2017 Trust Loan (Series A-2) was issued in the amount of \$530,000 at interest rates of 3% to 5% with payments in amounts ranging from \$20,000 to \$35,000 commencing September 1, 2019 through September 1, 2037. The outstanding loan balance of \$530,000 is included in loans payable as of December 31, 2017.

The 2017 Fund Loan (Series A-2) was issued in the amount of \$1,609,755 at zero interest. The principal payments commencing on August 1, 2018 are in various amounts with the final payment on August 1, 2030. The outstanding loan balance of \$1,609,755 is included on loans payable as of December 31, 2017.

Net Pension Liability

For details on the net pension liability, refer to Note 5. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

Compensated Absences

Current policy allows employees shall be paid for sick leave allowance accumulated to a maximum of two hundred twenty four (224) hours upon termination in good standing.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 4 DETAIL NOTES – LIABILITIES (CONTINUED)

LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of changes in long-term liabilities for the year ended December 31, 2017:

Type of Debt:	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
Revenue Bonds Payable:					
Series 2006A	\$ 1,020,000	\$ -	\$ 710,000	\$ 310,000	\$ 70,000
Series 2006B	975,000		180,000	795,000	185,000
	<u>1,995,000</u>	<u>-</u>	<u>890,000</u>	<u>1,105,000</u>	<u>255,000</u>
Add:					
Unamortized Premium	828		364	464	-
Less:					
Unamortized Original Issue Discount	(1,129)		(423)	(706)	-
Total Revenue Bonds Payable	<u>1,994,699</u>	<u>-</u>	<u>889,941</u>	<u>1,104,758</u>	<u>255,000</u>
Loans Payable:					
Series 2001B Trust	340,000		60,000	280,000	65,000
Series 2001B Fund	254,026		49,776	204,250	51,075
Series 2010 Trust	115,000		35,000	80,000	40,000
Series 2010 Fund	436,144		47,735	388,409	47,735
Series 2013 Trust	1,229,491		76,843	1,152,648	76,843
Series 2013 Fund	425,000		20,000	405,000	20,000
Series 2016A R-2 (2010B) Trust	531,000			531,000	-
Series 2017 Trust		530,000		530,000	-
Series 2017 Fund NJEIT Interim Financing Program	424,112		424,112	-	-
	<u>3,754,773</u>	<u>2,139,755</u>	<u>713,466</u>	<u>5,181,062</u>	<u>355,221</u>
Add:					
Unamortized Premium	177,306	30,045	23,688	183,663	-
Total Loans Payable	<u>3,932,079</u>	<u>2,169,800</u>	<u>737,154</u>	<u>5,364,725</u>	<u>355,221</u>
Accrued PERS Liabilities	<u>109,806</u>	<u>5,287</u>		<u>115,093</u>	<u>-</u>
Net Pension Liability	<u>7,321,457</u>		<u>1,537,345</u>	<u>5,784,112</u>	<u>-</u>
Accrued Compensated Absences	<u>62,947</u>	<u>27,082</u>	<u>6,341</u>	<u>83,688</u>	<u>-</u>
	<u>\$13,420,988</u>	<u>\$2,202,169</u>	<u>\$3,170,781</u>	<u>\$ 12,452,376</u>	<u>\$ 610,221</u>

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 4 DETAIL NOTES – LIABILITIES (CONTINUED)

LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements to maturity, including principal and interest, for revenue bonds and loans payable as of December 31, 2017 are as follows:

Year Ending December 31,	Revenue Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2018	\$ 255,000	\$ 40,413	\$ 355,221	\$ 71,750
2019	270,000	29,625	408,641	69,824
2020	285,000	18,125	406,368	62,524
2021	295,000	6,110	417,456	55,399
2022			291,430	47,836
2023- 2027			1,448,211	172,631
2028 - 2032			1,274,476	67,694
2033 - 2037			579,259	15,475
	1,105,000	<u>\$ 94,273</u>	5,181,062	<u>\$ 563,133</u>
Add:				
Unamortized Debt	464		183,663	
Premium				
Less:				
Unamortized Original				
Issue Discount	(706)			
	<u>\$ 1,104,758</u>		<u>\$ 5,364,725</u>	

COMMITMENTS AND CONTINGENCIES

As of December 31, 2017 the Authority has entered into various commitments for construction projects in the amount of \$1,219,547. Costs incurred on those contracts to December 31, 2017 totaled \$1,200,736.

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM

PENSIONS

Substantially all of the Authority's employees participate in the Public Employees' Retirement System (the System) which is administered and/or regulated by the New Jersey Division of Pensions and Benefits. The System's Board of Trustees is primarily responsible for the administration of the System.

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division).

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295
<http://www.state.nj.us/treasury/pensions>

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 with 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.

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. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2017, 2016 and 2015, the State's pension contribution was less than the actuarial determined amount.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Covered Authority employees are required to contribute a percentage of their salary toward their pension benefits. P.L. 2011, c78, effective June 28, 2011, increased the active member contribution rate from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.20% in State fiscal year 2017. Employee contributions were \$116,015, \$119,595 and \$123,047 for the years ended December 31, 2017, 2016 and 2015, respectively. The payroll subject to pension for the Authority's employees covered by PERS was \$1,544,799, \$1,664,949 and \$1,691,268 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Authority is required by statute to contribute to the employee's pension benefits based on an annual actuarial calculation. The valuation is a determination of the financial condition of the retirement system. The Authority's required annual contributions to the PERS were \$230,186, \$219,612 and \$216,454 for the years ended December 31, 2017, 2016, and 2015, respectively, and is included in the accompanying financial statements. The percentage of employer's contribution rate as a percentage of covered payroll for 2017, 2016 and 2015 was 14.90%, 13.19% and 12.80%, respectively.

At December 31, 2017 and 2016, the Authority reported a liability of \$5,784,112 and \$7,321,457, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 2015. At June 30, 2017, the Authority's proportion was 0.0248475485%, which was an increase of 0.0001272051% from its proportion measured as of June 30, 2016. At June 30, 2016, the Authority's proportion was 0.0247203434%, which was a decrease of 0.0004564616% from its proportion measured as of June 30, 2015.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

At December 31, 2017 and 2016, respectively, the Authority reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience	\$ 136,196	\$ -	\$ 136,157	\$ -
Changes of Assumptions	1,165,299	1,161,027	1,516,615	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	39,386	-	279,174	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	144,839	58,111	169,137	74,388
Authority Contributions Subsequent to the Measurement Date	115,093	-	109,806	-
	<u>\$ 1,600,813</u>	<u>\$ 1,219,138</u>	<u>\$ 2,210,889</u>	<u>\$ 74,388</u>

Deferred outflows of resources related to pensions in the amount of \$115,093 will be included as a reduction of the net position liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>Dec 31,</u>	
2017	\$ 48,318
2018	48,318
2019	48,318
2020	48,318
2021	48,319
2022	24,991
	<u>\$ 266,582</u>

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

The Authority will amortize the above other deferred outflow of resources and deferred inflows of resources related to pensions over the following number of years:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	5.00	-
June 30, 2015	5.00	-
June 30, 2016	5.00	-
June 30, 2017	5.00	-

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

Actuarial Assumptions

The total pension liability for the June 30, 2017 and 2016 measurement dates were determined by actuarial valuations as of July 1, 2016 and 2015, respectively, which were rolled forward to June 30, 2017 and 2016, respectively.

These actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement.

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Inflation	2.25%	3.08%
Salary Increases:		
2012-2021	1.65% - 4.15% Based on Age	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%	7.65%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience		
Study upon which Actuarial		
Assumptions were Based	July 1, 2011 - June 30, 2014	July 1, 2011 - June 30, 2014

Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2013 based on Projection Scale AA.

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 Investments and Division of Pension and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of returns for each major asset class included in PERS's target asset allocation as of June 30, 2017 and 2016 are summarized in the following table:

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

<u>Asset Class</u>	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%		
Buyouts/Venture Capital	8.25%	13.08%		
Cash	5.50%	1.00%	5.00%	0.87%
Commodities			0.50%	5.45%
Credit Originated Hedge Funds	1.00%	6.60%		
Debt Related Private Equity	2.00%	10.63%	9.00%	12.40%
Debt Related Real Estate	1.00%	6.61%		
Emerging Market Equities	6.50%	11.64%	6.50%	9.95%
Equity Related Real Estate	6.25%	9.23%		
Global Debt ex U.S.			5.00%	-0.25%
Global Diversified Credit	5.00%	7.10%		
Hedge Funds / Absolute Return			12.50%	4.68%
Inflation-Indexed Bonds			1.50%	3.44%
Investment Grade Credit	10.00%	3.78%	8.00%	1.79%
Mortgages			2.00%	1.67%
Non-U.S. Developed Markets Equity	11.50%	9.00%	13.25%	6.83%
Private Real Estate	2.50%	11.83%		
Public High Yield Bonds	2.50%	6.82%	2.00%	4.56%
Real Estate (Property)			2.00%	6.91%
REIT			5.25%	5.63%
U.S. Equity	30.00%	8.19%	26.00%	8.53%
U.S. Treasuries	3.00%	1.87%	1.50%	1.74%
	<u>100.00%</u>		<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.90% 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 actuarial determined contributions and the local employer's contributed 100% of their actuarially required 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 of 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.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

PENSIONS (CONTINUED)

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

The following presents the Authority's proportionate share of the net pension liability at June 30, 2017 and 2016, respectively, 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% lower or 1% higher than the current rates used:

	June 30, 2017		
	1% Decrease <u>4.00%</u>	Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 7,175,584</u>	<u>\$ 5,784,112</u>	<u>\$ 4,624,844</u>
	June 30, 2016		
	1% Decrease <u>2.98%</u>	Current Discount Rate <u>3.98%</u>	1% Increase <u>4.98%</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 8,971,591</u>	<u>\$ 7,321,457</u>	<u>\$ 5,959,128</u>

DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Investments are managed by the plan trustees under one of various pools of investment options offered by the ING Life Insurance and Annuity Company, who is a provider of deferred compensation services in good standing with the State of New Jersey Division of Local Government Services.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Authority or its creditors. Since the Authority does not have a fiduciary relationship with the Plan, the balances and activities of the Plan are not reported in the Authority's financial statements.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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. 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 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. In 1990 and 1996 the Authority adopted resolutions authorizing participation in the SHBP's post-retirement benefit program. Pursuant to those resolutions, the Authority pays 100% of the premium charges for the benefits provided to certain eligible pensioners who retire with 25 years or more of service in the retirement system and their dependents, including surviving spouses, covered by the New Jersey SHBP and reimburses retired employees and their spouses for their premium charges under Part B of the Federal Medicare Program.

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

The June 30, 2017 report may also be obtained online at the following website address:

<http://www.state.nj.us/treasury/pensions/documents/financial/audit-rpts-2016/audit-shbp17.pdf>

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

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to and paid by the Authority on a monthly basis. Plan members are not required to contribute to the cost of those premiums.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 5 DETAIL NOTES – RETIREMENT SYSTEM (CONTINUED)

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The Authority contributions to SHBP for retirees for the years ended December 31, 2017, 2016, and 2015, were \$419,626, \$345,501, and \$295,466, respectively, which equaled the required contributions for each year. There were approximately 24, 20, and 21, retired participants eligible at December 31, 2017, 2016, and 2015, respectively.

NOTE 6 DETAILED NOTES – NET POSITION

RESTRICTED NET POSITION

The Authority has restricted net position for the following purposes in accordance with the requirements of its Bond Resolution.

	<u>2017</u>	<u>2016</u>
Current Debt Service	\$ 453,255	\$ 1,076,520
Future Debt Service	478,465	323,478
Renewal and Replacement	600,000	600,000
Construction	408,347	55,009

UNRESTRICTED NET POSITION

Designated:

The Authority has, by resolution, designated a portion of its Unrestricted Net Position for the following purposes:

Future Plant Reconstruction or Replacement - The amount so designated as of December 31, 2017 and 2016 is \$2,305,471 and \$2,227,695, respectively.

User Revenue Reserve - The Reserve is to be used to minimize the impact of flow fluctuations from it Users, particularly from any unanticipated loss or reduction in flow and the related revenue. The amount so designated as of December 31, 2017 and 2016 is \$456,641 and \$374,781, respectively.

Subsequent Year's Expenditures - The amount so designated as of December 31, 2017 and 2016 is \$275,000 and \$275,000, respectively.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 6 **DETAILED NOTES – NET POSITION**

UNRESTRICTED NET POSITION (CONTINUED)

Undesignated:

The balance of unrestricted and undesignated net position (deficit) as of December 31, 2017 and 2016 of \$1,387,835 and \$(207,629), respectively, is comprised of the following:

	2017	2016
Amount Related to Pensions (GASB 68 and 71)	\$ (5,747,716)	\$(5,514,374)
Undesignated before GASB 68 and 71		
Pension Related Items	7,135,551	5,306,745
	\$ 1,387,835	\$ (207,629)

NOTE 7 **RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is also a member of Cumberland County Insurance Commission (the "Commission"). The Commission is operated in accordance with regulations of the Division of Local Governmental Services of the Department of Community Affairs for the purpose of securing significant savings in insurance costs as well as providing stability in coverage. It is governed by three County officials who serve as commissioners and are appointed by the Board. Coverage in excess of the Commission's self-insured retention limit is provided through the Commission's membership in the New Jersey Counties Excess Joint Insurance Fund established in March 2010.

The Commission provides the Authority coverage for General and Automobile Liability; Pollution Liability; Crime; Workers' Compensation and Employer's Liability; Property Damage, including Equipment Breakdown and Public Officials and Employment Practices. The Commissioner of Insurance may order additional assessments to supplement the Commission's claim, loss retention or administrative accounts to assure the payment of the Commission's obligations.

The Commission provides its own financial report for the year ended December 31, 2017, which can be obtained from:

Cumberland County Insurance Commission
790 East Commerce Street
Bridgeton, NJ 08032

Settled claims have not exceeded commercial insurance coverage in any of the past three years.

NOTE 8 **ECONOMIC DEPENDENCY**

The Authority derives approximately eighty percent (80%) of its User Charge revenues from the City of Bridgeton.

**REQUIRED SUPPLEMENTARY INFORMATION
PART II**

**CUMBERLAND COUNTY UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION - PART II
SCHEDULES OF PROPORTIONATE SHARE, EMPLOYER CONTRIBUTIONS AND NOTES
STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

Schedule of Proportionate Share of Net Pension Liability at June 30 (measurement date)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.0248475485%	0.0247203434%	0.0251768050%	0.0243742741%	0.0237016378%
Authority's Proportionate Share of the Net Pension Liability	\$ 5,784,112	\$ 7,321,457	\$ 5,651,688	\$ 4,563,531	\$ 4,529,854
Authority's Covered-Employee Payroll	\$ 1,656,768	\$ 1,649,256	\$ 1,736,708	\$ 1,632,168	\$ 1,572,248
Authority's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	349.12%	443.92%	325.43%	279.60%	288.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.10%	40.14%	47.93%	52.08%	48.72%

Schedule of Employer Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 230,186	\$ 219,612	\$ 216,453	\$ 200,938	\$ 178,587
Contributions in Relation to the Contractually Required Contribution	(230,186)	(219,612)	(216,453)	(200,938)	(178,587)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's Covered-Employee Payroll	\$ 1,544,799.00	\$ 1,664,949.00	\$ 1,691,268.00	\$ 1,692,080.00	\$ 1,635,946.00
Contributions as a Percentage of Authority's Covered-Employee Payroll	14.90%	13.19%	12.80%	11.88%	10.92%

Notes

Changes in Benefit Terms - There were no significant changes in benefits for the July 1, 2016 and 2015 actuarial valuation.

Changes in Assumptions - In accordance with Paragraph 44 of GASB Statement No. 67 the discount rate for June 30, changed as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	5.00%	3.98%	4.90%	5.39%	5.55%

Schedule Presentation - These schedules are 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.

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-
NET INVESTMENT IN CAPITAL ASSETS, RESTRICTED AND UNRESTRICTED
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	UNRESTRICTED					RESTRICTED				TOTALS (MEMO)	
	NET INVESTMENT IN CAPITAL ASSETS	UNDESIGNATED	DESIGNATED - SUBSEQUENT EXPENDITURES	DESIGNATED - USER REVENUE RESERVE	DESIGNATED - FUTURE PLANT RECONSTRUCTION OR REPLACEMENT	CURRENT DEBT SERVICE	FUTURE DEBT SERVICE	RENEWAL AND REPLACE- MENT	CONSTRUCTION	2017	2016
OPERATING REVENUE:											
Treatment Fees	\$	\$ 6,447,099	\$	\$	\$	\$	\$	\$	\$	\$ 6,447,099	\$ 6,347,649
User Surcharge Revenue		49,627								49,627	48,447
Septage Fees		396,742								396,742	425,170
Service Fees		2,630								2,630	3,993
Finance Charges		1,047								1,047	2,052
Industrial Pretreatment Program Revenue		21,000								21,000	260,500
Connection Fees		23,680								23,680	47,360
Other Operating Income		14,321								14,321	49,492
	-	6,956,146	-	-	-	-	-	-	-	6,956,146	7,184,663
OPERATING EXPENSES:											
Cost of Providing Services		3,631,446								3,631,446	3,718,157
Administrative and General Depreciation		1,317,485								1,317,485	1,502,605
	-	1,021,146	-	-	-	-	-	-	-	1,021,146	1,013,934
	-	5,970,077	-	-	-	-	-	-	-	5,970,077	6,234,696
OPERATING INCOME	-	986,069	-	-	-	-	-	-	-	986,069	949,967
NON-OPERATING REVENUE (EXPENSES):											
Interest Income		32,173		4,334	60,287	1,418	28,455	12,612		139,279	128,976
Interest Expense		(87,812)								(87,812)	(131,098)
Debt Issuance Costs		(63,311)								(63,311)	(2,885)
Gain on Disposal of Capital Assets		7,983								7,983	
Decrease in Fair Value of Investments		3,524		(1,796)	(32,511)	(15,161)		(6,698)		(52,642)	(60,161)
	-	(107,443)	-	2,538	27,776	(13,743)	28,455	5,914	-	(56,503)	(65,168)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	-	878,626	-	2,538	27,776	(13,743)	28,455	5,914	-	929,566	884,799
TRANSFERS:											
Investment Income		18,830	-	1,796		13,743	(28,455)	(5,914)	-	-	-
Increase (Decrease) in Debt Service Requirement		623,265				(623,265)				-	-
Other Transfers	(710,594)	74,743		77,526	50,000		154,987		353,338	-	-
INCREASE (DECREASE) IN NET POSITION	(710,594)	1,595,464	-	81,860	77,776	(623,265)	154,987	-	353,338	929,566	884,799
NET POSITION JANUARY 1,	9,235,789	(207,629)	275,000	374,781	2,227,695	1,076,520	323,478	600,000	55,009	13,960,643	13,075,844
NET POSITION - DECEMBER 31,	\$ 8,525,195	\$ 1,387,835	\$ 275,000	\$ 456,641	\$ 2,305,471	\$ 453,255	\$ 478,465	\$ 600,000	\$ 408,347	\$ 14,890,209	\$ 13,960,643
UNRESTRICTED NET POSITION (DEFICIT) - UNDESIGNATED-											
Related to Pensions (GASB 68 and 71)		\$ (5,747,716)									
Before GASB 68 and 71 Pension Related Items		7,135,551									
		\$ 1,387,835									

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND COSTS FUNDED BY
REVENUES COMPARED TO BUDGET - BUDGETARY BASIS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017 BUDGET</u>	<u>2017 ACTUAL</u>	<u>2016 ACTUAL</u>
REVENUES:			
Treatment Fees	\$ 6,623,880	\$ 6,447,099	\$ 6,347,649
User Surcharge Revenue		49,627	48,447
Septage Fees	225,000	396,742	425,170
Service Fees		2,630	3,993
Finance Charges		1,047	2,052
Industrial Pretreatment Program Fees	21,000	21,000	260,500
Investment Income	20,000	74,658	68,484
Connection Fees		23,680	47,360
Other Income		14,321	49,492
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 6,889,880</u>	<u>\$ 7,030,804</u>	<u>\$ 7,253,147</u>
EXPENSES:			
Costs of Providing Services:			
Salaries and Wages	\$ 1,410,509	\$ 1,305,500	\$ 1,284,249
Employee Benefits	1,019,700	914,568	856,983
Automotive Expense	36,000	49,261	25,518
Chemicals Used in Treatment	113,500	104,985	102,481
Fuels and Lubricants	105,000	57,571	43,564
Utilities	504,000	476,544	499,100
Materials and Supplies	44,500	45,308	44,886
Repairs and Replacements	115,000	96,683	94,829
Sludge/Waste/Recycling Disposal	488,000	323,644	353,269
Laboratory Expenses	58,000	41,335	44,884
Other Operations and Maintenance Expenses	3,500	14,700	1,688
Industrial Pretreatment Program	6,000	22,699	3,023
	<u> </u>	<u> </u>	<u> </u>
Total Costs of Providing Services	<u>3,903,709</u>	<u>3,452,798</u>	<u>3,354,474</u>

CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND COSTS FUNDED BY
REVENUES COMPARED TO BUDGET - BUDGETARY BASIS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u> <u>BUDGET</u>	<u>2017</u> <u>ACTUAL</u>	<u>2016</u> <u>ACTUAL</u>
EXPENSES (CONTINUED):			
Administrative and General Expenses:			
Salaries and Wages	\$ 442,715	\$ 399,690	\$ 528,143
Employee Benefits	366,760	334,755	311,210
Office Supplies and Expense	39,950	33,923	39,494
Professional Services	285,300	244,940	218,785
Insurance	70,200	65,483	65,690
Conferences and Education	18,000	13,305	15,686
Utilities	44,000	47,894	45,129
Dues and Subscriptions	9,000	8,210	7,519
Maintenance of General Property	45,710	39,453	44,585
Permits and Fees	63,750	69,070	70,437
Provision for Bad Debts	2,000	8	
Other Administrative Fees	6,500	6,060	6,363
	<u>1,393,885</u>	<u>1,262,791</u>	<u>1,353,041</u>
Total Administrative and General Expenses			
Interest Expense	<u>130,931</u>	<u>108,976</u>	<u>144,997</u>
OTHER COSTS FUNDED BY REVENUES:			
Principal Maturities	1,179,355	1,179,354	1,225,302
Capital Outlays	307,000	379,078	285,911
Plant Reconstruction & Replacement	50,000	50,000	50,000
User Revenue Reserve Fund	50,000	50,000	50,000
	<u>1,586,355</u>	<u>1,658,432</u>	<u>1,611,213</u>
Total Other Costs Funded by Revenues			
TOTAL COSTS FUNDED BY REVENUES	<u>7,014,880</u>	<u>6,482,997</u>	<u>6,463,725</u>
REVENUES OVER (UNDER) COSTS FUNDED BY REVENUES	<u>\$ (125,000)</u>	547,807	789,422
Reconciliation of Budgetary Basis to Change in Net Position:			
Adjustments to Budgetary Basis:			
Interest Income not used for Operations		64,621	60,492
Capital Outlays		379,078	285,911
Plant Reconstruction & Replacement Funds		50,000	50,000
User Revenue Reserve Fund		50,000	50,000
Principal Maturities		1,179,354	1,225,302
Increase (Decrease) in Fair Value of Investments		(52,642)	(60,161)
Gain on Disposal of Capital Assets		7,983	
Debt Issuance Costs		(63,311)	(2,885)
Pension Expense - Difference of GAAP vs. Budgetary Basis		(233,342)	(513,247)
Amortization (Charged) Credited to Interest Expense		21,164	13,899
Depreciation Expense		<u>(1,021,146)</u>	<u>(1,013,934)</u>
CHANGE IN NET POSITION PER EXHIBIT B		<u>\$ 929,566</u>	<u>\$ 884,799</u>

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF SEWER REVENUE BONDS PAYABLE
DECEMBER 31, 2017**

	<u>ORIGINAL</u>		<u>INTEREST RATE</u>	<u>MATURITIES</u>		<u>BALANCE JANUARY 1, 2017</u>	<u>ISSUED 2017</u>	<u>PAID 2017</u>	<u>BALANCE DECEMBER 31, 2017</u>
	<u>DATE</u>	<u>AMOUNT</u>		<u>DATE</u>	<u>AMOUNT</u>				
Issue of 2006A	3/28/2006	\$ 6,055,000	4.00%	3/1/2018	\$ 70,000	\$ 1,020,000	\$ -	\$ 710,000	\$ 310,000
			4.00%	3/1/2019	75,000				
			4.00%	3/1/2020	80,000				
			4.00%	3/1/2021	85,000				
Issue of 2006B	4/18/2006	2,430,000	4.10%	3/1/2018	185,000	975,000	-	180,000	795,000
			4.20%	3/1/2019	195,000				
			4.20%	3/1/2020	205,000				
			4.20%	3/1/2021	210,000				
						<u>\$ 1,995,000</u>	<u>\$ -</u>	<u>\$ 890,000</u>	<u>\$ 1,105,000</u>

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF LOANS PAYABLE
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST
DECEMBER 31, 2017**

Series	ORIGINAL		INTEREST RATE	MATURITIES		BALANCE JANUARY 1, 2017	ISSUED 2017	PAID 2017	REFUNDED 2017	BALANCE DECEMBER 31, 2017
	DATE	AMOUNT		DATE	AMOUNT					
2001 Trust Loan Agreement	10/15/2001	\$ 950,000	5.00%	8/1/2018	\$ 65,000	\$ 340,000	\$ -	\$ 60,000	\$ -	\$ 280,000
			5.00%	8/1/2019	70,000					
			4.75%	8/1/2020	70,000					
			4.75%	8/1/2021	75,000					
2001 Fund Loan Agreement	10/15/2001	1,000,000	N/A	2018	51,075	254,026		49,776		204,250
				2019	52,211					
				2020	49,938					
				2021	51,026					
2010 Trust Loan Agreement	12/2/2010	875,000	5.00%	8/1/2018	40,000	115,000		35,000		80,000
			5.00%	8/1/2019	40,000					
2010 Fund Loan Agreement	12/2/2010	938,785	N/A	2018	47,735	436,144		47,735		388,409
				2019	47,735					
				2020	47,735					
				2021	47,735					
				2022	47,735					
				2023	47,735					
				2024	47,735					
				2025	47,735					
				2026	6,529					

(continued)

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF LOANS PAYABLE
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST
DECEMBER 31, 2017**

Series	ORIGINAL		INTEREST RATE	MATURITIES		BALANCE JANUARY 1, 2017	ISSUED 2017	PAID 2017	REFUNDED 2017	BALANCE DECEMBER 31, 2017
	DATE	AMOUNT		DATE	AMOUNT					
2013 Trust Loan Agreement	5/22/2013	\$ 485,000	4.00%	8/1/2018	\$ 20,000	\$ 425,000	\$ -	\$ 20,000	\$ -	\$ 405,000
			4.00%	8/1/2019	20,000					
			4.00%	8/1/2020	20,000					
			4.00%	8/1/2021	25,000					
			4.00%	8/1/2022	25,000					
			5.00%	8/1/2023	25,000					
			5.00%	8/1/2024	25,000					
			3.00%	8/1/2025	25,000					
			3.00%	8/1/2026	30,000					
			3.00%	8/1/2027	30,000					
			3.00%	8/1/2028	30,000					
			3.00%	8/1/2029	30,000					
			3.00%	8/1/2030	30,000					
			3.00%	8/1/2031	35,000					
			3.00%	8/1/2032	35,000					
2013 Fund Loan Agreement	5/22/2013	\$ 1,511,250	N/A	2018	76,843	1,229,491	-	76,843	-	1,152,648
				2019	76,843					
				2020	76,843					
				2021	76,843					
				2022	76,843					
				2023	76,843					
				2024	76,843					
				2025	76,843					
				2026	76,843					
				2027	76,843					
				2028	76,843					
				2029	76,843					
				2030	76,843					
2031	76,843									
2032	76,846									

(continued)

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF LOANS PAYABLE
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST
DECEMBER 31, 2017**

Series	ORIGINAL		INTEREST RATE	MATURITIES		BALANCE JANUARY 1, 2017	ISSUED 2017	PAID 2017	REFUNDED 2017	BALANCE DECEMBER 31, 2017
	DATE	AMOUNT		DATE	AMOUNT					
2016A R-2 Refunding Loan Agreement	5/11/2016	\$ 531,000	5.00%	2020	\$ 40,000	\$ 531,000	\$ -	\$ -	\$ -	\$ 531,000
			5.00%	2021	40,000					
			5.00%	2022	40,000					
			5.00%	2023	44,000					
			5.00%	2024	45,000					
			5.00%	2025	49,000					
			5.00%	2026	49,000					
			5.00%	2027	53,000					
			5.00%	2028	53,000					
			5.00%	2029	57,000					
			5.00%	2030	61,000					
2017 Trust Loan Agreement	11/21/2017	\$ 530,000	5.00%	9/1/2019	20,000	-	530,000	-	-	530,000
			5.00%	9/1/2020	20,000					
			5.00%	9/1/2021	20,000					
			5.00%	9/1/2022	20,000					
			5.00%	9/1/2023	25,000					
			5.00%	9/1/2024	25,000					
			5.00%	9/1/2025	25,000					
			5.00%	9/1/2026	25,000					
			2.13%	9/1/2027	30,000					
			2.38%	9/1/2028	30,000					
			2.50%	9/1/2029	30,000					
			2.63%	9/1/2030	30,000					
			2.75%	9/1/2031	30,000					
			2.70%	9/1/2032	30,000					
			2.88%	9/1/2033	30,000					
			2.88%	9/1/2034	35,000					
			3.00%	9/1/2035	35,000					
			3.00%	9/1/2036	35,000					
3.00%	9/1/2037	35,000								

(continued)

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF LOANS PAYABLE
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST
DECEMBER 31, 2017**

Series	ORIGINAL		INTEREST RATE	MATURITIES		BALANCE JANUARY 1, 2017	ISSUED 2017	PAID 2017	REFUNDED 2017	BALANCE DECEMBER 31, 2017
	DATE	AMOUNT		DATE	AMOUNT					
2017 Fund Loan Agreement	11/21/2017	\$ 1,609,755	N/A	2018	\$ 54,568	\$ -	\$ 1,609,755		\$ -	\$ 1,609,755
				2019	81,852					
				2020	81,852					
				2021	81,852					
				2022	81,852					
				2023	81,852					
				2024	81,852					
				2025	81,852					
				2026	81,852					
				2027	81,852					
				2028	81,852					
				2029	81,852					
				2030	81,852					
				2031	81,852					
				2032	81,852					
				2033	81,852					
				2034	81,852					
				2035	81,852					
				2036	81,852					
				2037	81,851					
						\$ 3,330,661	\$ 2,139,755	\$ 289,354	\$ -	\$ 5,181,062

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Albert Jones	Chairperson	
Keith I. Wasserman	Vice Chairman	
Jerry Young	Commissioner	
Angelia L. Edwards	Commissioner	
Harvey L. Friedman	Commissioner	
Zarko Rajacich	Commissioner	
Douglas VanSant	Commissioner	

Other Officials

C. Kenneth Hill	Secretary	
Edward Bethea	Treasurer	\$ 75,000
James K. Grace	General Counsel	
G. Steven Errickson	Director	
Daniel Jefferson	Deputy Director	
Stephanie Mick	Assistant Secretary/Treasurer	

Surety Company

ITT Hartford Insurance Group

SINGLE AUDIT SECTION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Chairman and Members of the
Cumberland County Utilities Authority
Bridgeton, New Jersey

Report on Compliance for Each Major Federal Program

We have audited the Cumberland County Utilities Authority's, County of Cumberland, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major Federal programs for the year ended December 31, 2017. The Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.²

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Cumberland County Utilities Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Cumberland County Utility Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ROMANO, HEARING, TESTA & KNORR



Certified Public Accountants

June 7, 2018

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Program Title	CFDA Number	State Project Number	Loan Award Amount	Grant Period		Balance Dec. 31, 2016		Revenue Recognized	Cash Received	Loan Expenditures	Balance Dec. 31, 2017	
				From	To	Deferred Revenue/Accounts Receivable	Accounts Receivable				Unspent Grant Proceeds	
U.S. Department of Environmental Protection:												
Passed-through New Jersey Department of Environmental Protection												
Capitalization Grants of Clean Water State Revolving Funds												
New Jersey Environmental Infrastructure Trust Program	66.458	S340550-07	\$ 790,390	6/30/2016	Open	\$ 183,514	\$ 606,876	\$ 234,690	\$ 542,570	\$ 555,700	\$ 64,306	
New Jersey Environmental Infrastructure Trust Program	66.458	S340550-08	819,365	6/30/2016	Open	154,496	664,868	155,888	395,222	663,476	269,647	
			<u>\$ 1,609,755</u>			<u>\$ 338,010</u>	<u>\$ 1,271,744</u>	<u>\$ 390,578</u>	<u>\$ 937,792</u>	<u>\$ 1,219,176</u>	<u>\$ 333,953</u>	

The accompanying Notes to the Financial Statements and Notes to the Schedule of Expenditures of Federal Awards and are an integral part of this schedule.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2017**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes federal award activity of the Cumberland County Utilities Authority (hereafter referred to as the "Authority"). The Authority is defined in Note 1 to the Authority's basic financial statements. All federal awards received directly from federal agencies, as well as federal expenditures passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, with the exception of the capital assets purchases that are shown as expenditures in this schedule. The basis of accounting is described in Note 1 to the Authority's basic financial statements. The information in this schedule is also presented in accordance with the requirements of Federal Uniform Guidance; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Federal expenditure schedule agree with amounts reported in the Authority's financial reports as follows:

	Grant Number	
	S340550-07	S340550-08
Expended in Prior Years Financial Statements	\$ 183,514	\$ 154,496
Current Year Construction in Progress	527,625	380,278
Current Year Administrative Allowance	14,945	14,944
	\$ 726,084	\$ 549,718

NOTE 4 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

NOTE 5 INDIRECT COST RATE

The Authority has elected not to use the 10% de minimus cost rate, nor does the Authority have an approved negotiated cost allocation rate as allowed under Uniform Guidance. Further, all the grant charges are direct costs and no indirect cost allocation rate has been used.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
DECEMBER 31, 2017**

NOTE 6 SUB-RECIPIENTS

The Authority is the final end user of the Federal expenditures presented in the accompanying schedule, no expenditures were used to provide awards to sub-recipients.

NOTE 7 LOAN PROGRAMS

The Federal expenditures presented in the accompanying schedule are subject to a loan program. The balance of the loan program at December 31, 2017 is as follows:

Federal Loan Balance	\$ 1,604,816
Non-Federal Loan Balance	<u>534,939</u>
Total Loan Balance	<u><u>\$ 2,139,755</u></u>

NOTE 8 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

Part 1 - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued :	_____	Unmodified
Internal control over financial reporting :		
Material weakness(es) identified ?	_____ yes	_____ X _____ no
Significant deficiency(ies) identified?	_____ yes	_____ X _____ none reported
Noncompliance material to the financial statements noted?	_____ yes	_____ X _____ no

Federal Awards

Internal control over compliance:		
Material weaknesses identified?	_____ yes	_____ X _____ no
Significant deficiency(ies) identified?	_____ yes	_____ X _____ none reported
Type of auditor's report on compliance for major programs	_____	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 516 of Title 2 U.S. Code of Federal Regulations Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance)?		
	_____ yes	_____ X _____ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.458	Capitalization Grants of Clean Water State Revolving Funds

Dollar threshold used to determine Type A programs	_____	\$750,000
Auditee qualified as low-risk auditee?	_____ yes	_____ X _____ no

**CUMBERLAND COUNTY UTILITIES AUTHORITY
FINDINGS AND QUESTIONED COSTS – PART II
FINANCIAL STATEMENT FINDINGS
YEAR ENDED DECEMBER 31, 2017**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* or with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None Noted.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
FINDINGS AND QUESTIONED COSTS – PART III
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance including questioned costs, related to the audit of major federal programs, as required by Section 516 of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

None Noted.

**CUMBERLAND COUNTY UTILITIES AUTHORITY
FINDINGS AND QUESTIONED COSTS – PART IV
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017**

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* or with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey and the awards that are required to be reported in accordance with Government Auditing Standards and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

None Noted.