



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

OCEAN COUNTY UTILITIES AUTHORITY

Financial Statements

December 31, 2016 and 2015

With Independent Auditors' Reports

Ocean County Utilities Authority
December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Ocean County Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Ocean County Utilities Authority (the "Authority"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and in compliance with the audit requirements prescribed by the Division of Local Government Services, Department of 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 from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended December 31, 2016, the Authority determined that the restricted and unrestricted net position was not classified in agreement with the terms and conditions of the bond resolution agreement. Therefore, the Authority restated the opening balances and ending balances for the year ended December 31, 2015 by decreasing restricted net assets and increasing unrestricted net assets. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. Schedules 3 through 5 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by New Jersey Department of the Treasury Circular Letter 15-08 OMB, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2017 on our consideration of Ocean 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ocean County Utilities Authority's internal control over financial reporting and compliance.

Withum Smith+Brown, PC

May 30, 2017



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

MANAGEMENT'S DISCUSSION AND ANALYSIS



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

This section presents management's analysis of the Authority's financial condition and activities for the year ending December 31, 2016. Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

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' thirty-six participants 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, public institutions and the millions of seasonal visitors to the many attractions 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 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, a public body corporate and politic of the State of New Jersey was created pursuant to a resolution adopted by the Board of Chosen Freeholders of Ocean County on July 8, 1970, and the Sewerage Authorities Law, constituting Chapter 38 of the Pamphlet Laws of 1946 of the State as amended (the "Original Act"). On December 6, 1978, the Ocean County Sewerage Authority was reorganized as the Ocean County Utilities Authority pursuant to the Act.

The Authority has the statutory power to acquire, to construct, to maintain and to operate sewerage facilities for the relief of waters in, bordering or entering the areas with the territorial boundaries of the County from pollution or threatened pollution and for the improvement of conditions affecting the public health.

Pursuant to the provisions of the Act, the Authority presently consists of twelve Commissioners, eleven of whom are appointed by the Board of Chosen Freeholders of Ocean County and one of whom is appointed by the Board of Chosen Freeholders of Monmouth County. All members of the Authority are appointed to five-year terms. The Authority is administered by an Executive Director appointed by the members and directly responsible to them. The Authority has approximately 260 employees who are organized into four activities: Finance and Administration, Engineering and Construction, Operations and Maintenance, and Technical Services.

The Authority's Service Area includes portions of the Atlantic Coastal Drainage Basin in Ocean County, the Metedeconk River Drainage Basin, which is located in Ocean and Monmouth Counties and the Manasquan River Drainage Basin, which is located in Monmouth County. The Authority currently has Service Contracts with 36 contracting customers, including 19 municipalities, 14 municipal authorities, 2 private corporations and the Department of the Navy for the Naval Air Warfare Center at Lakehurst.

The System encompasses trunk and interceptor sewer lines, metering stations, pump stations and three treatment plants. The Northern Service Area treatment facility ("NWPCF") commenced initial operations in September 1976, the Southern Service Area treatment facility ("SWPCF") commenced initial operations in August 1977, and the Central Service Area treatment facility ("CWPCF") was the last to come on-line, commencing initial operations in December 1979. The Authority's three regional treatment facilities provide secondary treatment and disinfection of the wastewater collected in the service areas. The treatment processes at each of the plants are essentially the same. The primary treatment process consists of influent pumping, screening to remove large objects, aerated grit chambers for grit removal, and primary settling to remove suspended and organic matter. The secondary treatment for biological reduction of pollutants includes diffused air aeration and final settling. Disinfection is provided with the effluent conveyed through outfall lines equipped with diffuser systems to the Atlantic Ocean. In addition, the Authority has constructed septage-receiving facilities at the Central Treatment Facility to allow for septage treatment as a result of a 1980 State law prohibiting certain landfills from receiving septage.

In 1997, The Authority completed construction and testing of a new centralized sludge drying facility located at the CWPCF in Bayville. The system utilizes Andritz, Inc. rotary drum sludge dryers fueled by natural gas to produce a final pelletized product that is approved for use as fertilizer and is marketed under the product name Oceangro. In accordance with the provisions of the New Jersey Wastewater Treatment Public-Private Contracting Act, N.J.S.A. 58:27-1.9 et, seq., the Authority entered into a contract with Andritz, Inc. to operate the facility. The current contract ends on December 31, 2017.

The County of Ocean has agreed, pursuant to the County Agreement dated September 15, 1971 ("Deficiency Advance Contract"), to pay the Authority amounts ("Deficiency Advances"), if any, equal to any excess of the Authority's expenses (including debt service) over its receipts. In the opinion of Bond Counsel to the Authority, the obligation of the County to make Deficiency Advances is a valid and binding general obligation of the County.

Hurricane Sandy

In 2012, the Authority was affected by Hurricane Sandy's storm surge as it hit the New Jersey coastline. The storm primarily impacted the Authority's collection and conveyance systems. The three treatment plants remained relatively unscathed. Damages were sustained to 27 pump stations, 23 metering chamber facilities and 16 cathodic protection stations. The three ocean outfalls were inspected via marine divers and no damage was reported. Within one week following the storm, the Authority was able to restore adequate sewerage services to each participant in the regional system affected by the storm. The Authority continues to plan for and implement permanent repairs and replacements to damaged equipment in order to completely restore damaged facilities to pre-storm conditions. Long-term mitigation projects will be carefully evaluated and considered to strengthen facilities with the goal of reducing or eliminating future losses from similar storm events. Hurricane Sandy repairs and mitigation upgrades will be completed by December 31, 2017.

GASB 68 - Accounting and Financial Reporting for Pensions

During the fiscal year ended December 31, 2015, the Authority was required to adopt GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, relative to its participation in the Public Employees Retirement System (PERS). Historically, the Authority has recorded its contributions to the plan as expenses in the year these contributions were required by the State of New Jersey Division of Pensions and Benefits. With the adoption of GASB 68, the Authority is required to record a liability in its financial statements for its proportionate share of the PERS plan liability and expenses. The Authority's December 31, 2016 net pension liability increased to \$68,730,386, deferred outflows of resources increased to \$19,773,776 and deferred inflows of resources decreased to \$555,057. All employers who participate in the PERS are being required to record a proportionate share of the June 30, 2016 and 2015 net pension liability in their respective financial statements which totals

\$29,617,131,759 and \$22,447,996,119, respectively. Management is of the opinion that it is highly unlikely the Authority will ever be required to pay this liability.

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 Seven-Year Capital Improvement Plan in particular, add to the financial strength of the Authority.

The following are key financial highlights for 2016 and 2015:

- The Authority issued \$6.409 million of bonds in May 2016 through the New Jersey Environmental Infrastructure Trust Financing Program to fund the upgrades and improvements to the following Authority Projects: (1) ND1356 Northern Service Area Pump Station Improvements, and (2) AW1355 Area Wide Pump Station Generator Improvements. Of this amount \$6.4 million is being paid back over a twenty-year period with \$3.628 million interest free, \$1.231 million of principal forgiveness and \$1.550 million at an interest rate ranging from 2% to 5%. The contractors started work in July 2015 and the estimated completion is June 2017.
- For fiscal years 2016 and 2015, the Authority treated 17.254 and 17.464 billion gallons of wastewater, respectively.
- User charges and fees revenues and product sales were \$69.5 million, a decrease from 2015 in the amount of \$317 thousand or .45% less.
- Operating expenses excluding depreciation increased \$701 thousand or 1.6% from 2015. The bulk of this increase was attributable to the increase in salaries and benefits.
- Operating loss after depreciation for the year 2016 was \$3.8 million.
- Total net position decreased by \$11.043 million from 2015 after booking a non-operating pension expense of \$4.827 million.

The Authority budgets on the cash basis and does not fund depreciation. The Authority's 2016 operating revenues exceeded operating expenses. The Authority appropriated \$4.746 million to its capital budget from operations while depositing \$2.537 million to unrestricted general fund.

Audit Assurance

The unmodified opinion of our independent external auditors, WithumSmith+Brown, PC is included in this report.

Financial Analysis

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

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

Condensed Financial Statements

Condensed Statement of Net Assets

	December 31		
	2016	2015	2014
		(Restated)	(Restated)
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 21,377,385	\$ 20,584,931	\$ 17,843,186
Non-Current Assets	72,298,196	71,188,647	79,834,424
Capital Assets	294,363,470	307,642,366	319,424,876
Deferred Outflows of Resources	19,773,776	9,023,621	1,926,207
Total Assets and Deferred Outflows of Resources	\$ 407,812,827	\$ 408,439,565	\$ 419,028,693
Liabilities and Deferred Inflows of Resources:			
Current Liabilities	\$ 23,746,352	\$ 24,769,886	\$ 23,363,555
Non-Current Liabilities	212,555,511	200,819,997	204,697,818
Deferred inflow of resources	555,057	849,856	2,515,113
Total Liabilities and Deferred Inflows	236,856,920	226,439,739	230,576,486
Net Position:			
Restricted or Invested in Capital Assets	161,778,626	168,110,762	188,244,710
Unrestricted	9,177,281	13,889,064	207,497
Total Net Position	170,955,907	181,999,826	188,452,207
Total Liabilities, Deferred Inflows and Net Position	\$ 407,812,827	\$ 408,439,565	\$ 419,028,693

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

	December 31		
	2016	2015	2014
			(Restated)
Operating Revenues:			
Charges for Services	\$ 69,164,231	\$ 69,523,277	\$ 70,808,610
Product Sales	349,797	307,993	320,449
Total Operating Revenues	69,514,028	69,831,270	71,129,059
Operating Expenses:			
Operations and Maintenance	40,115,331	39,630,450	38,448,467
Depreciation	28,212,067	28,666,664	29,147,552
Bad Debt Expense	-	37,489	-
Administration and General	4,981,200	4,727,683	4,712,876
Total Operating Expenses	73,308,598	73,062,286	72,308,895
Operating Loss	(3,794,570)	(3,231,016)	(1,179,836)
Non Operating Revenues (Expenses)	(7,249,349)	(3,221,365)	(3,316,183)
Changes in Net Position	(11,043,919)	(6,452,381)	(4,496,019)
Total Net Position - Beginning of Year, As Previously Reported	181,999,826	188,452,207	235,320,155
Prior Period Adjustment	-	-	(42,371,929)
Net Position - Beginning of Year, As Restated	181,999,826	188,452,207	192,948,226
Total Net Position - End of Year	\$ 170,955,907	\$ 181,999,826	\$ 188,452,207

Other Selected Information

	Year		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Selected Data for Analysis:			
Employees at year-end	260	258	262
Sewer customers at year-end	37	37	37
Septage haulers at year-end	24	25	21
Fertilizer customers at year-end	58	58	60
Annual sewage flow in million gallons	17,254	17,464	18,156
User Rates:			
Sewer use per million gallons	\$ 3,882	\$ 3,882	\$ 3,882
Septage disposal per thousand gallons	65.65	65.65	65.65
Graywater disposal per thousand gallons	30.49	30.49	30.49
BOD surcharge per pound	0.40	0.40	0.40
Suspended solids surcharge per pound	0.38	0.38	0.38
Ratio of Operating Revenue to:			
Operating expenses	1.54	0.96	0.98
Operating expenses net of depreciation	4.12	1.57	1.65
Total assets	0.18	0.17	0.17
Total net position	0.41	0.38	0.31
Debt Related Ratios			
Equity to long-term debt	1.10	1.24	1.42
Current ratio	2.91	2.34	4.10
Operating ratio	0.24	0.23	0.61
Debt service coverage	1.42	1.58	1.22
General fund to operating expenses	1.19	1.12	1.00

Results of Operations

Operating Revenues: Revenues from operations fall into two general categories: charges for services and product sales. Charges for services include sewer use income, septage, application fees, sales of plans and specifications, scrap metal sales, assessments and miscellaneous income. Product sales are sales of fertilizer produced by converting sludge generated from the treatment process at all three facilities into fertilizer pellets. This organic fertilizer product is registered with the N. J. Department of Agriculture and is marketed under the name "Oceangro".

Operating Expenses: The Authority's operating expenses consist of the following categories: employment costs, repairs and maintenance, supplies and materials, depreciation, utilities and administration. Operating expenses increased by \$701 Thousand or 1.6 % from 2015.

Rates and Billing and Collection Process

The rate of charge per million gallons of sewage treated, known as the Bulk Rate, is set by the Authority on an annual basis in accordance with the Municipal and County Utilities Authorities Law and the Bond Resolution. The rate per million gallons for 2016 and 2015 was \$3,882 and \$3,882, respectively. The Bulk Rate will remain \$3,882 per million gallons for 2017.

Customers, known as Participants, are required to pay estimated Annual Charges to the Authority in equal quarterly installments. These Annual Charge payments are based on the estimated wastewater flows and the current Bulk Rate. The amount of this estimated Annual Charge is stated in a certificate delivered to each Participant no later than January 31 of each year. The Participants are required to make Annual Charge payments on the first days of March, June, September and December, with the exception of Manasquan River Regional Sewerage Authority whose payments are due on the last days of March, June, September and December. There are two exceptions to the above-described process – Long Beach Township and the Naval Air Warfare Center, both of whom make quarterly payments based on actual metered flows.

At the end of each calendar year, the estimated Annual Charge billings are adjusted to reflect the actual wastewater discharged by the Participant during the year. This process is referred to as a “Deficiency Notification” and can result in an additional amount due the Authority or a “credit” due the Participant. All such excess payments or additional payments are due in March of the following fiscal year.

Pursuant to the service contracts, the Participants are required to pay interest at the rate of eight percent (8%) per annum on any Annual Charge payment or part thereof due to the Authority that shall remain unpaid for 30 days following its due date.

Capital Improvement Program

As part of the annual budget process, the Authority updates its Capital Improvement Plan. This Plan generally updates the projected capital expenditures for the current year, the upcoming budget year as well as for an additional six-year planning period. The 2016 capital budget projection was \$26,152,000. Actual capital expenditures for 2016 came in at about \$15,426,000.

The Authority currently has approximately 120 discreet projects listed on the Capital Improvement Plan – 11 of these projects are under construction, 16 are in various phases of evaluation and design, and the balance are to be addressed in the coming years. All proposed projects on the Plan have been, or will be, evaluated for economic feasibility. As the Authority moves forward with each major project, it is submitted for review by all agencies having jurisdiction.

The Authority’s Capital Improvement Program is financed from a combination of sources. The current Capital Improvement Plan projects total expenditures for the six-year period of 2017 through 2022 of \$131,380,000. Funding is expected from the following sources:

General Fund	\$ 44,530,000
NJEIT Loans	\$ 86,850,000

It is the Authority’s policy to utilize the New Jersey Environmental Infrastructure Trust (“NJEIT”) to the greatest extent possible. For eligible projects, three quarters of the cost is funded by an interest-free “Fund” loan, and quarter of the cost is funded by a “Trust” loan which bears market-rate interest. NJEIT loans are on a reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the trust. Interest is credited to the Authority’s account on funds held by the Trust.

Final Comments

The Authority has adopted appropriate strategic operating, finance and capital improvement plans that insure the Authority will continue to provide the residents of Ocean County with an exemplary level of service while maintaining reasonable and stable rates.



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

FINANCIAL STATEMENTS

Ocean County Utilities Authority
Statements of Net Position
December 31, 2016 and 2015

Assets and Deferred Outflows of Resources	2016	2015
Current assets		
Unrestricted cash and cash equivalents	\$ 16,148,161	\$ 13,241,626
Accounts receivable, less allowance for doubtful accounts	1,484,348	3,786,352
Inventories	2,864,371	2,658,727
Prepaid expenses	880,505	898,226
Total current assets	<u>21,377,385</u>	<u>20,584,931</u>
Non-current assets		
Restricted assets		
Cash and cash equivalents	6,714,828	10,647,666
Investments	59,427,973	57,870,355
Interest receivable	213,741	130,381
NJEIT loan funds receivable	<u>5,941,654</u>	<u>2,540,245</u>
Total non-current assets	<u>72,298,196</u>	<u>71,188,647</u>
Capital assets		
Property, plant and equipment	854,367,995	849,481,195
Construction in progress	<u>30,307,885</u>	<u>21,131,352</u>
Sub-total	884,675,880	870,612,547
Less: accumulated depreciation	<u>590,312,410</u>	<u>562,970,181</u>
Net capital assets	<u>294,363,470</u>	<u>307,642,366</u>
Total assets	<u>388,039,051</u>	<u>399,415,944</u>
Deferred outflow of resources		
Pension related	<u>19,773,776</u>	<u>9,023,621</u>
Total assets and deferred outflows of resources	<u>\$ 407,812,827</u>	<u>\$ 408,439,565</u>

See Independent Auditors' Report
The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Statements of Net Position (Continued)
December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position	2016	2015 (Restated)
Current liabilities payable from current assets		
Accounts payable	\$ 1,861,010	\$ 3,220,872
Accrued expenses	1,417,577	1,987,159
Unearned principal forgiveness	176,347	-
Unearned revenue	3,890,727	3,485,372
Total current liabilities payable from current assets	<u>7,345,661</u>	<u>8,693,403</u>
Current liabilities payable from restricted assets		
Accounts payable	248,108	112,179
Retainage payable and other	748,233	703,666
Revenue bonds, due within one year	2,685,000	2,570,000
Loans payable, due within one year	10,636,203	10,517,430
Accrued interest payable	2,083,147	2,173,208
Total current liabilities payable from restricted assets	<u>16,400,691</u>	<u>16,076,483</u>
Total current liabilities	<u>23,746,352</u>	<u>24,769,886</u>
Non-current liabilities		
Compensated absences payable	1,521,299	1,549,400
Long-term portion of revenue bonds payable, net	33,362,581	36,384,002
Long-term portion of loans payable, net	108,941,245	110,028,546
Net pension liability	68,730,386	52,858,049
Total non-current liabilities	<u>212,555,511</u>	<u>200,819,997</u>
Total liabilities	<u>236,301,863</u>	<u>225,589,883</u>
Deferred inflow of resources		
Pension related	<u>555,057</u>	<u>849,856</u>
Net position		
Net investment in capital assets	148,868,638	155,185,974
Restricted for		
Debt service reserve	4,409,988	4,424,788
Renewal and replacement	5,000,000	5,000,000
Revenue reserve	3,500,000	3,500,000
Unrestricted	<u>9,177,281</u>	<u>13,889,064</u>
Total net position	<u>170,955,907</u>	<u>181,999,826</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 407,812,827</u>	<u>\$ 408,439,565</u>

See Independent Auditors' Report

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

Ocean County Utilities Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues		
User charges and fees	\$ 68,789,581	\$ 68,755,391
Product sales	349,797	307,993
Other	<u>374,650</u>	<u>767,886</u>
Total operating revenues	<u>69,514,028</u>	<u>69,831,270</u>
Operating expenses exclusive of depreciation		
Employment costs	26,837,526	25,947,693
Repairs and maintenance	2,419,903	2,212,548
Supplies and materials	5,234,933	5,587,043
Utilities	5,622,969	5,883,166
Bad debt expense	-	37,489
Administration	<u>4,981,200</u>	<u>4,727,683</u>
Total operating expenses exclusive of depreciation	<u>45,096,531</u>	<u>44,395,622</u>
Operating income before depreciation	24,417,497	25,435,648
Depreciation	<u>28,212,067</u>	<u>28,666,664</u>
Operating loss	<u>(3,794,570)</u>	<u>(3,231,016)</u>
Non-operating revenues (expenses and losses)		
Insurance and FEMA recoveries	-	1,455,388
Interest and investment (loss) income	894,094	922,511
Interest expense	(3,894,335)	(3,820,966)
Loss on disposal of assets and other losses	(476,323)	(10,780)
Principal forgiveness on NJEIT loans	1,054,598	124,137
Pension expense, net	<u>(4,827,383)</u>	<u>(1,891,655)</u>
Total non-operating revenues (expenses and losses)	<u>(7,249,349)</u>	<u>(3,221,365)</u>
Changes in net position	<u>(11,043,919)</u>	<u>(6,452,381)</u>
Net position - beginning of year	<u>181,999,826</u>	<u>188,452,207</u>
Net position - end of year	<u><u>\$ 170,955,907</u></u>	<u><u>\$ 181,999,826</u></u>

See Independent Auditors' Report

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

Ocean County Utilities Authority
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 72,221,387	\$ 69,262,604
Payments to employees	(27,435,209)	(25,672,991)
Payments to suppliers	(19,626,294)	(17,193,447)
Net cash provided by operating activities	<u>25,159,884</u>	<u>26,396,166</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(15,426,453)	(16,890,633)
Proceeds from sale of capital assets	17,069	-
Insurance and FEMA recoveries	-	1,455,388
Proceeds from NJEIT loan funds receivables	7,313,322	8,470,757
Principal paid on debt	(13,218,724)	(13,453,095)
Interest paid on debt, net of savings credits	(4,124,408)	(4,660,909)
Net cash used by capital and related financing activities	<u>(25,439,194)</u>	<u>(25,078,492)</u>
Cash Flows From Investing Activities		
Proceeds from investment maturities	11,189,449	12,044,132
Proceeds from sales of investments	4,338,450	3,821,415
Purchases of investments	(17,391,470)	(12,765,629)
Interest and investment income received	1,116,578	1,297,820
Net cash (used) provided by investing activities	<u>(746,993)</u>	<u>4,397,738</u>
Net change in cash and cash equivalents	(1,026,303)	5,715,412
Cash and Cash Equivalents		
Beginning of year	23,889,292	18,173,880
End of year	<u>\$ 22,862,989</u>	<u>\$ 23,889,292</u>
Cash and cash equivalents - statements of net position		
Unrestricted cash and cash equivalents	\$ 16,148,161	\$ 13,241,626
Restricted cash and cash equivalents	6,714,828	10,647,666
Total cash and cash equivalents - statements of net position	<u>\$ 22,862,989</u>	<u>\$ 23,889,292</u>
Reconciliation of Operating Loss To Net Cash Provided By Operating Activities		
Operating loss	\$ (3,794,570)	\$ (3,231,016)
Adjustments to reconcile operating loss to Net cash provided by operating activities:		
Depreciation expense	28,212,067	28,666,664
Bad debt expense	-	37,489
Changes in operating assets and liabilities:		
Accounts receivable	2,302,004	(500,731)
Inventories	(205,644)	(76,402)
Prepaid expenses	17,721	(32,645)
Accounts payable	(1,223,933)	1,430,466
Accrued expenses and compensated absences	(597,683)	274,702
Unearned revenue	405,355	(67,935)
Retainage payable and other	44,567	(104,426)
Net cash provided by operating activities	<u>\$ 25,159,884</u>	<u>\$ 26,396,166</u>

See Independent Auditors' Report

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ocean County Utilities Authority ("Authority"), a public body, was created to construct and operate a wastewater collection and treatment system to serve Ocean County and portions of Monmouth County. The Authority has entered into a service contract agreement with its participants, obligating each user to make payments to the Authority for its proportionate share of the Authority's operating expenses, debt service and required reserves.

The Authority was created pursuant to a resolution adopted by the Board of Chosen Freeholders of Ocean County on July 8, 1970 and the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of 1946 of the State as amended ("Original Act"). On December 6, 1978, the Ocean County Sewerage Authority was reorganized as the Ocean County Utilities Authority pursuant to the Act.

New Jersey statutes provide for the creation, dissolution and operations of separate bodies corporate and politic for the purpose of fostering the provision and distribution of an adequate supply of water and the collection, treatment, disposal and recycling of wastewater and sewage sludge. The statutes were enacted as the "Municipal and Counties Utilities Authorities Act", and are codified in New Jersey Statutes Annotated as NJSA 40:14B-1 et seq. Additional statutory requirements relating to the financial operations of independent local authorities were established as the "Local Authorities Fiscal Control Law", which is codified as NJSA 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs, State of New Jersey, as oversight agencies for the creation, project financing, budgeting and overall financial condition of local authorities.

The Board of Commissioners of the Authority consists of ten members and two alternates, eleven of whom are appointed by the Board of Chosen Freeholders of Ocean County and one of whom is appointed by the Board of Chosen Freeholders of Monmouth County. All members of the Authority are appointed to five-year terms.

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

Reporting Entity

The Authority is considered to be a "Component Unit" of the County of Ocean under accounting principles generally accepted in the United States of America (GAAP). This determination is based on the oversight responsibility of the County, which manifests itself primarily in the selection of members of the Authority, and on the accountability for fiscal matters as evidenced by the Deficiency Advance Contract dated September 15, 1971, which obligates the County to provide for any deficits of the Authority, which advances are to be refunded to the County through subsequent collection of user fees.

The County of Ocean does not follow GAAP for accounting and financial reporting purposes. Rather, it follows a regulatory basis, utilizing accounting principles which differ, in some cases significantly, from GAAP. The financial statements of the County do not include the financial statements of the Authority, based on the separate legal status of the Authority.

Basis of Presentation

The financial statements of the Authority have been prepared in accordance with GAAP applicable to enterprise funds of state and local governments. Enterprise funds are used to account for operations:

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

A. BASIS OF ACCOUNTING

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

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

B. USE OF ESTIMATES

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

C. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents include interest-bearing accounts and short-term investments with an original maturity of three months or less, carried at cost, which approximates market.

D. INVESTMENTS

Investments consist of certificates of deposit, United States Treasury Obligations, money market funds, and United States Treasury Notes and securities insured by the United States Government. Investments are reported at fair value with changes in fair value being reported

within non-operating revenues/expenses in the Statements of Revenue, Expenses and Changes in Net Position.

E. ACCOUNTS RECEIVABLE

The Authority's billing practices include billing its customers on an estimated basis. An annual billing adjustment is made in the first quarter of the following year for actual billable flow charges. For financial statement presentation, these adjustments are reflected in revenue for the year earned. Pursuant to the service contracts, the Participants are required to pay interest at the rate of eight percent (8%) per annum on any Annual Charge payment or part thereof due to the Authority that shall remain unpaid for 30 days following its due date. As of December 31, 2016 and 2015, an allowance for doubtful accounts has been established in the amount of \$336,319 and \$337,514 based on accounts that may not be collectible.

F. INVENTORIES

Inventories of spare parts, chemicals and supplies are expensed when consumed. Inventories are stated at cost as determined utilizing the average cost valuation method, which approximates the first-in, first-out method. No determinations have been made and no allowances have been recorded with respect to obsolete or surplus inventories as management believes all inventory items are unique to the Authority's system and will be needed and used in future years.

G. NET POSITION

Net position is identified as the residual of all other elements presented in a statement of financial position. Net position is classified in the following three components:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, and any funds receivable from the NJEIT for capital expenditures reduced by the outstanding balances of any bonds, notes or other borrowings and deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

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

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

H. BOND RESOLUTION REQUIREMENTS

The Authority is operating under a bond resolution adopted December 20, 1985, and supplemental resolutions adopted January 16, 1987, August 27, 1987, May 16, 1991, September 10, 1992, November 22, 1994, May 6, 1997, December 15, 1998, September 27, 2001 and December 5, 2007.

Pursuant to the bond resolutions, the Authority established the following funds:

Revenue Fund – assets held by the Trustee consisting of all revenues received by the Authority and deficiency deposits, government grants or other contributions. Withdrawals are made for payment to the Authority's other funds for authorized operating expenses and, as of the first day of each month, transfers to the other funds subject to limitations.

Operating Fund – assets held by the Authority for the operation, maintenance and repair of the system. The Trustee transfers necessary funds from the Revenue Fund to meet the Operating Fund requirement.

Bond Service Fund – assets held by the Trustee for payment of matured principal and interest on outstanding bonds plus principal and interest due on or before the following January 1st. The Trustee transfers necessary funds from the Revenue Fund to meet the Bond Service requirement.

Sinking Fund – assets held by the Trustee to meet the Sinking Fund requirements on outstanding bonds, as required by the applicable bond resolutions.

Bond Reserve Fund – assets held by the Trustee in an amount equal to Maximum Bond Service, as defined by the applicable bond resolutions. Currently, Maximum Bond Service is \$4,409,988.

Renewal and Replacement Fund – assets held to be used for major repairs, replacement and renovation of the sewage system. Asset size is the greater of:

- (a) \$1,500,000; or
- (b) an amount as may be required by the Authority.

Revenue Reserve Fund – assets held to be used to meet deficiencies in the Operating Fund or other accounts. The assets in the Revenue Reserve Fund shall be the greater of:

- (a) \$3,500,000; or
- (b) 10% of the maximum bond service (excluding junior lien bonds); or
- (c) a larger amount as the Authority may require.

General Fund – assets held, which, if free and clear of any lien or pledge created by the Resolution, may be spent for any lawful purpose.

Construction Fund – assets held subject to the restricted use from which they were raised by debt or by grant. Monies are used to pay for capital additions and improvements to the system.

In addition to the above, the Authority has established the following restricted accounts:

- (a) Scrap Payable Account which maintains proceeds from the sale of items that were acquired with grant funds. Interest earned remains within the account. Proceeds and interest income will be utilized for additional construction or will be refunded to the grant agency as determined by the Authority and grant agency. All activity related to the account is recorded in the Scrap Payable Account.
- (b) Connection Escrow Account which maintains proceeds from users for items which may be utilized to pay costs of a project associated with the user or may be refunded to the user if not utilized. All interest is recognized as income. Escrow activity is included in retainage payable and other in the accompanying statements of net position.

I. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment is stated at cost and includes direct construction costs, other expenditures related to construction, and certain professional and administrative costs. System construction costs are charged to construction in progress until such time as each segment of the system is completed and put into operation.

Depreciation is determined on a straight-line basis for all plant and equipment. Present policy is to begin depreciation in the first month of the year following purchase or transfer from construction in progress.

Depreciation is provided over the following estimated lives:

Lab equipment	7 years
Site improvements	20 years
Buildings and structures	40 years
Computers	3 years
Process electrical	15 years
Pipe (process), mechanical and electrical	20 years
Plant control system	7 years
Interceptors	40 years
Furniture	15 years
Vehicles	5 years
Preoperating costs and capitalized interest	20 years

J. PRINCIPAL FORGIVENESS

The Authority entered into several loan agreements under the New Jersey Environmental Infrastructure Trust Financing Program that entitle the Authority to grants in the form of principal forgiveness. The principal forgiveness is being recognized as revenue as funds are expended and reimbursed under this category. For the years ended December 31, 2016 and 2015, \$1,054,598 and \$124,137, respectively, in principal forgiveness was earned and reported as revenue. As of December 31, 2016 and 2015, \$176,347 and \$0, respectively, is remaining as unearned principal forgiveness on the statements of net position.

K. CAPITALIZED INTEREST

During the years ended December 31, 2016 and 2015, the Authority incurred \$3,894,335 and \$3,820,966, respectively, of net interest expense. No interest has been capitalized to construction projects.

L. RESTRICTED NET POSITION

Certain components of net position are restricted for specific uses as required by the Authority's bond resolutions. The purpose of each is indicated on the face of the statement of net position and is explained in Note 1G. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. INCOME TAXES

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

N. DEBT ISSUE COSTS

Debt issue costs have been expensed in accordance with Governmental Accounting Standards.

O. BUDGETARY PROCEDURES

The Authority follows these procedures in establishing the operating fund budget:

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

The budget must comply with the terms and provisions of any security agreements and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

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

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

P. DEFERRED INFLOWS/OUTFLOWS

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. Deferred inflow of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority's deferred outflows and deferred inflows are a result of its participation in the pension plan (see Note 11).

Q. RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statement presentation to conform to the current year's presentation. Such reclassifications had no effect on the change in net assets or net position of the Authority.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Ocean County Utilities Authority's investment practices are governed by New Jersey State Statute 40A:5-15.

A. DEPOSITS

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agency of the United States that insures deposits or the State of New Jersey Cash Management Fund. N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). New Jersey statutes require public depositories to maintain collateral for deposit of public funds that exceed insurance limits based on specific criteria outlined in the statutes.

B. INVESTMENTS

New Jersey statutes establish the following securities as eligible for the investment of Authority funds:

- (a) Bonds or other obligations of the United States or obligations guaranteed by the United States.
- (b) Government Money Market Mutual Funds.

- (c) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an Act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor.
- (d) Bonds or other obligations, of the local unit, or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located.
- (e) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units.
- (f) Local government investment pools.
- (g) Deposits with the State of New Jersey Cash Management Fund established pursuant to Section 1 of P.L. 1977, C. 281 (C.52:18A-90.4).
- (h) Agreements for the repurchase of fully collateralized securities.

Repurchase agreements (15.1(a)(8)) must comply with the following conditions:

- (a) The underlying securities are permitted investments, pursuant to the list contained in (B) above;
- (b) The custody of the collateral is transferred to a third party. This means the bank must contract with a trusted third party to hold the collateral to ensure it is not pledged against any other investments;
- (c) The maturity of the agreement is not more than 30 days;
- (d) The underlying securities are purchased through a GUDPA bank; and
- (e) A master repurchase agreement providing for the custody and security of collateral is executed;

Local Government Investment Pools ("LGIP") (15.1(e)(2)) are subject to the following requirements:

- (a) It is managed in accordance with the SEC's government money market rules (2a7); and
- (b) It is rated in the highest category by a nationally-recognized statistical rating organization.
- (c) Have their portfolio limited to U.S. government securities as defined in (2a7) and repurchase agreements that are collateralized by such U.S. government securities.

Every local unit must have a Cash Management Plan ("Plan"); the Plan is subject to audit. In addition, when the Plan permits investments for more than one year, the investment maturity must approximate the prospective use of funds. This primarily relates to U.S. securities and local bond issue purchases. The law also requires that cash management plans provide for the Chief Financial Officer to give the governing body a monthly report that summarizes:

- (a) All investments made or redeemed over the past month;
- (b) Each organization holding local unit funds;

- (c) The amount of securities purchased and sold, class or type of securities purchased, book value, earned income, fees incurred, and market value of all investments as of the report date; and
- (d) Other information that may be required by the governing body.

During the year, the Authority had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of the year, no such investments were held by the Authority.

Fair Value Measurements

The Authority uses a fair value hierarchy established by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are:

Level 1 – Valuation is based upon quoted prices for identical assets

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and input other than quoted prices that are observable instruments in the market.

Level 3 – Valuation is generated from model-based techniques that use significant unobservable inputs.

The Authority's investments, stated at fair value, as of December 31, 2016 and 2015, are:

	2016	2015	Hierarchy
Obligations guaranteed by the United States of America	\$ 29,712,020	\$ 26,785,823	Level 2
U.S. treasury notes	<u>29,715,953</u>	<u>31,084,532</u>	Level 2
	<u><u>\$ 59,427,973</u></u>	<u><u>\$ 57,870,355</u></u>	

All investments are valued based on quoted market prices and are held by the Authority's agent in the Authority's name.

As of December 31, 2016 and 2015 balances on deposit are entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name, except for category 3 deposits as noted below. As of December 31, 2016 and 2015, the investments of the Authority are listed by appropriate risk category as follows:

Category 1 - Cash or investments, which are insured or registered or held by the Authority or its agent in the Authority's name.

Category 2 – Cash or investments which are uninsured and unregistered, with securities held by others in the Authority's name.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

Category 3 – Cash or investments which are uninsured and unregistered, with securities held by others, but not in the Authority's name.

As of December 31, 2016 and 2015 Cash and Cash Equivalents and Investments of the Authority consisted of the following:

	12/31/2016 Bank Balances and Cash on Hand				Book Balances
	Category				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Checking/savings A/C	\$17,988,185	\$ -	\$ -	\$17,988,185	\$ 16,402,844
Cash on hand	-	-	2,960	2,960	2,960
Money market A/C	6,457,185	-	-	6,457,185	6,457,185
Investments at fair value	<u>59,427,973</u>	<u>-</u>	<u>-</u>	<u>59,427,973</u>	<u>59,427,973</u>
	<u>\$83,873,343</u>	<u>\$ -</u>	<u>\$ 2,960</u>	<u>\$83,876,303</u>	<u>\$ 82,290,962</u>

	12/31/2015 Bank Balances and Cash on Hand				Book Balances
	Category				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Checking/savings A/C	\$15,382,217	\$ -	\$ -	\$15,382,217	\$ 13,496,716
Cash on hand	-	-	2,475	2,475	2,475
Money market A/C	10,390,101	-	-	10,390,101	10,390,101
Investments at fair value	<u>57,870,355</u>	<u>-</u>	<u>-</u>	<u>57,870,355</u>	<u>57,870,355</u>
	<u>\$83,642,673</u>	<u>\$ -</u>	<u>\$ 2,475</u>	<u>\$83,645,148</u>	<u>\$ 81,759,647</u>

The carrying amount of the Authority's Cash and Cash Equivalents as of December 31, 2016 and 2015 was \$22,862,989 and \$23,889,292, respectively, and the bank balance was \$24,448,330 and \$25,774,793, respectively. Of the bank balance, \$500,000 was covered by federal depository insurance each year, \$2,960 and \$2,475, respectively, were cash balances on hand, \$23,793,940 and \$21,087,681, respectively, was covered by a collateral pool maintained by the banks as required by New Jersey statutes, \$151,430 and \$4,187,112, respectively, was invested in Government Money Market Mutual Funds. There were no uninsured or uncollateralized funds at the end of either year.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

3. CAPITAL ASSETS

Capital Asset activity for the fiscal years ended December 31, 2016 and 2015 were as follows:

	Balance 12/31/2015	Additions	Retirements/ Reclassifications	Balance 12/31/2016
Capital assets not being depreciated:				
Land	\$ 8,239,131	\$ 786,732	\$ -	\$ 9,025,863
Construction in progress	<u>21,131,352</u>	<u>15,426,452</u>	<u>(6,249,919)</u>	<u>30,307,885</u>
Total capital assets not being depreciated	<u>29,370,483</u>	<u>16,213,184</u>	<u>(6,249,919)</u>	<u>39,333,748</u>
Capital assets being depreciated:				
Site improvements	7,485,531	338,999	-	7,824,530
Building and building improvements	265,852,828	1,098,067	(530,912)	266,419,983
Machinery and equipment	457,528,852	3,669,947	(476,033)	460,722,766
Pre-operating costs	<u>110,374,853</u>	<u>-</u>	<u>-</u>	<u>110,374,853</u>
Totals at historical cost	841,242,064	5,107,013	(1,006,945)	845,342,132
Less accumulated depreciation	<u>(562,970,181)</u>	<u>(28,212,067)</u>	<u>869,838</u>	<u>(590,312,410)</u>
Total capital assets being depreciated,				
Net of accumulated depreciation	<u>278,271,883</u>	<u>(23,105,054)</u>	<u>(137,107)</u>	<u>255,029,722</u>
Net capital assets	<u>\$307,642,366</u>	<u>\$ (6,891,870)</u>	<u>\$ (6,387,026)</u>	<u>\$294,363,470</u>
	Balance 12/31/2014	Additions	Retirements/ Reclassifications	Balance 12/31/2015
Capital assets not being depreciated:				
Land	\$ 8,239,131	\$ -	\$ -	\$ 8,239,131
Construction in progress	<u>24,093,193</u>	<u>16,890,633</u>	<u>(19,852,474)</u>	<u>21,131,352</u>
Total capital assets not being depreciated	<u>32,332,324</u>	<u>16,890,633</u>	<u>(19,852,474)</u>	<u>29,370,483</u>
Capital assets being depreciated:				
Site improvements	6,685,449	800,082	-	7,485,531
Building and building improvements	262,215,800	3,637,028	-	265,852,828
Machinery and equipment	446,312,478	15,415,364	(4,198,990)	457,528,852
Pre-operating costs	<u>110,374,853</u>	<u>-</u>	<u>-</u>	<u>110,374,853</u>
Totals at historical cost	825,588,580	19,852,474	(4,198,990)	841,242,064
Less accumulated depreciation	<u>(538,496,028)</u>	<u>(28,666,664)</u>	<u>4,192,511</u>	<u>(562,970,181)</u>
Total capital assets being depreciated,				
Net of accumulated depreciation	<u>287,092,552</u>	<u>(8,814,190)</u>	<u>(6,479)</u>	<u>278,271,883</u>
Net capital assets	<u>\$319,424,876</u>	<u>\$ 8,076,443</u>	<u>\$ (19,858,953)</u>	<u>\$307,642,366</u>

4. ACCRUED SICK AND VACATION BENEFITS

The Ocean County Utilities Authority allows employees to accumulate unused benefits as follows:

Sick Leave – Sick leave for permanent employees accumulates at the rate of one day per month. Unused sick leave may be bought back for those days accumulated in excess of 45 days. Upon retirement, an employee is entitled to receive only half of the accumulated days up to 45 days and 100% of days accumulated over 45 days.

Vacations – Vacation benefits for permanent employees accumulate based on length of continuous employment. Vacation days may accrue up to a maximum of twenty-four (24) months' worth of vacation unless the Authority requests an employee to forgo vacation time due to work related emergencies.

At December 31, 2016 and 2015, \$1,521,299 and \$1,549,400, respectively, of unpaid sick and vacation pay is accrued as Compensated Absences Payable. For the purpose of establishing the accrued liability, the Authority recognizes the full value of current accumulations calculated in accordance with the policies enumerated above. GASB Statement No. 16 provides the authoritative source of GAAP for recognition and reporting of the accrued liability for compensated absences and provides alternatives for the purpose of calculating the accrued liability for sick leave. Under the Termination Payment Method, the accrual should be made only to the extent that it is probable that the benefits will result in termination payments. Under this method, the current accrued value of earned benefits would be discounted based on the past experience of the Authority in making termination payments to employees upon separation from service. Under the Vesting Method, the accrual should be based on the value of accumulated benefits at the balance sheet date for employees who currently are eligible to receive termination payments for these benefits, as well as the accumulated benefits of employees who are expected to become eligible in the future to receive such payments.

The Authority has followed the provisions of GASB Statement No. 16 in the calculation of the accrued liability for compensated absences at December 31, 2016 and 2015. Management has analyzed past experience utilizing the Termination Payment Method and has determined that no discount is warranted on the value of sick pay.

5. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Authority has received several loans from the State of New Jersey under the Wastewater Treatment Trust Program / Environmental Infrastructure Trust Program ("NJEIT Trust") for improvements to the Authority's wastewater system. The NJEIT Trust has issued bonds for loans to various entities. The loan is on the reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the Trust Fund. Interest and an administrative fee are charged on the trust loan and interest is credited to the Authority's account on funds not yet received. The funds on hand at the NJEIT Trust for loans committed to the Authority are drawn down subject to the approval of the NJEIT Trust. The Trust loans have interest rates ranging from 2.0% to 5.50% and mature in various increments through 2035.

Under the Wastewater Treatment Fund Program / Environmental Infrastructure Fund Program ("NJEIT Fund"), the State extended several noninterest-bearing loans. When a project is completed, the final expenditures report is submitted to the State. If the total project cost is less than the loan amount, the State will make an adjustment to the final loan payment and reduce the liability accordingly.

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As of December 31, 2016 and 2015, there was \$5,941,654 and \$2,540,245, respectively, in loan funds receivable from the NJEIT Trust and Fund.

In 2012, the Authority entered into a loan agreement for \$3,820,000 (Trust Loan) and \$6,544,519 (Fund Loan) under the New Jersey Environmental Infrastructure Financing Program. This program entitles the Authority to principal forgiveness on the Fund Loan Agreement equal to \$2 million. The Fund Loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan.

In 2016, the Authority entered into a loan agreement for \$1,550,000 (Trust Loan) and \$4,858,993 (Fund Loan) under the New Jersey Environmental Infrastructure Financing Program. This program entitles the Authority to principal forgiveness on the Fund Loan Agreement equal to \$1,230,945. The Fund Loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan.

As of December 31, 2016 and 2015, net loan premiums related to the NJEIT loans in the amount of \$3,929,265 and \$3,777,694, respectively, are being amortized using the bonds outstanding method which approximates the effective interest method. Net accumulated amortization as of December 31, 2016 and 2015 is \$2,507,001 and \$2,296,515, respectively. The annual amortization is recorded against interest expense. The unamortized balance of the net loan premiums of \$1,422,263 and \$1,481,178, respectively, has been offset against the long-term portion of loans payable at December 31, 2016 and 2015.

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

Ocean County Utilities Authority
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December 31, 2016 and 2015

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

Issue	Trust	Fund	Total
Series 1998	\$ 374,429	\$ 103,295	\$ 477,724
Series 2000	283,805	-	283,805
Series 2001	295,910	-	295,910
Series 2002	3,238,658	737,510	3,976,168
Series 2004	2,312,125	2,068,665	4,380,790
Series 2005	16,280,452	14,431,245	30,711,697
Series 2006	4,362,331	3,778,115	8,140,446
Series 2007	8,104,000	7,773,438	15,877,438
Series 2008	3,247,000	2,284,443	5,531,443
Series 2009	1,530,000	1,920,205	3,450,205
Series fall 2010A	655,000	1,516,811	2,171,811
Series winter 2010B	2,579,000	2,221,244	4,800,244
Series 2012	3,255,000	3,466,159	6,721,159
Series 2013	1,400,000	3,550,118	4,950,118
Series 2014	3,575,000	10,243,220	13,818,220
Series 2016	<u>1,550,000</u>	<u>3,505,063</u>	<u>5,055,063</u>
	<u>\$ 53,042,710</u>	<u>\$ 57,599,531</u>	110,642,241
	Future Savings Credits		3,117,217
	Unamortized net premium - loans		1,422,263
	NJEIT 2017 Construction Loans not yet converted to permanent financing		4,395,727
	Less: loans payable, due within one year		<u>(10,636,203)</u>
	Long-term portion of loans payable, net		<u>\$ 108,941,245</u>

6. REVENUE BONDS PAYABLE

Revenue Bonds payable is reflected on Schedule 4 of the supplementary information. As of December 31, 2016 and 2015, bond premiums in the amount of \$7,242,091 and \$9,812,192, respectively, are being amortized using the bonds outstanding method which approximates the effective interest method. Net accumulated amortization as of December 31, 2016 and 2015 is \$5,389,510 and \$7,623,190, respectively. The unamortized balance of \$1,852,581 and \$2,189,002, respectively, and has been offset against the long-term portion of bonds payable at December 31, 2016 and 2015.

Refunding Series 2006

The 2006 Bonds are not subject to redemption prior to their respective stated maturity dates.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. DEBT SERVICE ON BONDS AND LOANS

The following summarizes net activity in long-term debt for the year ended December 31, 2016:

	Beginning Balances	New Debt Issued	Repayments	Non-Cash Project Credits/ Deobligations	Ending Balances	Amount Due Within One Year
Revenue bonds	\$ 36,765,000	\$ -	\$ (2,570,000)	\$ -	\$ 34,195,000	\$ 2,685,000
NJEIT loans	<u>117,425,632</u>	<u>5,178,048</u>	<u>(10,648,724)</u>	<u>(1,312,715)</u>	<u>110,642,241</u>	<u>10,636,203</u>
Total bonds and loans payable	<u>\$ 154,190,632</u>	<u>\$ 5,178,048</u>	<u>\$ (13,218,724)</u>	<u>\$ (1,312,715)</u>	<u>\$ 144,837,241</u>	<u>\$ 13,321,203</u>

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

Year	Principal	Interest	Total
2017	\$ 13,321,203	\$ 4,095,824	\$ 17,417,027
2018	12,836,811	3,741,729	16,578,540
2019	12,970,009	3,360,392	16,330,401
2020	13,337,950	2,972,633	16,310,583
2021	13,673,855	2,561,173	16,235,028
2022-2026	63,617,998	6,354,983	69,972,981
2027-2031	12,081,422	542,719	12,624,141
2032-2036	<u>2,997,993</u>	<u>60,356</u>	<u>3,058,349</u>
	144,837,241	\$ 23,689,809	\$ 168,527,050

<u>(110,642,241)</u>	Less loans payable, inclusive of unamortized premium
34,195,000	Revenue bonds payable
(2,685,000)	Less current portion
<u>1,852,581</u>	Unamortized bond premium/discounts - bonds
<u>\$ 33,362,581</u>	Long-term portion of revenue bonds payable

8. DEFERRED COMPENSATION PROGRAM

The Authority offers its employees a Deferred Compensation Plan ("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.

During December 1998, the Authority, in accordance with Internal Revenue Code 457, amended the Deferred Compensation Plan to establish an exclusive benefit trust whereby all Plan investments are held for the exclusive benefit of the Plan's participants and beneficiaries, and are not subject to the claims of the Authority's general creditors. As such, the Deferred Compensation Plan amounts as of December 31, 2016 and 2015 are not reflected on the Authority's statements of net position.

9. STATE HEALTH BENEFITS PROGRAM

The Authority is enrolled in the State Health Benefits Program ("SHBP"). Premiums paid in SHBP provide health insurance benefits to full-time employees and Commissioners. Employees may elect to enroll eligible dependents for coverage. In addition to the SHBP, the Authority establishes a medical expense bank of \$640 per annum for certain single employees and \$690 per annum for certain employees with dependents. Certain other employees have elected to participate in a dental insurance plan in lieu of the medical expense bank plan. Employees who are not receiving SHBP benefits through another employer are entitled to waive his or her right to coverage and receive 25% of the premium to which he/she was eligible or \$5,000, whichever is less.

10. POST-RETIREMENT HEALTH BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating entities, including the Authority. The Plans are cost-sharing, multiple employer-defined benefit plans. P.L. 1987, c.384 and P.L. 1990, c.6 required the PERS to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2015, there were 234,857 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994. The participating local governments contributed \$1.3 billion to the State Health Benefits Program-Local for each of the fiscal years ended December 31, 2016 and 2015.

As a result of implementing GASB Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans* ("OPEB"), effective for fiscal year 2007, the State Health Benefits Program, the Prescription Drug Program ("PDP") and Post-Retirement Medical ("PRM") of the PERS and Teachers' Pension and Annuity Fund ("TPAF") are combined and reported as Pension and Other Employee Benefit Trust funds in the State's Comprehensive Annual Financial Report ("CAFR"). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as a Fund (Health Benefits Program Fund – State). The SHBP-Local, PDP-Local, and the PRM of the TPAF are combined and reported as a separate Fund (Health Benefits Program Fund – Local) in the State's CAFR. The State's most recent valuation report in accordance with GASB 45 was for the year ended June 30, 2015 and can be found at <http://www.state.nj.us/treasury/pensions/audit-rpts-2015/shbp-15.pdf>. The unfunded actuarial accrued liability for the local participants is approximately \$16.409 billion at the actuarial valuation date of July 1, 2014.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues publicly-available financial reports that include the financial statements and required supplementary information of the above trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

The State will set the employer contribution rate based on the annual required contribution of the employers ("ARC"), an amount actuarially-determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The unfunded actuarial accrued liability for the Authority has

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

not been determined. The number of retirees receiving benefits and Authority's contributions to the State Health Benefits Program Fund for post-retirement benefits for the last three years were as follows:

	2016	2015	2014
Authority's contributions to the SHBP	\$ 1,379,293	\$ 1,166,954	\$ 977,603
Number of retirees receiving benefits	86	80	66

11. PENSION PLAN

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

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

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

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

Employer and Employee Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

portion of the normal cost and an amortization of the unfunded accrued liability. The local employer's contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability.

During the year ended December 31, 2016 and 2015, the PERS received employer and employee contributions as follows:

	<u>2016</u>	<u>2015</u>
Employer contributions	\$ 2,091,416	\$ 1,869,164
Employee contributions	\$ 1,167,188	\$ 1,109,886
Salary basis for contributions	\$ 16,369,807	\$ 15,879,556
Percent of base wages	7.06% - 7.20%	6.92% - 7.06%

Summary of Significant Accounting Policies

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

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

The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015. In accordance with GASB 68, the measure date shall not be earlier than 1 year from the statement of net position date, therefore, the Authority has elected to utilize June 30, 2016 and 2015 as the measurement dates, respectively.

The Authority's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2016 and 2015. At December 31, the Authority's proportionate share and net pension liability was as follows:

	<u>2016</u>	<u>2015</u>
PERS net pension liability - local	\$ 29,617,131,759	\$ 22,447,996,119
Authority net pension liability	\$ 68,730,386	\$ 52,858,049
Authority's proportion	0.232062938%	0.235468898%

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>
Proportionate share of allocable plan pension expense	\$ 6,561,835	\$ 3,467,484
Pension expense related to specific liabilities of individual employers	--	--
Net amortization of deferral amounts from changes in proportion	<u>327,043</u>	<u>448,500</u>
Total employer pension expense excluding that attributable to employer-paid member contributions	<u>\$ 6,888,878</u>	<u>\$ 3,915,984</u>

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

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$ 14,237,265	\$ --	\$ 5,676,532	\$ --
Net difference between projected and actual earnings on pension plan investments	3,898,929	--	1,261,007	849,856
Changes in proportion and differences between Authority contributions and proportionate share of contributions	1,637,582	555,057	2,086,082	--
Authority contributions subsequent to the measurement date	--	--	--	--
	<u>\$ 19,773,776</u>	<u>\$ 555,057</u>	<u>\$ 9,023,621</u>	<u>\$ 849,856</u>

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

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

Years Ended December 31:

	PERS (local)	Authority Share
2017	\$ 1,759,522,489	\$ 4,326,920
2018	1,759,522,489	4,326,920
2019	2,038,465,810	5,012,882
2020	1,712,609,385	4,211,554
2021	545,084,612	1,340,442
	<u>\$ 7,815,204,785</u>	<u>\$ 19,218,719</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2016	2015
Inflation rate	3.08%	3.04%
Salary increases through 2026	1.65-4.15%	2.15-4.40%
	based on age	based on age
Thereafter	2.65-5.15%	3.15-5.40%
	based on age	based on age
Investment rate of return	7.65%	7.90%

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

MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S treasuries	1.50%	1.74%
Investment grade credits	8.00%	1.79%
Mortgages	2.00%	1.67%
High yield bonds	2.00%	4.56%
Inflation-indexed bonds	1.50%	3.44%
Broad US equities	26.00%	8.53%
Developed foreign equities	13.25%	6.83%
Emerging market equities	6.50%	9.95%
Private equity	9.00%	12.40%
Hedge funds / absolute return	12.50%	4.68%
Real estate (property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, 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

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2016 and 2015

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 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2016 and 2015, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point than the current rate:

	2016		
	At 1 % decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
PERS as a whole (local only)	<u>\$ 36,292,338,055</u>	<u>\$ 29,617,131,759</u>	<u>\$ 24,106,170,190</u>
Authority's proportionate share of the net pension liability	<u>\$ 84,221,066</u>	<u>\$ 68,730,386</u>	<u>\$ 55,941,487</u>
	2015		
	At 1 % decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
PERS as a whole (local only)	<u>\$ 27,900,112,533</u>	<u>\$ 22,447,996,119</u>	<u>\$ 17,876,981,108</u>
Authority's proportionate share of the net pension liability	<u>\$ 65,696,087</u>	<u>\$ 52,858,049</u>	<u>\$ 42,094,730</u>

Pension Plan Fiduciary Net Position

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

12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission, injuries to employees, and natural disaster. The Authority has purchased insurance to mitigate these risks. Settled claims have not exceeded this coverage in any of the past three years.

13. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority has committed design and construction contracts outstanding at December 31 as follows:

	2016	2015
Construction	\$ 4,528,897	\$ 8,540,619
Engineering	<u>1,705,704</u>	<u>723,416</u>
	<u>\$ 6,234,601</u>	<u>\$ 9,264,035</u>

Litigation

The Authority may be subject of, or a party to, various pending or threatened legal actions. The Authority believes that any ultimate liability arising from these legal actions should not have a material effect on its financial position or operations.

14. RESTATEMENT

During the year ended December 31, 2016, as part of the Authority's analysis of its reserve requirements, management determined that the restricted and unrestricted net position was not classified in agreement with the terms and conditions of the bond resolution agreement.

To correct this misstatement, the separate categories of net position were restated as follows:

- Restricted net position was decreased and unrestricted net position was increased by \$13,217,700 as of December 31, 2014, effectively restating the opening balance at January 1, 2015.
- In addition to the above, restricted net position was increased and unrestricted net position was decreased by \$178,409 from that previously reported for the year ended December 31, 2015.

15. SUBSEQUENT EVENTS

Management has evaluated events occurring after December 31, 2016 for possible adjustment to or disclosure in the financial statements through May 30, 2017 the date on which the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred that require recognition or disclosure in the financial statements.



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

REQUIRED SUPPLEMENTARY INFORMATION

Ocean County Utilities Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability –
Public Employees' Retirement System (PERS)
Years Ended December 31, 2016 through 2013

Schedule 1

	2016	2015	2014	2013
Authority's proportion (percentage) of the collective net pension liability	0.232062938%	0.235468898%	0.225414305%	0.221703422%
Authority's proportionate share (amount) of the collective net pension liability	\$ 68,730,386	\$ 52,858,049	\$ 42,203,723	\$ 42,371,929
Authority's covered-employee payroll	\$ 16,369,807	\$ 15,879,556	\$ 16,023,337	\$ 15,449,961
The Authority's proportionate share (amount) of the collective net pension liability as a percentage of it's covered-employee payroll	419.9%	332.9%	263.4%	274.3%
Plan fiduciary net position as a percentage of the total collective pension liability (local only)	38.21%	42.74%	42.74%	42.74%

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

Notes to Required Supplementary Information:

Benefit Changes

None.

Changes of Assumptions

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016.

See Independent Auditors' Report

Ocean County Utilities Authority
Schedule of the Authority's Contribution – Public Employees' Retirement System (PERS)
Years Ended December 31, 2016 through 2007

Schedule 2

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 2,091,416	\$ 1,869,164	\$ 1,730,935	\$ 1,613,172	1,714,568	1,681,322	\$ 1,465,429	\$ 1,211,084	\$ 974,809	\$ 613,491
Contributions in relation to the contractually required contribution	<u>(2,091,416)</u>	<u>(1,869,164)</u>	<u>(1,730,935)</u>	<u>(1,613,172)</u>	<u>(1,714,568)</u>	<u>(1,681,322)</u>	<u>(1,465,429)</u>	<u>(1,211,084)</u>	<u>(974,809)</u>	<u>(613,491)</u>
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Percent of base wages	7.06-7.20%	6.92-7.06%	6.78-6.92%	6.64-6.78%	6.50%	5.50%-6.50%	5.50%	5.50%	5.00-5.50%	5.00%
Authority's covered-employee payroll	\$ 16,369,807	\$ 15,879,556	\$ 15,449,961	\$ 15,449,961	\$ 15,178,041	\$ 15,204,346	\$ 15,174,063	\$ 14,794,908	\$ 14,301,023	\$ 13,613,841
Contributions as a percentage of authority's covered-employee payroll	12.78%	11.77%	11.20%	10.44%	11.30%	11.06%	9.66%	8.19%	6.82%	4.51%

See Independent Auditors' Report



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

OTHER SUPPLEMENTARY INFORMATION

Ocean County Utilities Authority
Schedule of Revenue and Costs (Budgetary Basis)
Year Ended December 31, 2016 (with Summarized 2015 Actual Information)

Schedule 3

	2016 Adopted Budget	2016 Modified Budget	2016 Actual	2015 Actual
Revenues:				
User fees	\$ 72,239,000	\$ 72,239,000	\$ 68,789,581	\$ 68,755,391
Other	325,000	325,000	349,797	307,993
Interest and investment income	<u>573,000</u>	<u>573,000</u>	<u>1,199,937</u>	<u>1,240,695</u>
Total revenues	<u>73,137,000</u>	<u>73,137,000</u>	<u>70,339,315</u>	<u>70,304,079</u>
Costs of providing services:				
Operations and maintenance:				
Salaries	15,176,000	15,205,900	14,799,057	14,663,614
Fringe benefits	7,158,000	7,183,000	6,805,251	6,449,259
Chemicals	2,588,000	2,607,000	2,300,187	2,341,868
Buildings and grounds	182,000	202,000	148,823	132,802
Fees	758,000	793,000	685,426	581,628
Fuel	531,000	505,000	262,818	352,508
General	178,000	181,600	167,530	128,352
Instrumentation	134,000	193,000	162,675	86,431
Laboratory equipment	20,000	21,000	17,827	20,805
Legal fees	15,000	5,000	4,688	8,482
Lines maintenance	81,000	78,000	67,531	41,661
Outside services	781,000	879,000	676,079	616,314
Personnel equipment	152,000	209,500	192,996	117,548
Supplies and consumables	2,405,000	2,426,000	2,026,472	2,216,642
Tools and safety equipment	167,000	179,000	139,217	148,083
Utilities	5,512,000	5,150,000	4,649,186	4,885,516
Vehicle maintenance	<u>202,000</u>	<u>222,000</u>	<u>201,458</u>	<u>171,421</u>
	<u>36,040,000</u>	<u>36,040,000</u>	<u>33,307,221</u>	<u>32,962,934</u>
Fertilizer manufacturing division:				
Salaries	166,000	218,000	191,506	166,222
Fringe benefits	91,000	97,000	92,654	74,517
Chemicals	28,000	60,000	33,609	16,100
Buildings and grounds	20,000	20,000	3,550	51,681
Fees	15,000	15,000	12,703	13,214
Fuel oil	120,000	75,000	-	131,750
General	58,000	54,000	33,278	36,914
Instrumentation	1,000	1,000	-	-
Legal	5,000	5,000	3,626	384
Outside services	2,243,000	2,256,000	2,154,998	2,096,983
Personnel equipment	2,000	2,000	1,058	1,512
Supplies and consumables	212,000	228,000	155,828	105,426
Tools and safety equipment	1,000	1,000	636	2,013
Utilities	<u>1,250,000</u>	<u>1,180,000</u>	<u>839,112</u>	<u>871,260</u>
	<u>4,212,000</u>	<u>4,212,000</u>	<u>3,522,558</u>	<u>3,567,976</u>
Engineering and construction:				
Salaries	671,000	664,000	649,634	651,855
Fringe benefits	253,000	284,000	302,842	243,676
General	20,000	20,000	16,730	8,844
Legal fees	4,000	4,000	2,494	200
Outside services	95,000	69,000	67,071	111,560
Personnel equipment	<u>2,000</u>	<u>4,000</u>	<u>3,082</u>	<u>2,084</u>
	<u>1,045,000</u>	<u>1,045,000</u>	<u>1,041,853</u>	<u>1,018,219</u>
Total costs of providing services	<u>41,297,000</u>	<u>41,297,000</u>	<u>37,871,632</u>	<u>37,549,129</u>

See Independent Auditors' Report

Ocean County Utilities Authority
Schedule of Revenue and Costs (Budgetary Basis) (continued)
Year Ended December 31, 2016 (with Summarized 2015 Actual Information)

Schedule 3

	2016 Adopted Budget	2016 Modified Budget	2016 Actual	2015 Actual
General and administrative:				
Salaries	1,765,000	1,755,500	1,723,829	1,678,226
Fringe benefits	2,200,000	2,287,500	2,251,093	2,012,845
General	276,000	285,000	242,979	205,302
Information systems	70,000	70,000	67,109	72,087
Insurance premiums	1,770,000	1,655,000	1,633,066	1,604,260
Legal fees	115,000	142,000	139,676	110,660
Outside services	1,117,000	1,111,000	1,017,734	958,642
Personnel equipment	1,000	8,000	7,147	128,029
Supplies and consumables	8,000	8,000	7,595	7,998
Telecommunications	<u>135,000</u>	<u>135,000</u>	<u>134,670</u>	<u>126,424</u>
Total general and administrative	<u>7,457,000</u>	<u>7,457,000</u>	<u>7,224,898</u>	<u>6,904,473</u>
Interest expense	<u>4,237,000</u>	<u>4,237,000</u>	<u>4,461,286</u>	<u>4,478,955</u>
Other costs funded by revenues:				
Principal maturity	13,146,000	13,146,000	13,218,724	12,851,060
Operations & maintenance reserve	<u>269,000</u>	<u>269,000</u>	<u>-</u>	<u>-</u>
Total costs funded by operating revenues	66,406,000	66,406,000	62,776,540	61,783,617
Budgetary revenues over expenses	<u>6,731,000</u>	<u>6,731,000</u>	<u>7,562,775</u>	<u>8,520,462</u>
Total	<u>\$ 73,137,000</u>	<u>\$ 73,137,000</u>	<u>\$ 70,339,315</u>	<u>\$ 70,304,079</u>
			2016 Actual	2015 Actual
Reconciliation of budgetary basis to change in net position GAAP basis				
Budgetary revenues over expenses			<u>\$ 7,562,775</u>	<u>\$ 8,520,462</u>
Adjustments to budgetary basis:				
Depreciation expense			(28,212,067)	(28,666,664)
Principal payments on debt			13,218,724	12,851,060
Other income			374,650	767,886
Change in fair value of investments			(305,844)	(318,184)
Insurance and FEMA recoveries			-	1,455,388
Amortization of discounts/premiums on bonds			566,951	657,989
(Loss)/gain on asset disposals			(476,323)	(10,780)
Principal forgiveness on NJEIT loans			1,054,598	124,137
Inventory adjustments			-	57,980
Pension expense, net			<u>(4,827,383)</u>	<u>(1,891,655)</u>
Total adjustments			<u>(18,606,694)</u>	<u>(14,972,843)</u>
Change in net position GAAP basis			<u>\$ (11,043,919)</u>	<u>\$ (6,452,381)</u>

See Independent Auditors' Report

Ocean County Utilities Authority
Schedule of the Wastewater Revenue Bonds Payable
December 31, 2016

Schedule 4

<u>Issue</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Maturities</u>		<u>Balance December 31, 2016</u>
				<u>Date</u>	<u>Amount</u>	
Refunding series 2006:						
Serial bonds	12/05/06	\$ 79,360,000	5.250%	01/01/17	\$2,685,000	
			5.250%	01/01/18	2,830,000	
			5.250%	01/01/19	2,975,000	
			5.250%	01/01/20	3,135,000	
			5.250%	01/01/21	3,295,000	
			5.250%	01/01/22	3,470,000	
			5.250%	01/01/23	3,655,000	
			5.250%	01/01/24	3,845,000	
			5.250%	01/01/25	4,045,000	
			5.250%	01/01/26	4,260,000	\$ 34,195,000

See Independent Auditors' Report

John C. Parker	Chairman
Daniel J. Hennessy	Vice Chairman
Frank Sadeghi	Treasurer
Carol A. Scull	Secretary
Robert Toscan	Commissioner
Richard L. Work	Commissioner
Watson F. Pharo	Commissioner
Helen Fayad	Commissioner
Jesse Tantillo	Commissioner
Alan W. Avery Jr.	Commissioner
Rabbi Yitzchok Rozsansky	Alternate
Carmen F. Amato, Jr.	Alternate

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

To the Board of Commissioners
Ocean County Utilities Authority

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 the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Ocean County Utilities Authority, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Ocean County Utilities Authority's basic financial statements, and have issued our report thereon dated May 30, 2017.

Internal Control over Financial Reporting

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

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

Purpose of This Report

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

Withum Smith+Brown, PC

May 30, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH NEW JERSEY OMB CIRCULAR 15-08

To the Board of Commissioners
Ocean County Utilities Authority

Report on Compliance for Each Major State Program

We have audited Ocean County Utilities Authority's compliance with the types of compliance requirements described in NJ OMB Circular 15-08 *State Grant Compliance Supplement* that could have a direct and material effect on each of Ocean County Utilities Authority's major state programs for the year ended December 31, 2016. Ocean County Utilities Authority's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Ocean County Utilities Authority's major state 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; the audit requirements of the State of New Jersey, Department of Treasury, Office of Management and Budget, Policy Circular Letter 15-08-OMB 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 state program occurred. An audit includes examining, on a test basis, evidence about the Ocean County Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, the Ocean 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 state programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the Ocean County Utilities 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 Ocean County Utilities 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 Ocean County Utilities 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 NJ Circular Letter 15-08-OMB. Accordingly, this report is not suitable for any other purpose.

Withum Smith & Brown, PC

May 30, 2017

Ocean County Utilities Authority
Schedule of Expenditures of State Awards
Year Ended December 31, 2016

<u>State Grantor/Program Title</u>	<u>State Account Number</u>	<u>Grant Award Amount</u>	<u>Current Fiscal Year Cash Received</u>	<u>Grant Period</u>		<u>Current Fiscal Year Expenditures</u>	<u>Cumulative Expenditures</u>
				<u>From</u>	<u>To</u>		
<u>Department of Environmental Protection Agency:</u>							
NJ Environmental Infrastructure Trust Program:							
2016 NJEIT Loans	042-4860-510-009	\$ 6,478,658	\$ 1,322,731	5/26/2016	8/1/2035	\$ 5,550,520 *	\$ 5,550,520
2017 NJEIT Construction Loan	n/a	<u>8,738,825</u>	<u>3,921,920</u>	8/15/2016	7/1/2018	<u>4,404,702</u>	<u>4,404,702</u>
		<u>\$ 15,217,483</u>	<u>\$ 5,244,651</u>			<u>\$ 9,955,222</u>	<u>\$ 9,955,222</u>

* Includes approximately \$2,010,445 of expenditures relating to prior years reported when loan closed in 2016 and reimbursement requests were made.

Ocean County Utilities Authority
Notes to Schedules of Expenditures of State Awards
Year Ended December 31, 2016

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Awards includes the state grant activity of Ocean County Utilities Authority for the year ended December 31, 2016. The information in this schedule is presented on the accrual basis of accounting and in accordance with the requirements of NJ Circular Letter 15-08-OMB. Because the schedule presents only a selected portion of the operations of Ocean County Utilities Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Ocean County Utilities Authority. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedules are generally reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and represent costs incurred under the New Jersey Environmental Infrastructure Trust and Fund Loan programs.

3. INDIRECT COSTS

The Authority does not have a federally negotiated indirect cost rate.

4. SUBRECIPIENTS

The Authority did not have any subrecipients during the year ended December 31, 2016.

5. PROCUREMENT

For the year ended December 31, 2016, the Authority followed the guidance under the OMB Circular A-133 Compliance Supplement regarding procurement.

Ocean County Utilities Authority
Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

State Awards:

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Identification of major programs:

NJ Environmental Infrastructure Trust Program

Section II – Financial Statement Findings

There are no financial statement findings reported.

Section III – State Award Findings and Questioned Costs

There are no state award findings or questioned costs reported.

[See Independent Auditors' Report.](#)

Ocean County Utilities Authority
Prior Year Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

Prior Audit Findings

None.

Findings – Financial Statement Audit

None.

Findings and Questioned Costs – Major State Awards Audit

None.

See Independent Auditors' Report.

**Ocean County Utilities Authority
Comments and Recommendations
Year Ended December 31, 2016**

None.

See Independent Auditors' Report.