

NEW JERSEY WATER SUPPLY AUTHORITY
(A Component Unit of the State of New Jersey)

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

June 30, 2018

NEW JERSEY WATER SUPPLY AUTHORITY
A Component Unit of the State of New Jersey

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INDEPENDENT AUDITORS' REPORT

To the Commissioners of
New Jersey Water Supply Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the New Jersey Water Supply Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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. 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 opinions.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note L to the financial statements, in 2018 the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four through eleven and the required supplementary schedules on pages 44 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information, as listed in table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information (Continued)

The other supplementary information, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the other supplementary information, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely 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 the effectiveness of the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mercedien, P.C.
Certified Public Accountants

April 29, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

This section of the Annual Financial Report of the New Jersey Water Supply Authority (the "Authority"), a Component Unit of the State of New Jersey, presents discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2018 and June 30, 2017. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2018

- Operating revenue for fiscal year 2018 was \$32.7 million, a 16.5% increase over fiscal year 2017, which was the result of a 31.2% increase in Raritan, and an 8.3% decrease in Manasquan sales. In the Raritan Basin System, rates increased to \$336.00 per million gallons, and the sales base increased slightly to 182.353 million gallons per day ("mgd"). In the Manasquan Reservoir System, rates decreased to \$1,043.35 per million gallons. The fiscal year 2018 sales base remained at 19.443mgd.
- Unrestricted cash and cash equivalents for fiscal year 2018 were \$48.2 million, an increase of 8.5% over fiscal year 2017. Income from operations increased for the Raritan System 1150.1% and decreased 21.6% for the Manasquan System.
- Total liabilities for fiscal year 2018 were \$178.9 million. This is an increase of 30.5% from fiscal year 2017 and reflects the February 2018 interim financing in the amount of \$49.5 million with the New Jersey Infrastructure Bank for the D&R Canal Dredging project in the Raritan Basin System less the change in the total OPEB liability from \$37 million to \$33.5 million.
- Total operating expenses for fiscal year 2018 increased to \$25.0 million, which represents a 1.4% increase from fiscal year 2017. Payroll increased 6.1% because of retroactive cost of living and step increments awarded to union employees and the filling of funded vacancies. Fringe benefits decreased 9.1% due largely to one-time recognition of pension expense in 2017, which was partially offset by recognition of additional expense in connection with implementation of GASB Statement No. 75, Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions (OPEB). Direct operations and maintenance expenses increased 10.3% to \$5.7 million.
- Other changes for fiscal year 2018 include the following: non-operating revenue increased 19167.7% to \$559.9 thousand; investment income increased 2044.4% because of a fiscal year 2017 arbitrage payment made in connection with the 2016 bond refunding. The receipt of grant program reimbursement decreased 81.7% from the previous year, and other income increased because of a one-time repayment to FEMA in fiscal year 2017 of funds that had already been reimbursed by the Authority's insurance.
- Non-operating expenses for fiscal year 2018 increased 150.2% to \$1.0 million. The interest component of debt service decreased 4.5% with the continued pay-down of the system debt. There was an increase in the reduction in costs to be recovered from future revenue, (deferred inflows of resources) and the change in the rate model is outlined in Note B to the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2017

- Operating revenue for fiscal year 2017 was \$28.0 million, an increase of .7% over fiscal year 2016, which was the result of a 1.2% decrease in Raritan, and a 5.1% increase in Manasquan sales. In the Raritan Basin System, rates remained at \$253.00 per million gallons, and the sales base remained at 182.339 million gallons per day (“mgd”). In the Manasquan Reservoir System, there was an increase in the rate from \$1,057.40 per million gallons to \$1,104.58 per million gallons. The fiscal year 2017 sales base remained at 19.443mgd.
- Unrestricted cash and cash equivalents for fiscal year 2017 were \$44.4 million, an increase of 7.9% from fiscal year 2016. Income from operations decreased for the Raritan System 87.3% and increased 4.2% for the Manasquan System.
- Total liabilities for fiscal year 2017 were \$137.4 million. This is an increase of 48.1% from fiscal year 2016 and reflects the recognition of the Authority's portion of the State of New Jersey's net unfunded pension liability as required by GASB 68, which is effective for fiscal years beginning after June 15, 2014 as well as the Authority's portion of the State of New Jersey's net unfunded OPEB liability as required by GASB 75, which is effective for fiscal years beginning after June 15, 2017. The Authority continues to pay down long-term debt in both systems and completed a current refunding of the 2005 Manasquan Water Supply System Revenue Bonds in FY2016.
- Total operating expenses for fiscal year 2017 increased to \$24.7 million, which represents a 15.3% increase from fiscal year 2016. Payroll increased 2.8% because of step increments awarded to union employees and the filling of funded vacancies. Fringe benefits increased 57.7% due largely to an increase in the Authority's portion of the State of New Jersey's pension expense. Direct operations and maintenance expenses increased 3.5% to \$5.2 million.
- Other changes for fiscal year 2017 include the following: non-operating revenue decreased 99.8% to \$2.9 thousand; investment income decreased 102.6% because of the timing of recognition of earnings and associated arbitrage payment made in connection with the 2016 bond refunding. The receipt of grant program reimbursement increased 174.7% from the previous year, and other income decreased because of a one-time repayment to FEMA of funds that had already been reimbursed by the Authority's insurance.
- Non-operating expenses for fiscal year 2017 decreased 196.4% to \$(2.0) million. The interest component of debt service decreased 62.1% with the refunding of the 2005 Manasquan Water Supply System Revenue Bonds and the continued pay-down of the system debt. There was a decrease in the reduction in costs to be recovered from future revenue, (deferred inflows of resources) and the change in the rate model is outlined in Note B to the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the financial statements. The Authority is a self-supporting entity and follows enterprise fund accounting. The enterprise fund concept is similar to the manner in which private business enterprises are financed and operated. The Authority presents its financial statements on the accrual basis of accounting. The statements offer short and long-term financial information about the activities and operations of the Authority. The intent is that the costs of providing service to water users on a continuing basis are financed primarily through user charges. The Authority has established certain restricted "funds or accounts," as directed by internal resolution and bond indentures. In an effort to ensure compliance with the Authority's by-laws and to safeguard its assets, internal controls have been developed and implemented by management. These internal controls include policies, procedures, approved organizational structures and approved budgets for capital and operating expenditures.

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position was approximately \$88.4 million as of June 30, 2018. In fiscal year 2018, total assets and deferred outflows increased 27.3% to \$278.4 million, primarily due to an increase in accounts receivable related to the 2018 interim financing for the Raritan Basin canal dredging project. Total liabilities increased 30.5% to \$178.9 million, due to an increase in non-current portion of bonds, notes and loans payable related to the interim financing for the Raritan Basin canal dredging project and the recognition of the OPEB liability. Total net position as of June 30, 2017, was approximately \$81.2 million. Total assets at June 30, 2017 increased 4.5% to \$218.6 million, and total liabilities increased 48.1% to \$137.4 million. The majority of the increase was due to implementation of GASB 75 and recognizing \$37.7 million in OPEB liability. Total net position as of June 30, 2016, was \$113.6 million. Changes in assets, liabilities and net position at June 30, 2018, 2017 and 2016, are summarized in the following table:



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

	2018	2017	2016	Percentage Change 2018-2017	Percentage Change 2017-2016
Assets and deferred outflows of resources					
Current assets	\$ 115,729,179	\$ 58,452,649	\$ 53,645,149	97.99 %	8.96 %
Capital assets, net	144,437,281	139,466,728	140,382,085	3.56	(0.65)
Other non-current assets	10,715,097	11,104,025	11,527,173	(3.50)	(3.67)
Total assets	270,881,557	209,023,402	205,554,407	29.59	1.69
Deferred outflows of resources	7,402,086	9,612,405	3,646,920	(22.99)	163.58
Total assets and deferred outflows of resources	278,283,643	218,635,807	209,201,327	27.28	4.51
Liabilities, deferred inflows of resources, and net position					
Current liabilities	16,190,347	8,585,118	6,027,320	88.59	42.44
Non-current liabilities	56,508,420	67,630,932	21,534,789	(16.45)	214.05
Non-current portion of bonds, notes and loans payable	106,195,514	60,835,554	64,954,602	74.56	(6.34)
Total liabilities	178,894,281	137,051,604	92,516,711	30.53	48.14
Deferred inflows of resources	10,966,105	340,094	3,075,869	3,124.43	(88.94)
Net investment in capital assets	59,275,272	61,887,512	98,890,303	(4.22)	(37.42)
Restricted for debt service	13,434,461	7,262,065	3,876,937	85.00	87.31
Unrestricted	15,713,524	12,094,532	10,841,507	29.92	11.56
Total net position	\$ 88,423,257	\$ 81,244,109	\$ 113,608,747	8.84	(28.49)
Total liabilities, deferred inflows of resources, and net position	\$ 278,283,643	\$ 218,635,807	\$ 209,201,327	27.28	4.51



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

OPERATING ACTIVITIES

The Authority operates three separate systems: the Raritan Basin System, the Manasquan Water Supply System, and the Manasquan Water Treatment Plant and Transmission System. The Manasquan Water Treatment Plant and Transmission System is owned by the Southeast Monmouth Municipal Utilities Authority, which sets the rates, and is operated and maintained by the Authority under the terms of an operating agreement. Each system must generate sufficient revenue each year to cover its own operating expenses and debt service. The following rates were adopted at the June 2018 and June 2017 Authority meetings, respectively, based on anticipated operating expenses:

	<u>Rate Effective 7/01/2018</u>	<u>Rate Effective 7/01/2017</u>	<u>Percent Change</u>
Raritan Basin System	\$ 336.00/mg	\$ 336.00/mg	0 %
Manasquan Water Supply System			
Initial users	\$1,043.35/mg	\$1,043.35/mg	0 %
Delayed water users	\$1,137.76/mg	\$1,137.76/mg	0 %

The Authority's total operating revenue for fiscal year 2018 was \$32.7 million, an increase of 16.5% from fiscal year 2017, due to a 31.2% increase in Raritan water sales and a 8.3% decrease in Manasquan water sales. The Authority's total operating expenses for fiscal year 2018 were \$25.0 million, an increase of 1.4% from fiscal year 2017, mainly because of a decrease in pension expense. The Authority's total operating revenue for fiscal year 2017 was \$28.0 million, an increase of .7% from fiscal year 2016. The Authority's total operating expenses for fiscal year 2017 were \$24.7 million, an increase of 15.3% from fiscal year 2016. The following table summarizes the changes in revenue, expenses and net position between fiscal years 2018, 2017 and 2016:



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	Percentage Change 2018-2017	Percentage Change 2017-2016
Operating revenues:					
Water sales	\$ 30,030,868	\$ 25,394,799	\$ 25,199,424	18.26 %	0.78 %
Reimbursement of operating expenses	2,642,400	2,642,400	2,642,400	-	-
Total operating revenues	<u>32,673,268</u>	<u>28,037,199</u>	<u>27,841,824</u>	16.54	0.70
Non-operating revenues:					
State of New Jersey - Grant Programs	31,422	171,310	62,375	(81.66)	174.65
Investment income	489,763	(25,188)	975,579	2,044.43	(102.58)
Rental income	49,565	49,606	58,467	(0.08)	(15.16)
Other income	(10,832)	(192,822)	89,744	94.38	(314.86)
Total non-operating revenues	<u>559,918</u>	<u>2,906</u>	<u>1,186,165</u>	19,167.65	(99.76)
Total revenues	<u>33,233,186</u>	<u>28,040,105</u>	<u>29,027,989</u>	18.52	(3.40)
Operating expenses:					
Payroll	7,882,193	7,425,938	7,225,026	6.14	2.78
Operations and maintenance	5,697,087	5,165,250	4,991,547	10.30	3.48
Fringe benefits	6,819,571	7,498,085	4,755,520	(9.05)	57.67
Depreciation	4,637,409	4,596,764	4,441,492	0.88	3.50
Total operating expenses	<u>25,036,260</u>	<u>24,686,037</u>	<u>21,413,585</u>	1.42	15.28
Non-operating expenses:					
Interest component of debt service to the State of New Jersey	444,018	464,824	1,226,563	(4.48)	(62.10)
Bond discount/insurance premium expense	-	12,491	158,053	(100.00)	(92.10)
Recovery of deferred inflows of resources	573,760	(2,502,694)	716,783	122.93	(449.16)
Total non-operating expenses	<u>1,017,778</u>	<u>(2,025,379)</u>	<u>2,101,399</u>	150.25	(196.38)
Total expenses	<u>26,054,038</u>	<u>22,660,658</u>	<u>23,514,984</u>	14.97	(3.63)
Changes in net position	7,179,148	5,379,447	5,513,005	33.46	(2.42)
Net position, beginning of year, as restated	<u>81,244,109</u>	<u>113,608,747</u>	<u>108,095,742</u>	(28.49)	5.10
Net position, end of year, as previously reported	88,423,257	118,988,194	113,608,747	(25.69)	4.74
GASB 75 adjustment	-	(37,744,085)	-	(100.00)	100.00
Net position, end of year, as restated	<u>\$ 88,423,257</u>	<u>\$ 81,244,109</u>	<u>\$ 113,608,747</u>	8.84	(28.49)

See accompanying notes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2018, the Authority had a total of \$144,437,281 invested in the Systems that it operates: \$90,438,403 invested in the Raritan Basin System, and \$53,998,878 invested in the Manasquan System. This total amount represents a 3.6% increase from last year. At June 30, 2017, the Authority had a total of \$139,466,728 invested in the Systems that it operates: \$83,660,222 invested in the Raritan Basin System, and \$55,806,506 invested in the Manasquan System. This total amount represents a .7% decrease from the prior year.



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

The following table summarizes the changes in capital assets, net of depreciation, between fiscal years 2018, 2017 and 2016:

	2018	2017	2016	Percentage Change 2018-2017	Percentage Change 2017-2016
Land and land rights	\$ 26,444,952	\$ 26,444,952	\$ 26,444,952	- %	- %
Dams	46,609,025	47,407,020	48,205,015	(1.68)	(1.66)
Building, structures and improvements	53,827,471	54,876,544	51,714,341	(1.91)	6.11
Machinery and equipment	1,425,417	1,411,333	1,303,991	1.00	8.23
Construction work in progress	16,130,416	9,326,879	12,713,786	72.95	(26.64)
Total capital assets	\$ 144,437,281	\$ 139,466,728	\$ 140,382,085	3.56	(0.65)

More detailed information about the Authority's capital assets is presented in Note C to the basic financial statements.

The following table summarizes the changes in capital debt between fiscal years 2018, 2017 and 2016:

	2018	2017	2016	Percentage Change 2018-2017	Percentage Change 2017-2016
Bonds payable	\$ 15,748,257	\$ 18,802,335	\$ 19,281,414	(16.24) %	(2.48) %
Notes payable	33,566,892	33,566,892	33,566,892	-	-
Loans payable	60,811,617	12,318,018	13,382,948	393.68	(7.96)
Total	\$ 110,126,766	\$ 64,687,245	\$ 66,231,254	70.24	(2.33)

At year-end, the Authority had \$110,126,766 in bonds, notes and loans principal outstanding, compared to \$64,687,245 at June 30, 2017. This change represents an increase of 70.2%. The change in bonds, notes and loans principal outstanding at June 30, 2017, compared to the total of \$66,231,254 at June 30, 2016, represents a decrease of 2.3%, as shown in the above table.

More detailed information about the Authority's long-term debt is presented in Note E to the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2018

CURRENT AND NEW BUSINESS

During fiscal year 2018, the Authority supplied water to 32 contractual customers of the Raritan Basin System, who, in turn, supplied water to approximately 1,500,000 people in central New Jersey. Two customers accounted for approximately 84% of total Raritan Basin System operating revenue. There was a slight increase in the sales base of the Raritan Basin System of 182.339 mgd to 182.353 mgd in fiscal year 2018. In addition, during fiscal year 2018, the Authority provided water to 13 contractual customers of the Manasquan Water Supply System, who provided water to approximately 250,000 people in the Monmouth County area. During fiscal years 2018 and 2017, three customers accounted for approximately 85% and 88%, respectively, of the total Manasquan System operating revenue. There is no expected change in the sales base of the Manasquan Water Supply system of 19.443 mgd in fiscal year 2019.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the water customers, New Jersey citizens, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability as a self-supporting entity. The Authority's overall financial position has improved; total net position has increased and the Authority continues to receive favorable bond ratings. If you have questions about this report or need additional financial information, you can contact the New Jersey Water Supply Authority at 1851 Highway 31, P.O. Box 5196, Clinton, New Jersey 08809, (908) 638-6121 or visit our website at www.njwsa.org.

BASIC FINANCIAL STATEMENTS

NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY
STATEMENTS OF NET POSITION

	June 30,	
	2018	2017
Assets		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 48,177,628	\$ 44,408,430
Unbilled sales	1,501,023	1,174,697
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2018 and 2017	49,295,613	2,270,753
Interest receivable	167,778	170,608
Prepaid expenses and other current assets	977,780	1,000,513
Total unrestricted current assets	<u>100,119,822</u>	<u>49,025,001</u>
Restricted assets:		
Cash equivalents	10,231,323	4,098,163
Investments	5,378,034	5,329,485
Total restricted current assets	<u>15,609,357</u>	<u>9,427,648</u>
Total current assets	<u>115,729,179</u>	<u>58,452,649</u>
Non-current assets:		
Investments	10,715,097	11,104,025
Capital assets, net	144,437,281	139,466,728
Total non-current assets	<u>155,152,378</u>	<u>150,570,753</u>
Total assets	<u>270,881,557</u>	<u>209,023,402</u>
Deferred outflows of resources		
Pension related	6,905,770	9,612,405
OPEB related	5,736	-
2018 construction loan DEP fee	490,580	-
Total deferred outflows of resources	<u>7,402,086</u>	<u>9,612,405</u>
Total assets and deferred outflows of resources	<u>\$ 278,283,643</u>	<u>\$ 218,635,807</u>
Liabilities		
Current liabilities:		
Current portion of bonds, notes and loans payable	3,931,252	3,851,691
Accounts payable	7,305,033	431,084
Accrued liabilities	2,779,166	2,136,760
Unearned revenue	2,174,896	2,165,583
Total current liabilities	<u>16,190,347</u>	<u>8,585,118</u>
Non-current liabilities:		
Non-current portion of bonds, notes and loans payable	106,195,514	60,835,554
Net pension liability	23,038,776	29,886,847
Total OPEB liability	33,469,644	37,744,085
Total non-current liabilities	<u>162,703,934</u>	<u>128,466,486</u>
Total liabilities	<u>178,894,281</u>	<u>137,051,604</u>
Deferred inflows of resources:		
Cost recovery	(567,296)	(896,366)
Pension related	5,345,883	525,390
OPEB related	5,589,091	-
Gain on refunding	598,427	711,070
Total deferred inflows of resources	<u>10,966,105</u>	<u>340,094</u>
Total liabilities and deferred inflows of resources	<u>189,860,386</u>	<u>137,391,698</u>
Net Position		
Net investment in capital assets	59,275,272	61,887,512
Restricted for debt service	13,434,461	7,262,065
Unrestricted	15,713,524	12,094,532
Total net position	<u>88,423,257</u>	<u>81,244,109</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 278,283,643</u>	<u>\$ 218,635,807</u>

See accompanying notes.

NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2018	2017
Operating revenues:		
Water sales	\$ 30,030,868	\$ 25,394,799
Reimbursement of operating expenses	2,642,400	2,642,400
Total operating revenues	<u>32,673,268</u>	<u>28,037,199</u>
Operating expenses:		
Payroll	7,882,193	7,425,938
Operations and maintenance	5,697,087	5,165,250
Fringe benefits	6,819,571	7,498,085
Depreciation	4,637,409	4,596,764
Total operating expenses	<u>25,036,260</u>	<u>24,686,037</u>
Income from operations	7,637,008	3,351,162
Non-operating revenues:		
State of New Jersey - Grant Programs	31,422	171,310
Investment income	489,763	(25,188)
Rental income	49,565	49,606
Other income	(10,832)	(192,822)
Total non-operating revenues	<u>559,918</u>	<u>2,906</u>
Non-operating expenses:		
Interest component of debt service to the State of New Jersey	444,018	464,824
Bond discount/insurance premium expense	-	12,491
Recovery of deferred inflows of resources	573,760	(2,502,694)
Total non-operating expenses	<u>1,017,778</u>	<u>(2,025,379)</u>
Changes in net position	7,179,148	5,379,447
Net position, beginning of year, as restated	<u>81,244,109</u>	<u>113,608,747</u>
Net position, end of year, as previously reported	88,423,257	118,988,194
GASB 75 adjustment	-	(37,744,085)
Net position, end of year, as restated	<u>\$ 88,423,257</u>	<u>\$ 81,244,109</u>

See accompanying notes.

NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from water sales	\$ 29,965,054	\$ 26,150,080
Cash received from reimbursable expenses	2,591,994	2,641,113
Cash received from rental income	36,533	38,126
Cash paid to or on behalf of employees	(12,128,509)	(12,681,123)
Cash paid to suppliers	(5,402,207)	(5,202,949)
Net cash provided by operating activities	<u>15,062,865</u>	<u>10,945,247</u>
Cash flows from noncapital financing activities		
Cash received for grant programs	31,422	171,310
Net cash provided by non-capital financing activities	<u>31,422</u>	<u>171,310</u>
Cash flows from capital and related financing activities		
Principal paid on bonds, notes and loans	(4,847,782)	(2,302,554)
Interest paid on bonds, notes and loans	(472,615)	(314,752)
Acquisition and construction of capital assets	(691,954)	(3,661,204)
Proceeds from sale of capital assets	(12,550)	321,222
Net cash used in capital and related financing activities	<u>(6,024,901)</u>	<u>(5,957,288)</u>
Cash flows from investing activities		
Sale of investment securities	3,877,084	7,313,765
Purchase of investment securities	(3,592,424)	(10,470,306)
Interest received on investments	492,593	76,647
Premium on matured investments	55,719	741,223
Net cash provided/(used) by investing activities	<u>832,972</u>	<u>(2,338,671)</u>
Net increase in cash and cash equivalents	9,902,358	2,820,598
Cash and cash equivalents, beginning of year	48,506,593	45,685,995
Cash and cash equivalents, end of year	<u>\$ 58,408,951</u>	<u>\$ 48,506,593</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 7,637,008	\$ 3,351,162
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Non-cash items expensed to operations and maintenance	-	49,606
Cash received for operating activity included in other income	51,283	(514,044)
Depreciation	4,637,409	4,596,764
Increase (decrease) in cash from:		
Unbilled sales	(326,326)	(92,191)
Accounts receivable	207,193	839,893
Prepaid expenses and other current assets	22,733	11,567
Accounts payable	274,457	(43,871)
Accrued liabilities	9,487	(13,302)
Accrued payroll and taxes	561,651	868,751
Net pension liability	679,057	1,890,912
Net OPEB liability	1,308,913	-
Net cash provided by operating activities	<u>\$ 15,062,865</u>	<u>\$ 10,945,247</u>
Non-cash investing activities		
Decrease in fair value of investments	<u>\$ (383,171)</u>	<u>\$ (369,015)</u>

See accompanying notes.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND OPERATIONS

The New Jersey Water Supply Authority (the “Authority”), a component unit of the State of New Jersey (the “State”), consisting of the Spruce Run/Round Valley Reservoirs Complex, the Delaware and Raritan Canal Transmission Complex (the “Raritan Basin System”) and the Manasquan Reservoir Water Supply System (the “Manasquan System”), is a public body, corporate and politic, constituted as an instrumentality of the State, exercising public and essential governmental functions. The Authority was created by the New Jersey Water Supply Authority Act (the “Act”) on October 7, 1981, and in connection with the Act, all water supply facilities owned or operated by the State (*i.e.*, *Raritan Basin System*) were transferred or leased to the Authority. The Act empowers the Authority to acquire, finance, construct and operate water systems and issue bonds. Members of the Authority consist of the Commissioner of the New Jersey Department of Environmental Protection (“NJDEP”), ex officio member and six public members appointed by the Governor upon the advice and consent of the New Jersey Senate. The public members represent the agricultural community, industrial water users, residential water users, private watershed associations, public finance and water resource management and distribution. The Authority prepares an annual budget that is used to establish rates and as a management tool but the budget does not constitute a legal budget or establish spending limitations.

The Authority does not have component units that should be included within its financial statements.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority is a component unit of the State of New Jersey and is included in their general purpose financial statements.

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”).

In its accounting and financial reporting, the Authority follows the pronouncements of the GASB and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles (“GAAP”) are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants (“AICPA”) cleared by the GASB. Authoritative GAAP is incorporated periodically into the Codification of Governmental Accounting and Financial Reporting Standards (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (CONTINUED)

principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other Statements, pronouncements and other literature of the Financial Accounting Standards Board (“FASB”), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

The Authority derives most of its revenue from water user charges and is considered to be an enterprise fund; accordingly, the Authority presents its financial statements on the accrual basis of accounting. In addition, the Authority has established certain restricted “funds or accounts” as directed by internal resolution and bond indentures.

Revenue

Charges for wholesale water usage are established to provide revenue sufficient for services, essential repairs and improvements to the utility plant, and repayment of debt service on certain long-term obligations used for plant construction. Sales are recognized as revenue when water is made available to customers, and the customers are billed in the following month or quarter.

The Authority distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses result from the sale of water to customers. Operating expenses include costs of providing water, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Capital Assets

Capital assets are stated at original cost and consist primarily of amounts expended to license, construct, acquire, complete and place into operation the projects of the Authority. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such expenditures include labor, materials, services and indirect costs. Normal maintenance and repair costs are charged to operations and maintenance expense. Improvements and replacements are capitalized. Interest earned on long-term debt proceeds used for capital asset construction and temporarily invested during the construction period is netted against interest cost. The excess, if any, is capitalized to construction work in progress, and the portion related to completed projects is expensed. The cost of capital assets retired, net of any gain or loss on the disposal of such capital assets, is offset to accumulated depreciation. The Authority also holds several restricted easements for utility access, conservation and water rights. These easements are recorded at the lower of cost or fair market value upon acquisition.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation

Capital assets are depreciated on the straight-line basis over the estimated useful lives of the various classes of plant, as follows:

Dams	100 years
Buildings, structures and improvements	15-40 years
D&R canal dredging	20 years
Machinery and equipment	3-10 years

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers short-term investments that have original maturities of ninety days or less to be cash equivalents.

Investments

Short-term investments and restricted investments used for construction and payment of interest consist of money market funds and U.S. Government-backed securities with various interest rates. Restricted investments are restricted under the terms of the Authority's bond indentures for the payment of debt service. All investments are carried at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*.

Accounts Receivable

The Authority considers most of its accounts receivable to be collectible; accordingly, the change in net position is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

During fiscal year 2018, two customers accounted for approximately 84% of total Raritan Basin System accounts receivable and five customers accounted for approximately 90% of total Manasquan System accounts receivable. During fiscal year 2017, two customers accounted for approximately 84% of total Raritan Basin System accounts receivable and five customers accounted for approximately 89% of total Manasquan System accounts receivable.

Compensated Absences

All full-time employees accumulate vacation benefits in varying annual amounts up to a maximum allowable accumulation of two years' benefit. Unused sick leave benefits are earned by all full-time employees at a rate of 15 days per year and may be accumulated without limit. In the event of termination, an employee is reimbursed for all accumulated vacation days. Unused sick leave benefits do not vest but are payable only upon retirement up to a maximum of \$15,000. A liability is accrued in the financial statements when incurred.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

The Authority is exempt from federal income taxes under the Internal Revenue Code, Section 115, and from state income taxes under N.J.S.A. 27:25-16, and accordingly, no provision is recorded for federal or state income taxes.

Net Position

Net position represents the difference between assets and liabilities and is classified into three categories:

- *Net Investment in Capital Assets* – This represents capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition construction or improvement of those assets.
- *Restricted Net Position (debt service)* – This represents the net position that is not accessible for general use because its use is subject to restrictions enforceable by third parties. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources, as they are needed.
- *Unrestricted Net Position* – This represents the net position that is available for general use.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the statements of net position report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

Deferred Inflows of Resources – Cost Recovery

The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for debt principal repayment (but not for depreciation on the related debt financed assets) and also includes vacation amounts paid. In accordance with GASB No. 62, the Authority has deferred the excess of current depreciation on assets financed with debt proceeds over the costs for debt principal repayment and the excess of vacation expense over vacation paid, and accrued sick pay, which are being classified as deferred inflows of resources. The deferred inflows will be recovered through future revenue in accordance with the rate model. The deferred amounts for the years ended June 30, 2018 and 2017, were determined as follows:

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows and Outflows of Resources (Continued)

	<u>2018</u>	<u>2017</u>
Raritan Basin System		
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	\$ 835,209	\$ 835,209
Excess vacation expense over vacation paid	39,416	(19,963)
Accrued sick pay	67,255	(391)
	<u>941,880</u>	<u>814,855</u>
Cost included in rate model:		
Debt principal repayment	-	-
	<u>941,880</u>	<u>814,855</u>
Manasquan System		
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	\$ 1,540,854	\$ 1,540,854
Excess vacation expense over vacation paid	1,633	(1,846)
Accrued sick pay	(8,437)	3,638
	<u>1,534,050</u>	<u>1,542,646</u>
Cost included in rate model:		
Debt principal repayment	(2,805,000)	(230,000)
	<u>(1,270,950)</u>	<u>1,312,646</u>
Total Raritan Basin and Manasquan	(329,070)	2,127,501
Balance, beginning of year	896,366	(1,231,135)
Balance, end of year	<u>\$ 567,296</u>	<u>\$ 896,366</u>

As shown in the statements of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017, respectively, deferred inflow of resources debit of \$573,760 and a credit balance of \$2,502,694 includes a debit balance \$144,823, and a credit balance of \$356,631 of Manasquan Water Treatment Plant deferred revenue, which is not part of the rate model, and does not include a credit balance of \$99,867 and a debit balance of \$18,562 of accrued vacation and sick pay.

Deferred Inflows/Outflow of Resource – Debt Refunding

Deferred charges for debt refunding result from the difference between the net carrying amount of refunded bonds and the amount deposited to escrow to defease the bonds. In accordance with GASB 23, the Authority has deferred the difference between the reacquisition price and the net carrying amount of the Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005. The deferred amount is reported as a deferred inflow of resources and amortized as a component of interest expense over the remaining life of the Manasquan Reservoir Water Supply System Refunding Bonds, Series 2016.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows and Outflows of Resources (Continued)

Deferred Inflows/Outflow of Resources – Pensions & Other Postretirement Benefits (OPEB)

Deferred charges for defined benefit plans result from the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on plan investments, changes in the State's proportion of expenses and liabilities to the plans as a whole, differences between the Authority's plan contributions and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

Accounting for Southeast Monmouth Municipal Utilities Authority Agreement

The Authority operates and maintains a Water Treatment Plant/Transmission System for the Southeast Monmouth Municipal Utilities Authority ("SMMUA"). The SMMUA is charged for budgeted operating expenses expected to be incurred by the Authority during the SMMUA's fiscal year (January 1 through December 31).

Because of the difference resulting from billing the SMMUA for budgeted expenses versus actual expenses appearing in the financial statements, the Authority includes unearned costs (actual costs exceeding SMMUA billings) or unearned revenue (SMMUA billings exceeding actual costs) in its statements of net position. These excess costs or billings will be recovered or recognized in future periods. As of June 30, 2018 and 2017, unearned revenue amounting to \$1,835,787 and \$1,690,964, respectively, was determined as follows:

	<u>2018</u>	<u>2017</u>
Reimbursement of operating expenses	\$ 2,655,015	\$ 2,647,704
Operating expenses	<u>2,510,192</u>	<u>3,004,335</u>
Unearned revenue	144,823	(356,631)
Balance, beginning of year	<u>1,690,964</u>	<u>2,047,595</u>
Balance, end of year	<u><u>\$ 1,835,787</u></u>	<u><u>\$ 1,690,964</u></u>

In previous years, the Authority received additional funds that are restricted for use by the SMMUA for costs associated in operating the Water Treatment Plant. As of June 30, 2018 and 2017, the amount included in unearned revenue was \$339,109 and \$474,619, respectively.

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Watershed Protection Program

For the fiscal years ended June 30, 2018 and 2017, the Authority received \$186,793 and \$79,187, respectively, from the federal and/or state environmental agencies for the costs associated with various watershed protection studies of the Raritan Basin System. These funds are restricted to uses specifically identified in grant agreements between the Authority and these agencies and will be recognized as revenue as the related costs are incurred. Eligible project expenses include, but are not limited to, the cost of mapping out streams and other water sources and studying and implementing best land use practices to improve water quality. As of June 30, 2018, all the funds received had been recognized as revenue.

C. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2018 and 2017, was as follows:

	2018			2018
	Beginning		Retirements	Ending
	Balance	Additions		Balance
Capital assets not being depreciated:				
Land	\$ 26,444,952	\$ -	\$ -	\$ 26,444,952
Construction work in progress	9,326,879	9,265,054	(2,461,517)	16,130,416
Total capital assets not being depreciated	35,771,831	9,265,054	(2,461,517)	42,575,368
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	140,094,325	2,482,861	(133,908)	142,443,278
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	6,443,907	357,145	(161,467)	6,639,585
Total capital assets being depreciated	245,067,666	2,840,006	(295,375)	247,612,297
Less accumulated depreciation for:				
Dams	(29,962,140)	(797,995)	-	(30,760,135)
Building, structures and improvements	(85,217,782)	(3,496,353)	98,327	(88,615,808)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(5,032,574)	(343,061)	161,467	(5,214,168)
Total accumulated depreciation	(141,372,769)	(4,637,409)	259,794	(145,750,384)
Total capital assets, being depreciated, net	103,694,897	(1,797,403)	(35,581)	101,861,913
Total capital assets	<u>\$ 139,466,728</u>	<u>\$ 7,467,651</u>	<u>\$ (2,497,098)</u>	<u>\$ 144,437,281</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

C. CAPITAL ASSETS (CONTINUED)

	2017 Beginning Balance	Additions	Retirements	2017 Ending Balance
Capital assets not being depreciated:				
Land	\$ 26,444,952	\$ -	\$ -	\$ 26,444,952
Construction work in progress	12,713,786	3,212,708	(6,599,615)	9,326,879
Total capital assets not being depreciated	39,158,738	3,212,708	(6,599,615)	35,771,831
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	133,475,474	6,621,815	(2,964)	140,094,325
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	6,391,874	452,986	(400,953)	6,443,907
Total capital assets being depreciated	238,396,782	7,074,801	(403,917)	245,067,666
Less accumulated depreciation for:				
Dams	(29,164,145)	(797,995)	-	(29,962,140)
Building, structures and improvements	(81,761,134)	(3,459,612)	2,964	(85,217,782)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(5,087,883)	(339,157)	394,466	(5,032,574)
Total accumulated depreciation	(137,173,435)	(4,596,764)	397,430	(141,372,769)
Total capital assets, being depreciated, net	101,223,347	2,478,037	(6,487)	103,694,897
Total net investment in capital assets	\$ 140,382,085	\$ 5,690,745	\$ (6,606,102)	\$ 139,466,728

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS

New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund ("NJCMF") or in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation (the "FDIC") or by any other agencies of the United States that insure deposits. All funds of the Authority may be invested in, obligations of, or guaranteed by, the U.S. Government.

The Authority's bond resolutions limit the investment of restricted assets to obligations of the U.S. Government or its agencies, investments in certain certificates of deposit of commercial banks that are members of the Federal Reserve System, investments in the NJCMF, and direct and general obligations of any state that meets the minimum requirements of the resolution.

1. Cash

As of June 30, 2018 and 2017, the Authority's bank balance was \$6,635,034 and \$5,490,531, respectively, of which \$250,000 was covered through the FDIC. The remaining balance of \$6,385,034 and \$5,240,531 as of June 30, 2018 and 2017, respectively, was collateralized, and the cash balance per the statements of net position is shown exclusive of outstanding checks totaling \$99,740 and \$102,349, respectively. The statement of net position amount includes petty cash totaling \$300 as of June 30, 2018 and 2017, respectively.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

2. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. The Authority's bank balance of \$6,635,034 and \$5,490,531 as of June 30, 2018 and 2017, respectively, was exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>

3. Investments and Cash Equivalents

The Authority does not have a policy to limit interest rate risk; however, its practice is to hold investments to maturity.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of June 30, 2018, the Authority had the following recurring fair value measurements using quoted market prices for U.S. Treasuries (Level 1 inputs) and using current sale prices or sale prices of comparable securities for New Jersey General Obligation Bonds (Level 2 inputs) for investments and cash equivalents, and maturities:

Investment and Cash Equivalent Type	Valuation Inputs Level	Fair Value	Investment Maturities (In Years)	
			Less than 1	1-5
U.S. Treasuries	Level 1	\$ 57,151,951	\$ 57,151,951	\$ -
NJ G/O Bonds	Level 2	10,882,875	4,471,756	6,411,119
Total		\$ 68,034,826	\$ 61,623,707	\$ 6,411,119

As of June 30, 2017, the Authority had the following recurring fair value measurements using quoted market prices for U.S. Treasuries (Level 1 inputs) and using current sale prices or sale prices of comparable securities for New Jersey General Obligation Bonds (Level 2 inputs) for investments and cash equivalents, and maturities:

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

3. Investments and Cash Equivalents (Continued)

Investment and Cash Equivalent Type	Valuation Inputs Level	Fair Value	Investment Maturities (In Years)	
			Less than 1	1-5
U.S. Treasuries	Level 1	\$ 48,447,596	\$ 48,447,596	\$ -
NJ G/O Bonds	Level 2	11,274,633	1,039,588	10,235,045
Total		\$ 59,722,229	\$ 49,487,184	\$ 10,235,045

4. Credit and Custodial Credit Risk

In order to limit exposure to credit risk, the Authority follows the investment policies set forth by the NJCMF. These policies allow investment in securities that achieve a certain rating from the three major ratings organizations as determined annually by the governing board of the NJCMF, as well as limiting investments to certain types of marketable securities.

U.S. Treasury notes are explicitly guaranteed by the U.S. government and are not subject to credit risk or custodial credit risk.

The Authority entered into an agreement with PNC Bank and TD Bank to collateralize all deposits held at a market rate equal to 102% of the daily combined total of all deposits. As of June 30, 2018, all deposits were collateralized.

5. Investment Income

The following comprises investment income for the years ended June 30, 2018 and 2017, respectively:

	2018	2017
Interest earned on bank accounts and certificates of deposit	\$ 325,846	\$ (185,717)
Interest earned on securities	547,088	529,544
Decrease in fair value of securities	(383,171)	(369,015)
	<u>\$ 489,763</u>	<u>\$ (25,188)</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE

Manasquan System

1. Notes Due to State of New Jersey

The Authority has a contractual obligation to repay the following debt:

The \$63,600,000 of Manasquan Reservoir Water Supply System State Loan Notes (the "State Loan Notes") issued June 3, 1987, pursuant to the terms of the State Loan Agreement between the Authority and the State of New Jersey (the "State Loan Agreement"), from monies authorized by the 1981 bond appropriation of \$72,000,000 for construction of the Manasquan System and the \$7,416,000 of Interim Advance Notes issued September 12, 1988, from monies made available from the General Fund of the State to finance completion costs of the Manasquan System. The State Loan Notes and the Completion Loan Notes bear interest at 5.93% and 6.24%, respectively, and are collateralized by the property and revenues of the Manasquan System.

In accordance with the terms of the State Loan Agreement, the State Loan Notes are classified as either Current Debt Service Portion Notes ("Current Notes") or Deferred Debt Service Portion Notes ("Deferred Notes"). Principal of the Deferred Notes will be discharged solely by exchange for Current Notes or by the expiration of a period of forty years from the date of their issuance, which was June 3, 1987. The Deferred Notes must be exchanged for Current Notes on a pro rata basis to the extent that the Authority enters into additional long-term contracts to sell water from the Manasquan System on an annual basis. Such Current Notes are payable over a thirty-year period commencing from such date as is defined in the State Loan Agreement.

Interest on the Deferred Notes accreted as principal through July 31, 1993, and is not payable until they have been exchanged for Current Notes. The interest that accreted as principal through July 31, 1990, accrued interest; however, the interest that accreted for the period from August 1, 1990 through July 31, 1993, did not accrue interest. The accretion of interest to the principal amount for the Current Notes and the Deferred Notes is \$25,563,184 at June 30, 2018 and 2017.

On May 12, 2016, the Authority repaid the State of New Jersey \$78,651.22 for principal and all accrued interest on outstanding Current State Loan Notes and Completion Notes. At June 30, 2018 and 2017, the State Loan Notes and Completion Loan Notes are summarized as follows:

State Loan Notes	2018	2017
Current Notes	\$ -	\$ -
Deferred Notes	30,365,115	30,365,115
Completion Loan Notes		
Current Notes	\$ -	\$ -
Deferred Notes	3,201,777	3,201,777
	\$ 33,566,892	\$ 33,566,892

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Manasquan System (Continued)

2. Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005

On August 5, 2005, the Authority issued \$47,535,000 in Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005. The proceeds, together with other monies on deposit, were used to prepay \$49,293,438 in Current Manasquan State Loan Notes and Completion Loan Notes, the proceeds of which were used to construct the Manasquan Water Supply System. The Revenue Bonds, Series 2005, carried a bond yield of 3.95%, and were scheduled to mature in incremental annual principal amounts through 2031.

The property, and 100% of the revenue generated by the Debt Service Component of the Rate for both initial system customers and delayed water purchase customers of the Manasquan System, was pledged as collateral for the 2005 Bonds. The Debt Service Component of the Rate represents 120% of the principal and interest requirements. For the years ended June 30, 2018 and 2017, the debt service component of the rate generated \$4,201,848 and \$4,733,869, respectively.

The Revenue Bonds, Series 2005, had a principal balance of \$26,105,000 at June 30, 2015. Those bonds maturing on or after August 1, 2016, were subject to redemption prior to their stated maturity dates at the option of the Authority. The last principal payment of \$2,940,000 was made on August 1, 2015. The remaining 2005 Bonds were redeemed on June 15, 2016, for \$23,596,126 including accrued interest.

For the years ended June 30, 2018 and 2017, interest expense on the 2005 Bonds amounted to \$0 and \$0, respectively, and the related interest income earned on the restricted investments amounted to \$0 and \$0, respectively.

3. Manasquan Reservoir Water Supply System Refunding Bonds, Series 2016

On April 26, 2016, the Authority issued \$17,460,000 in Manasquan Reservoir Water Supply System Refunding Bonds, Series 2016. The proceeds, together with other monies on deposit in the amount of \$6,340,964, were used to prepay \$23,242,358 in Manasquan Reservoir Water Supply System Revenue Bonds, Series 2005 and Current Manasquan State Loan Notes and Completion Loan Notes.

The Refunding Bonds, Series 2016, have a principal balance of \$14,425,000 at June 30, 2018, carry a bond yield of 1.59%, and mature in incremental annual principal amounts through 2031. Principal maturities for the year ending June 30, 2019, are \$2,880,000.

The property, and 100% of the revenue generated by the Debt Service Component of the Rate for both initial system customers and delayed water purchase customers of the Manasquan System, was pledged as collateral for the 2016 Bonds. The Debt Service Component of the Rate represents 120% of the principal and interest requirements. The pledged revenue will be unavailable for other purposes until August 1, 2031.

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Manasquan System (Continued)

3. Manasquan Reservoir Water Supply System Refunding Bonds, Series 2016 (Continued)

For the years ended June 30, 2018 and 2017, the Debt Service Component of the Rate generated \$4,201,848 and \$4,733,869, respectively.

For the years ended June 30, 2018 and 2017, interest expense on the 2016 Bonds amounted to \$626,497 and \$617,736, respectively, and the related interest income earned on the restricted investments account amounted to \$0 and \$0, respectively.

The current refunding resulted in a difference between the par amount of the refunding bonds and the par amount of the refunded bonds of \$5,782,358. The net premium received on the refunding bonds was \$1,821,414, is reported with bonds payable on the statements of net position and is being charged to operations using a method that approximates the effective interest method over the shorter of the remaining life of the old debt or the life of the new debt. Although the refunding resulted in an accounting gain of \$823,712, it was performed to reduce debt service by approximately \$5,269,268 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,999,861. The accounting gain, or deferred gain on the refunding, is reported as a deferred inflow of resources.

4. New Jersey Environmental Infrastructure Financing Program ("NJEIFP")

The New Jersey Water Supply Authority, a Component Unit of the State of New Jersey, obtained a loan from the New Jersey Environmental Infrastructure Trust ("the Trust") for the construction of a permanent structure over the Manasquan Intake Pump Station. Under the NJEIFP, the borrowers benefit from a loan formula under which participants borrow a percentage of cost from the State Revolving Fund maintained by the NJDEP at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State's Smart Growth Initiative, the interest rate is equivalent to 25 percent of the lowest available rate. Each NJEIFP loan carries a 20-year life. Property and revenue of the Manasquan Reservoir System are pledged as collateral for the loans.

The following table summarizes the NJEIFP loan outstanding for the Manasquan Reservoir System, as of June 30, 2018:

NJEIFP Series	Date of Issuance	State Revolving Fund Original Principal	Percent	Trust Original Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2012B	5/3/2012	\$2,312,250	76%	\$715,000	24%	0.80%	\$2,139,469	8/1/2031

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Raritan System

5. New Jersey Environmental Infrastructure Financing Program (“NJEIFP”)

The New Jersey Water Supply Authority, a Component Unit of the State of New Jersey, obtained loans from the New Jersey Environmental Infrastructure Trust (the “Trust”) for the acquisition of source water watershed properties critical to the Raritan Basin System. Under the NJEIFP, the borrowers benefit from a loan formula under which participants borrow a percentage of the cost from the State Revolving Fund maintained by the NJDEP at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State’s Smart Growth Initiative, the interest rate is equivalent to 25 percent of the lowest available rate. Each NJEIFP loan carries a 20-year life, and property and revenue of the Raritan Basin System are pledged as collateral for the loans.

In fiscal year 2018, the Authority borrowed \$49,548,569 from the New Jersey Infrastructure Bank (NJIB - formerly known as the New Jersey Environmental Infrastructure Trust) through an interim note to finance its Raritan Basin System canal dredging project. Upon substantial completion of the project, it is anticipated that the interim loan will convert to permanent long-term financing. Terms of the long-term financing are expected to be similar to those terms of existing loans with the NJEIFP.

The following table summarizes the NJEIFP/NJIB loans outstanding for the Raritan Basin System, as of June 30, 2018:

NJEIFP Series	Date of Issuance	State Revolving Fund Original Principal	Percent	Trust Original Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2003A	11/6/2003	\$627,019	75%	\$235,000	25%	1.19%	\$282,537	8/1/2023
2004A	11/4/2004	1,030,000	75%	350,000	25%	1.31%	526,314	8/1/2024
2005A	11/10/2005	2,940,974	75%	1,050,000	25%	1.25%	1,255,628	8/1/2025
2006A	11/9/2006	2,099,363	75%	745,000	25%	1.26%	1,334,242	8/1/2026
2007A	11/8/2007	1,740,563	75%	620,000	25%	1.06%	1,268,788	8/1/2027
2008A	11/6/2008	1,152,000	64%	660,000	36%	1.74%	1,102,131	8/1/2028
2010A	3/10/2010	300,493	51%	290,000	49%	1.69%	366,686	8/1/2029
2010B	12/2/2010	1,064,338	52%	990,000	48%	1.87%	1,454,548	8/1/2030
2012A	5/3/2012	1,501,455	76%	465,000	24%	0.65%	1,423,384	8/1/2031
CFP-18-1	2/15/2018	36,793,492	74%	12,755,077	26%	tbd	49,548,569	tbd
Total		\$49,249,697		\$18,160,077			\$58,562,827	

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Raritan System (Continued)

5. New Jersey Environmental Infrastructure Financing Program (“NJEIFP”) (Continued)

The following table summarizes the changes in bonds, notes and loans payable between fiscal years 2018, 2017 and 2016:

	Fiscal Year 2017	Less Payments, Net of Amortization	Debt Issued	Fiscal Year 2018	Due Within One Year
Bonds payable	\$ 18,802,335	\$ 3,054,078	\$ -	\$ 15,748,257	\$ 2,880,000
Notes payable	33,566,892	-	-	33,566,892	-
Loans payable	12,318,018	1,054,970	49,548,569	60,811,617	1,051,252
Total	\$ 64,687,245	\$ 4,109,048	\$ 49,548,569	\$ 110,126,766	\$ 3,931,252

	Fiscal Year 2016	Payments, Net of Amortization	Debt Issued	Fiscal Year 2017	Due Within One Year
Bonds payable	\$ 19,281,414	\$ 479,079	\$ -	\$ 18,802,335	\$ 2,805,000
Notes payable	33,566,892	-	-	33,566,892	-
Loans payable	13,382,948	1,064,931	-	12,318,018	1,046,691
Total	\$ 66,231,254	\$ 1,544,010	\$ -	\$ 64,687,245	\$ 3,851,691

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Raritan System (Continued)

5. New Jersey Environmental Infrastructure Financing Program ("NJEIFP") (Continued)

Principal and interest on aggregate maturities and bonds, notes and loans, net of unamortized bond premium, are as follows:

Year Ending June 30,	Raritan Basin System	Manasquan Reservoir System	Notes Payable Manasquan System	Manasquan System Revenue Bonds Series 2016	Totals
2019	\$ 1,056,125	\$ 174,172	\$ -	\$ 3,443,937	\$ 4,674,234
2020	1,052,571	172,822	-	3,445,962	4,671,355
2021	1,069,652	176,197	-	3,446,338	4,692,187
2022	1,043,168	174,447	-	582,213	1,799,828
2023	1,030,125	172,697	-	581,963	1,784,785
2024-2028	3,702,024	868,835	-	2,888,362	7,459,221
2029-2033	969,183	606,949	-	2,279,794	3,855,926
2034-2038	-	-	-	-	-
TBD	49,548,569	-	-	-	49,548,569
Deferred Portion	-	-	33,566,892	-	33,566,892
Subtotal	59,471,417	2,346,119	33,566,892	16,668,569	112,052,997
Less amounts representing interest	908,590	206,650	-	2,243,569	3,358,809
Plus unamortized bond premium	70,739	38,582	-	1,323,257	1,432,578
Subtotal	58,633,566	2,178,051	33,566,892	15,748,257	110,126,766
Less:					
Current principal portion	903,680	147,572	-	2,880,000	3,931,252
Total	<u>\$ 57,729,886</u>	<u>\$ 2,030,479</u>	<u>\$ 33,566,892</u>	<u>\$ 12,868,257</u>	<u>\$ 106,195,514</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS

Pension and Retirement Plans

Full-time employees of the Authority are covered by the Public Employees' Retirement System of the State of New Jersey ("PERS"). PERS is administered by the State of New Jersey, Division of Pensions and Benefits ("Division"). The Authority has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the Authority to report its share of the defined benefit pension liability and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the PERS. For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at <https://www.nj.gov/treasury/pensions/documents/financial/gasb/gasb68-pers18.pdf>.

Following is the total of the local portion of the System's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions and the pension expense and expenditures for the fiscal year ended June 30, 2018.

Net Pension Liabilities	\$23,038,776
Deferred Outflow of Resources	6,905,770
Deferred Inflow of Resources	5,345,883
Pension Expense	1,620,169
Contributions Made	916,857

Plan Description and Benefits

PERS is a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and benefits to plan members and their beneficiaries. As a condition of employment, all Authority full-time employees are required to be members of PERS. PERS members can apply for a service retirement at age 60 if enrolled before November 2, 2008 (Tier 1 or Tier 2), or at age 62 if enrolled on or after November 2, 2008, but before June 28, 2011 (Tier 3 or Tier 4), or at age 65 if enrolled on or after June 28, 2011 (Tier 5), regardless of the amount of service credit earned.

Tier 1, 2 or 3: Annual Benefit = Years of Service Credit, divided by 55, times Final Average Salary (average salary of the last three years of credited service or the highest three fiscal years of credited service, whichever provides the higher benefit). Tier 4 or Tier 5: Annual Benefit = Years of Service Credit, divided by 60, times Final Average Salary (average salary of the last five years of credited service or the highest five fiscal years of credited service, whichever provides the higher benefit). Pension benefits fully vest on reaching 10 years of service. Vested employees who were enrolled prior to July 1, 2007, and who have established 25 years or more of creditable service may retire without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Contributions

Employee contribution rates to PERS governed by P.L. 2011, C. 78, effective June 28, 2011, were increased from 5.5% of salary to 6.5% of salary, and a phase-in to 7.5% of salary over a seven-year period. Covered Authority employees are required by PERS to contribute 7.5% of their salaries. State statute requires the Authority to contribute an actuarially determined rate which includes the normal cost and the unfunded accrued liability. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. 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. Specific information on actuarial assumptions and rates of return can be found at <https://www.nj.gov/treasury/pensions/documents/financial/gasb/gasb68-pers18.pdf>.

The payroll for employees covered by PERS for the years ended June 30, 2018, 2017 and 2016, was \$7,351,319, \$7,002,687, and \$6,949,632, respectively. The Authority's total payroll for the years ended June 30, 2018, 2017, and 2016, was \$7,882,193, \$7,425,938 and \$7,225,026, respectively. The actuarial contribution requirements and the contributions made for the years ended June 30, 2018, 2017 and 2016, were \$1,459,787, \$1,400,670, and \$1,312,670 respectively, which consisted of \$916,857, \$896,476, and \$823,798 from the Authority, and \$542,930, \$504,194 and \$488,872 from employees, respectively. As required by PERS, the employer and employee contributions represented 12.47% and 7.39% of covered payroll for the year ended June 30, 2018, 12.80% and 7.20% of covered payroll for the year ended June 30, 2017, 11.85% and 7.06% of covered payroll for the year ended June 30, 2016, and 11.73% and 6.92% of covered payroll for the year ended June 30, 2015, respectively. Contributions were made in accordance with the actuarial funding requirement.

Assumptions

The total pension liability for the June 30, 2017, measurement date was determined by an actuarial valuation as of July 1, 2016. The pension liability was rolled forward to June 30, 2017. The actuarial valuation used an inflation rate of 2.25%, projected salary increases through 2026 of 1.65% to 4.15% based on age and thereafter 2.65% to 5.15% based on age and an investment rate of return of 7.00%.

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% and 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions as of June 30, 2017 and 2016, respectively. Based on those assumptions, the plan's fiduciary net position was projected to be

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Assumptions (continued)

available to make future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions and investment policies, can be found at <https://www.nj.gov/treasury/pensions/documents/financial/gasb/gasb68-pers18.pdf>.

The following presents the Authority's proportionate share of the PERS net pension liability calculated using the discount rate of 5.00% and 3.98% as of June 30, 2017 and 2016, respectively, as well as what the PERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the assumed rate.

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

	At 1% decrease (4.00%)	At current discount rate (5.00%)	At 1% increase (6.00%)
2017	\$28,581,165	\$23,038,776	\$18,421,279
	At 1% decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
2016	\$36,622,842	\$29,886,847	\$24,325,698

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

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determine contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amount by employer. The allocation percentages

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

for each group as of June 30, 2017 and 2016, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2017 and 2016, respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collected deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the PERS schedule of employer allocations and applied to amounts presented in the PERS schedule of pension amounts by employer are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2017 and 2016. The Authority's proportionate share of the collective net pension liability as of June 30, 2017 and 2016, was .0990% and .1009%, respectively.

At June 30, 2018, the amount recognized as the Authority's proportionate share of the PERS net pension liability was \$23,038,776. At June 30, 2017, the amount recognized as the Authority's proportionate share of the PERS net pension liability was \$29,886,847. For the years ended June 30, 2018 and 2017, the Authority recognized PERS pension expense of \$1,782,151 and \$3,875,761, respectively. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the PERS pension are as follows:

	June 30, 2018		June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Experience	\$ 542,484	\$ -	\$ 555,805	\$ -
Change of Assumptions	4,641,519	4,624,503	6,190,958	-
Net Difference Between Projected and Actual Investment Earnings	156,878	-	1,139,613	-
Net Change in Proportions	648,032	721,380	829,553	525,390
Total Contributions and Proportionate Share of Contributions after the Measurement Date	916,857	-	896,476	-
	<u>\$ 6,905,770</u>	<u>\$ 5,345,883</u>	<u>\$ 9,612,405</u>	<u>\$ 525,390</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

The Authority recognizes the \$916,857 and \$896,476 reported as deferred outflows of resources resulting from pension contributions after the measurement date, but before the end of the Authority's reporting period, as a reduction of the PERS net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in PERS pension expense as follows:

Years Ending June 30,	Amortization
2018	\$ 486,824
2019	734,630
2020	445,148
2021	(592,048)
2022	(431,524)
Total	<u>\$ 643,030</u>

Post-Retirement Health Care Benefits

Other Post-Employment Benefits Other than Pensions

On July 1, 2017, The Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for the Post-employment Benefits Other Than Pensions*. Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective total OPEB liability, collective deferred outflow of resources, collective deferred inflow of resources, and collective OPEB expense based on the ratio of plan members of an individual employer to the total members of the plan. For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

Plan Description and Benefits

The Authority provides post-employment healthcare benefits (including Medicare Part B reimbursement) and prescription drug coverage through participation in the New Jersey State Health Benefits Program. The plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide post-retirement medical coverage to their employees must file a resolution with the Division of Pension and Benefits. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of post-retirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Post-Retirement Health Care Benefits (Continued)

Other Post-Employment Benefits (“OPEB”) Other than Pensions (Continued)

administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for post-retirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of premium for which the retiree will be responsible will be determined based on the retiree’s annual retirement benefit and level of coverage.

Following is the total of the local portion of the Systems OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to OPEB and the OPEB expense and expenditures for the fiscal year ended June 30, 2018.

Total OPEB Liabilities	\$33,469,644
Deferred Outflow of Resources	5,736
Deferred Inflow of Resources	5,589,091
OPEB Expense	2,021,853

Retirees and Employees Covered by the OPEB Plan

At June 30, 2018, the following employees were covered by the benefit terms: 172

Retired employees and/or beneficiaries currently receiving benefit payments: 169

Total OPEB Liability

The Authority’s total OPEB liability of \$33,469,644 was measured as of June 30, 2017, and was based on an actuarial valuation as of June 30, 2016. The results of the June 30, 2016, valuation were rolled forward to June 30, 2017. The Authority has fully recognized this liability in the statement of net position as of June 30, 2018, in accordance with GASB 75.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Post-Retirement Health Care Benefits (Continued)

Other Post-Employment Benefits (“OPEB”) Other than Pensions (Continued)

Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Inflation rate	2.50%
Salary increases*:	
Through 2026	1.65% to 8.98%
Thereafter	2.65% to 9.98%

*Salary increases are based on the defined benefit plan that the member is enrolled in and his or her age.

Pre-retirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality tables with fully generational mortality improvement projections from the central year using the MP-2017 scale. Post-retirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the July 1, 2016, valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen Retirement System (PFRS) and the Public Employees' Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 to June 30, 2014, respectively.

100% of active members are considered to participate in the Plan upon retirement.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Post-Retirement Health Care Benefits (Continued)

Other Post-Employment Benefits (“OPEB”) Other than Pensions (Continued)

Discount Rate

The discount rate for June 30, 2017 and 2016, was 3.58% and 2.85%, respectively. This represents the municipal bond return rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the Authority’s total OPEB liability as of June 30, 2017 and 2016, calculated using the discount rate as disclosed above as well as what the Authority’s total OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	At 1% decrease (2.58%)	At current discount rate (3.58%)	At 1% increase (4.58%)
2017	\$39,478,443	\$33,469,644	\$28,701,763
2016	\$44,984,528	\$37,744,085	\$32,056,272

Sensitivity of Total OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the total OPEB liability as of June 30, 2017 and 2016, respectively, calculated using the healthcare trend rate as disclosed above as well as what the total OPEB liability would be if it was calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate:

	At 1% decrease	Healthcare cost trend rate	At 1% increase
2017	\$27,814,252	\$33,469,644	\$40,833,620
2016	\$31,281,349	\$37,744,085	\$46,223,077

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

F. EMPLOYEE BENEFITS (CONTINUED)

Post-Retirement Health Care Benefits (Continued)

Other Post-Employment Benefits (“OPEB”) Other than Pensions (Continued)

GASB Statement No. 75, *Reporting for the Postemployment Benefits Other Than Pensions*, requires participating employers recognize their proportionate share of the collective total OPEB liability, collected deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The Authority’s proportionate share of the collective total OPEB liability as of June 30, 2017 and 2016 was .1639% and .1738%, respectively.

At June 30, 2018, the amount recognized as the Authority’s proportionate share of the total OPEB liability was \$33,469,644. For the year ended June 30, 2018, the Authority recognized OPEB expense of \$2,255,761. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Experience		\$ -
Change of Assumptions		3,714,846
Net Difference Between Projected and Actual Investment Earnings	5,736	-
Net Change in Proportions		1,874,245
	<u>\$ 5,736</u>	<u>\$ 5,589,091</u>

Deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amortization
2018	\$ (792,158)
2019	(792,158)
2020	(792,158)
2021	(792,158)
2022	(794,317)
Thereafter	<u>(1,620,406)</u>
Total	<u>\$ (5,583,355)</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

G. MAJOR WATER CUSTOMERS

During fiscal years 2018 and 2017, the Authority supplied water to approximately 32 customers of the Raritan Basin System and 13 customers of the Manasquan System.

During fiscal years 2018 and 2017, two customers accounted for approximately 84% of total Raritan Basin System operating revenue. During fiscal years 2018 and 2017, three customers accounted for approximately 85% and 88% respectively, of total Manasquan System operating revenue.

H. RISK MANAGEMENT

The Authority carries insurance for all of its facilities, covering direct physical loss or damage and loss of revenue resulting therefrom, with such deductibles as it deems appropriate. The Authority also carries General and Umbrella Public Liability Insurance with such self-insured retainers as it deems appropriate. Automotive and Public Officials Liability coverage is also maintained with deductibles. Workers' Compensation coverage is also maintained, as required by State law. Settled claims resulting from the aforementioned risks have not exceeded insurance coverage in any of the past three fiscal years.

I. RECENT ACCOUNTING STANDARDS

The Authority has adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). Statement No. 73 requires the Authority to present a 10-year schedule of changes in the total net pension liability. The schedule of changes in the total net pension liability is presented in Required Supplementary Information of these financial statements.

In June 2015, GASB issued Statement No 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 75"). This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local government employers through OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2017. The Authority has adopted GASB 75 effective July 1, 2017.

In March 2016, GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). This Statement requires the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure, in schedules of required supplementary information. The Statement also addresses issues regarding the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement are effective for

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

I. RECENT ACCOUNTING STANDARDS (CONTINUED)

financial statements in periods beginning after June 15, 2016. The Authority has implemented GASB 82 during this fiscal year.

J. INSURANCE REIMBURSEMENTS

There are no insurance or FEMA reimbursements included in "Other income" on the statement of revenue, expenses and changes in net position for the years ended June 30, 2018 and 2017.

K. CONTINGENCIES

The Authority is party to various legal actions and disputes. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results of operations or the financial position of the Authority.

L. PRIOR YEAR RESTATEMENT

In 2018 the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As a result of this implementation, a restatement of the prior year net position was required in order to record the June 30, 2017 total OPEB liability of \$37,744,085.

M. INFORMATION BY BUSINESS SEGMENT

The Authority issued revenue bonds to finance the construction of various capital assets, including the construction of the reservoir systems for both the Manasquan and Raritan Basin Systems. Each of these Systems must provide sufficient revenue each year to cover its own operating expenses and debt service. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. The chart represents information by Business Segment and is not consistent with the consolidated balances on the statement of net position. Summary financial information for the operating segments is presented below:

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

M. INFORMATION BY BUSINESS SEGMENT (CONTINUED)

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>
Condensed statement of net position				
Assets and deferred outflows of resources:				
Current assets	\$ 84,732,962	\$ 15,560,928	\$ 34,538,852	\$ 14,652,005
Restricted cash	7,708,070	2,523,253	1,969,162	2,129,001
Other restricted assets	-	5,378,034	-	5,329,486
Capital assets	90,438,403	53,998,878	83,660,222	55,806,506
Other non-current assets	9,875,183	839,914	10,237,004	867,021
Deferred outflows of resources	5,780,190	1,621,896	7,272,745	2,339,660
Total assets and deferred outflows of resources	<u>\$ 198,534,808</u>	<u>\$ 79,922,903</u>	<u>\$ 137,677,985</u>	<u>\$ 81,123,679</u>
Liabilities and deferred inflows of resources:				
Current liabilities	\$ 10,008,576	\$ 6,355,839	\$ 2,618,463	\$ 6,132,511
Non-current liabilities	100,799,272	61,904,662	60,388,375	68,078,111
Deferred inflows of resources	20,781,907	(9,815,802)	13,782,179	(13,442,085)
Total liabilities and deferred inflows of resources	131,589,755	58,444,699	76,789,017	60,768,537
Net Position:				
Net investment in capital assets	31,804,837	27,470,435	44,985,111	16,902,401
Restricted for debt service	7,708,070	5,726,391	1,969,162	5,292,903
Unrestricted	27,432,146	(11,718,622)	13,934,695	(1,840,163)
Total net position	<u>66,945,053</u>	<u>21,478,204</u>	<u>60,888,968</u>	<u>20,355,141</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 198,534,808</u>	<u>\$ 79,922,903</u>	<u>\$ 137,677,985</u>	<u>\$ 81,123,678</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

M. INFORMATION BY BUSINESS SEGMENT (CONTINUED)

	Year Ended June 30, 2018		Year Ended June 30, 2017	
	Raritan Basin System	Manasquan Reservoir System	Raritan Basin System	Manasquan Reservoir System
Condensed statement of revenues, expenses and changes in net assets				
Total operating revenues	\$ 22,415,908	\$ 7,614,960	\$ 17,088,270	\$ 8,306,529
Operating expenses	14,742,494	3,146,165	13,913,539	3,171,399
Depreciation	2,773,622	1,863,787	2,782,788	1,813,976
Operating income	4,899,792	2,605,008	391,943	3,321,154
Non-operating revenues	475,808	71,495	228,731	(231,129)
Non-operating expenses (recovery)	(680,485)	1,553,440	(678,401)	(990,347)
Changes in net position	6,056,085	1,123,063	1,299,075	4,080,372
Net position, beginning of the year as previously reported	60,888,968	20,355,141	88,275,397	25,333,350
GASB 75 adjustment	-	-	(28,685,504)	(9,058,581)
Net position, beginning of year, as restated	60,888,968	20,355,141	59,589,893	16,274,769
Net position, end of year	\$ 66,945,053	\$ 21,478,204	\$ 60,888,968	\$ 20,355,141
Condensed statement of cash flows				
Net cash provided by:				
Operating activities	\$ 9,859,024	\$ 5,203,841	\$ 5,247,519	\$ 5,694,584
Non-capital financing activities	31,422	-	171,310	-
Capital and related financing activities	(2,119,061)	(3,905,840)	(4,166,916)	(1,787,228)
Investing activities	734,538	98,434	685,245	(3,023,916)
Net increase in cash and cash equivalents	8,505,923	1,396,435	1,937,158	883,440
Beginning cash and cash equivalent balances	33,909,032	14,597,561	31,971,874	13,714,121
Ending cash and cash equivalent balances	\$ 42,414,955	\$ 15,993,996	\$ 33,909,032	\$ 14,597,561

REQUIRED SUPPLEMENTARY SCHEDULES

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF PROPORTIONATE SHARE OF PERS NET PENSION LIABILITY (NPL)
DETERMINED AS OF JUNE 30, 2017, PERS MEASUREMENT DATE**

Fiscal Year	Authority's Proportion	Authority's Proportion Share	Authority's Covered Payroll	Authority's Proportionate Share of NPL as a % of Covered Payroll	PERS Local Fiduciary Net Position as a % of Total Pension Liability
2018	0.10%	\$ 23,038,776	\$ 7,002,687	329%	47.58%
2017	0.10%	\$ 29,886,847	\$ 6,949,632	430%	40.14%
2016	0.10%	\$ 21,534,789	\$ 6,808,193	316%	47.94%

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Required Contribution	Contributions Recognized by PERS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 1,620,169	\$ 916,857	\$ 703,312	\$ 7,351,319	12.47%
2017	\$ 2,885,084	\$ 896,476	\$ 1,988,608	\$ 7,002,687	12.80%
2016	\$ 1,261,241	\$ 823,798	\$ 437,443	\$ 6,949,632	11.85%
2015	\$ 819,154	\$ 798,757	\$ 20,397	\$ 6,808,193	11.73%

SCHEDULE OF CHANGES IN TOTAL NET PENSION LIABILITY

Fiscal Year	Beginning Balance Total Net Pension Liability	Difference Between Expected and Actual Experience	Change of Assumptions	Difference Between Expected and Actual Earnings	Change in Proportion and Actual Less Proportion Share	Other Changes and Reclassifications	Ending Balance Total Net Pension Liability
2018	\$ 29,886,847	\$ 542,484	\$ 17,016	\$ 156,878	\$ (73,348)	\$ (7,491,101)	\$ 23,038,776
2017	\$ 21,534,789	\$ 555,805	\$ 6,190,858	\$ 1,139,613	\$ 304,163	\$ 161,619	\$ 29,886,847
2016	\$ 18,141,342	\$ 513,147	\$ 1,739,535	\$ 735,251	\$ (206,140)	\$ 611,654	\$ 21,534,789
2015	\$ 19,250,440	\$ -	\$ 570,440	\$ (1,081,086)	\$ (772,427)	\$ 173,975	\$ 18,141,342

The pension schedules are intended to show information for ten years. The State of New Jersey has issued four years of pension information to the Authority. Additional years' information will be displayed as it becomes available.

**NEW JERSEY WATER SUPPLY AUTHORITY
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**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN DETERMINED
AS OF JUNE 30, 2017, OPEB MEASUREMENT DATE**

	<u>2018</u>	<u>2017</u>
Authority's proportion of the net OPEB liability	0.1639400%	0.173796%
Authority's proportionate share of the net OPEB liability (asset)	\$ 33,469,644	\$ 37,744,085
Authority's covered payroll	\$ 7,351,319	\$ 7,002,687
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	455.3%	539.0%
Plan fiduciary net position as a percentage of the total OPEB liability	264.2%	215.2%

The OPEB schedules are intended to show information for ten years. The State of New Jersey has issued two years of OPEB information to the Authority. Additional years' information will be displayed as it becomes available.

OTHER SUPPLEMENTARY INFORMATION

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2018**

	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>	<u>Elimination Entries</u>	<u>Combined Total</u>
Assets				
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	\$ 34,706,885	\$ 13,470,743	\$ -	\$ 48,177,628
Unbilled sales	1,501,023	-	-	1,501,023
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2018	47,598,882	1,870,799	(174,068)	49,295,613
Interest receivable	160,691	7,087	-	167,778
Prepaid expenses and other current assets	765,481	212,299	-	977,780
Total unrestricted assets	<u>84,732,962</u>	<u>15,560,928</u>	<u>(174,068)</u>	<u>100,119,822</u>
Restricted assets:				
Cash equivalents	7,708,070	2,523,253	-	10,231,323
Investments	-	5,378,034	-	5,378,034
Total restricted assets	<u>7,708,070</u>	<u>7,901,287</u>	<u>-</u>	<u>15,609,357</u>
Total current assets	<u>92,441,032</u>	<u>23,462,215</u>	<u>(174,068)</u>	<u>115,729,179</u>
Non-current assets:				
Investments	9,875,183	839,914	-	10,715,097
Capital assets net of accumulated depreciation of \$145,750,384 at June 30, 2018	90,438,403	53,998,878	-	144,437,281
Total non-current assets	<u>100,313,586</u>	<u>54,838,792</u>	<u>-</u>	<u>155,152,378</u>
Total assets	<u>192,754,618</u>	<u>78,301,007</u>	<u>(174,068)</u>	<u>270,881,557</u>
Deferred outflows of resources				
Pension related	5,285,251	1,620,519	-	6,905,770
OPEB related	4,359	1,377	-	5,736
2018 construction loan DEP fee	490,580	-	-	490,580
Total deferred outflows of resources	<u>5,780,190</u>	<u>1,621,896</u>	<u>-</u>	<u>7,402,086</u>
Total assets and deferred outflows of resources	<u>\$ 198,534,808</u>	<u>\$ 79,922,903</u>	<u>\$ (174,068)</u>	<u>\$ 278,283,643</u>
Liabilities				
Current liabilities:				
Current portion of bonds, notes and loans payable	\$ 903,680	\$ 3,027,572	\$ -	\$ 3,931,252
Accounts payable	7,173,712	305,389	(174,068)	7,305,033
Accrued liabilities	1,931,184	847,982	-	2,779,166
Unearned revenue	-	2,174,896	-	2,174,896
Total current liabilities	<u>10,008,576</u>	<u>6,355,839</u>	<u>(174,068)</u>	<u>16,190,347</u>
Non-current liabilities:				
Non-current portion of bonds, notes and loans payable	57,729,886	48,465,628	-	106,195,514
Net pension liability	17,632,457	5,406,319	-	23,038,776
Total OPEB liability	25,436,929	8,032,715	-	33,469,644
Total non-current liabilities	<u>100,799,272</u>	<u>61,904,662</u>	<u>-</u>	<u>162,703,934</u>
Total liabilities	<u>110,807,848</u>	<u>68,260,501</u>	<u>(174,068)</u>	<u>178,894,281</u>
Deferred inflows of resources				
Cost recovery	12,442,789	(13,010,085)	-	(567,296)
Pension related	4,091,409	1,254,474	-	5,345,883
OPEB related	4,247,709	1,341,382	-	5,589,091
Gain on refunding	-	598,427	-	598,427
Total deferred inflow of resources	<u>20,781,907</u>	<u>(9,815,802)</u>	<u>-</u>	<u>10,966,105</u>
Net position				
Net investment in capital assets	31,804,837	27,470,435	-	59,275,272
Restricted for cash, investments and unearned revenue	7,708,070	5,726,391	-	13,434,461
Unrestricted	27,432,146	(11,718,622)	-	15,713,524
Total net position	<u>66,945,053</u>	<u>21,478,204</u>	<u>-</u>	<u>88,423,257</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 198,534,808</u>	<u>\$ 79,922,903</u>	<u>\$ (174,068)</u>	<u>\$ 278,283,643</u>

NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY

COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	Raritan Basin System	Manasquan Reservoir System	Manasquan Water Treatment Plant	Combined Total
Operating revenues:				
Water sales	\$ 22,415,908	\$ 7,614,960	\$ -	\$ 30,030,868
Reimbursement of operating expenses			2,642,400	2,642,400
Total operating revenues	<u>22,415,908</u>	<u>7,614,960</u>	<u>2,642,400</u>	<u>32,673,268</u>
Operating expenses:				
Payroll	6,029,166	892,150	960,877	7,882,193
Operations and maintenance (direct)	4,030,267	869,264	652,350	5,551,881
Operations and maintenance (general and administrative)	-	84,508	60,698	145,206
Fringe benefits	5,446,061	648,243	725,267	6,819,571
Headquarters overhead	(763,000)	652,000	111,000	-
Depreciation	2,773,622	1,863,787	-	4,637,409
Total operating expenses	<u>17,516,116</u>	<u>5,009,952</u>	<u>2,510,192</u>	<u>25,036,260</u>
Income from operations	<u>4,899,792</u>	<u>2,605,008</u>	<u>132,208</u>	<u>7,637,008</u>
Non-operating revenues:				
State of New Jersey - Grant Programs	31,422	-	-	31,422
Investment income	370,122	107,026	12,615	489,763
Rental income	49,565	-	-	49,565
Other income	24,699	(35,531)	-	(10,832)
Total non-operating revenues	<u>475,808</u>	<u>71,495</u>	<u>12,615</u>	<u>559,918</u>
Non-operating expenses:				
Interest component of debt service to the State of New Jersey	154,724	289,294	-	444,018
Bond discount/insurance premium expense	-	-	-	-
Recovery of deferred inflows of resources	(835,209)	1,264,146	144,823	573,760
Total non-operating expenses	<u>(680,485)</u>	<u>1,553,440</u>	<u>144,823</u>	<u>1,017,778</u>
Changes in net position	6,056,085	1,123,063	-	7,179,148
Net position, beginning of year, as restated	60,888,968	20,355,141	-	81,244,109
Net position, end of year	<u>\$ 66,945,053</u>	<u>\$ 21,478,204</u>	<u>\$ -</u>	<u>\$ 88,423,257</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - RARITAN BASIN SYSTEM
YEAR ENDED JUNE 30, 2018**

	Operating Fund											Source Water Protection Fund	Subtotal	
	Revenue Fund - PNC	Operating Account - PNC	Payroll Account - PNC	Revenue Account - TD	Operating Account - TD	Payroll Account - TD	Operating Fund	Reserve for O&M	Self-Insurance Reserve	Depreciation Reserve	Pumping Reserve			Capital Improvements II
Cash and investments - July 1, 2017	\$1,176,243	\$3,378,352	\$30,000	\$ -	\$ -	\$ -	\$1,052,319	\$3,578,527	\$953,505	\$4,255,118	\$1,231,480	\$6,382,382	\$3,903,948	\$25,941,874
Cash receipts:														
Water sales operations and maintenance	10,730,301			2,221,743										12,952,044
Water sales debt service	4,378,187			943,860										5,322,047
Water sales capital fund	1,853,748			366,440										2,220,188
Water sales source water protection fund	1,348,179			266,502										1,614,681
Water sales overdrafts	658													658
Rental income	39,659			2,740										42,399
Manasquan reservoir support	33,716			1,172			16,750							51,638
Headquarters overhead							760,000							760,000
Disposition of property	19,901													19,901
Recycling revenue	439													439
Sale of investment securities								481,314		50,000				531,314
Nonrefundable bid deposits														-
Insurance reimbursement	29,197													29,197
Miscellaneous expense reimbursement	215,661	32,085		92,035	2,727,514		1,546,908							4,614,203
Transfers:														
Contributions from operating fund	(1)	9,493,153	2,784,547		2,505,119	741,592	(28,195,094)		471,905	150,000			527,820	(11,520,959)
Contributions to operating fund				(306,650)	287		4,103,827		(182,167)				(361,577)	3,263,720
Transfers for operations	(20,246,838)			(1,729,370)			21,955,455	20,753						-
Transfers for investments														-
Distribution from reserves to operations		18,100												18,100
Investment income				3	282	121	5,272	87,080	23,479	112,914	9,012	312,760	27,903	578,826
Per resolution, Section 603:														
Investment income, transfer from	435,768						(5,272)	(87,080)	(23,479)	(94,975)		(312,500)		(87,538)
Investment income, transfer to	(14,818)							22,169						7,351
Unrealized gain/(loss) on fair value								(39,462)	(16,676)	(30,108)		(221,921)		(308,167)
Total cash receipts	(1,176,243)	9,543,338	2,784,547	1,858,475	5,233,202	741,713	187,846	484,774	(16,676)	327,569	159,012	(221,661)	204,146	20,110,042
Total available cash and investments	\$ -	\$12,921,690	\$2,814,547	\$1,858,475	\$5,233,202	\$741,713	\$1,240,165	\$4,063,301	\$936,829	\$4,582,687	\$1,390,492	\$6,160,721	\$4,108,094	\$46,051,916

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - RARITAN BASIN SYSTEM (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Subtotal	Parity SWP Bond Fund	Subordinated SWP Bond Fund	Major Rehabilitation	Capital Improvement Fund	D&R Mitigation Fund	D&R Canal Dredging	Capital Equipment Reserve	Rate Stabilization Fund	Employment Benefit Funds	Totals
Total cash and investments	\$25,941,874	\$301,514	\$557,007	\$1,381,648	\$11,902,828	\$20,203	\$1,948,958	\$451,204	\$86,049	\$1,554,751	\$44,146,036
Cash receipts:											
Water sales operations and maintenance	12,952,044										12,952,044
Water sales debt service	5,322,047										5,322,047
Water sales capital fund	2,220,188										2,220,188
Water sales source water protection fund	1,614,681										1,614,681
Water sales overdrafts	658										658
Rental income	42,399										42,399
Manasquan reservoir support	51,638										51,638
Headquarters overhead	760,000										760,000
Disposition of property	19,901										19,901
Recycling revenue	439										439
Sale of investment securities	531,314										531,314
Nonrefundable bid deposits	-										-
Insurance reimbursement	29,197										29,197
Miscellaneous expense reimbursement	4,614,203				269,490						4,883,693
Transfers:											
Contributions from operating fund	(11,520,959)	361,884	707,700		3,743,348		5,657,502	150,000		900,525	-
Contributions to operating fund	3,263,720				(2,553,633)					(710,087)	-
Transfers for operations	-										-
Transfers for investments	-										-
Distribution from reserves to operations	18,100									(18,100)	-
Investment income	578,826	940	1,814	9,574	84,395	133	32,872	3,452	342	10,944	723,292
Per resolution, Section 603:											
Investment income, transfer from	(87,538)										(87,538)
Investment income, transfer to	7,351										7,351
Unrealized gain/(loss) on fair value	(308,167)										(308,167)
Total cash receipts	20,110,042	362,824	709,514	9,574	1,543,600	133	5,690,374	153,452	342	183,282	28,763,137
Total available cash and investments	\$46,051,916	\$664,338	\$1,266,521	\$1,391,222	\$13,446,428	\$20,336	\$7,639,332	\$604,656	\$86,391	\$1,738,033	\$72,909,173

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - RARITAN BASIN SYSTEM (CONTINUED)
Year Ended June 30, 2018**

	Operating Fund													Subtotal
	Revenue Fund - PNC	Operating Account - PNC	Payroll Account - PNC	Revenue Account - TD	Operating Account - TD	Payroll Account - TD	Operating Fund	Reserve for O&M	Self-Insurance Reserve	Depreciation Reserve	Pumping Reserve	Capital Improvements II	Source Water Protection Fund	
Total available cash and investments	\$ -	\$ 12,921,690	\$ 2,814,547	\$ 1,858,475	\$ 5,233,202	\$ 741,713	\$ 1,240,165	\$ 4,063,301	\$ 936,829	\$ 4,582,687	\$ 1,390,492	\$ 6,160,721	\$ 4,108,094	\$ 46,051,916
Cash disbursements:														
Payroll			2,814,547			591,592								3,406,139
Fringe benefits		18,276			3,861		724,950							747,087
Employee deferred compensation and credit union		1,452,213					52,071							1,504,284
Operations and maintenance		11,451,439			1,810,891									13,262,330
Prepaid insurance														-
Miscellaneous disbursements														-
Watershed Management Fund														-
Capital improvements:														
Capital assets														-
New five year construction project														-
Purchase of investments securities								519,685	1,368	82,935				603,988
Principal on 1981 bonds														-
Interest on 1981 bonds														-
Principal on 1998 bonds														-
Interest on 1998 revenue bonds														-
Principal on NJEIT bonds														-
Interest on NJEIT revenue bonds														-
Total cash disbursements	\$ -	\$ 12,921,928	\$ 2,814,547	\$ -	\$ 1,814,752	\$ 591,592	\$ 777,021	\$ 519,685	\$ 1,368	\$ 82,935	\$ -	\$ -	\$ -	\$ 19,523,828
Cash and investments - June 30, 2018	\$ -	\$ (\$238)	\$ -	\$ 1,858,475	\$ 3,418,450	\$ 150,121	\$ 463,144	\$ 3,543,616	\$ 935,461	\$ 4,499,752	\$ 1,390,492	\$ 6,160,721	\$ 4,108,094	\$ 26,528,088
Summary of cash and investments:														
Cash	\$ -	\$ (\$238)	\$ -	\$ 1,858,475	\$ 3,418,450	\$ 150,121								\$ 5,426,808
Short-term investments							\$ 463,144	\$ 2,209,606	\$ 296,674	\$ 2,683,216	\$ 1,390,492	\$ 74,871	\$ 4,108,094	\$ 11,226,097
Long-term investments								1,334,010	638,787	1,816,536		6,085,850		9,875,183
Restricted Investments (current)														-
Restricted Investments (long-term)														-
Total cash and investments	\$ -	\$ (\$238)	\$ -	\$ 1,858,475	\$ 3,418,450	\$ 150,121	\$ 463,144	\$ 3,543,616	\$ 935,461	\$ 4,499,752	\$ 1,390,492	\$ 6,160,721	\$ 4,108,094	\$ 26,528,088

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - RARITAN BASIN SYSTEM (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Subtotal	Parity SWP Bond Fund	Subordinated SWP Bond Fund	Major Rehabilitation	Capital Improvement Fund	D&R Mitigation Fund	D&R Canal Dredging	Capital Equipment Reserve	Rate Stabilization Fund	Employment Benefit Funds	Totals
Total available cash and investments	\$46,051,916	\$664,338	\$1,266,521	\$1,391,222	\$13,446,428	\$20,336	\$7,639,332	\$604,656	\$86,391	\$1,738,033	\$72,909,173
Cash disbursements:											
Payroll	3,406,139										3,406,139
Fringe benefits	747,087										747,087
Employee deferred compensation and credit union	1,504,284										1,504,284
Operations and maintenance	13,262,330										13,262,330
Prepaid insurance	-										-
Miscellaneous disbursements	-									46,143	46,143
Watershed Management Fund	-										-
Capital improvements:											
Capital assets	-										-
New five year construction project	-										-
Purchase of investments securities	603,988										603,988
Principal on 1981 bonds	-										-
Interest on 1981 bonds	-										-
Principal on 1998 bonds	-										-
Interest on 1998 revenue bonds	-										-
Principal on NJEIT bonds	-	323,596	575,523								899,119
Interest on NJEIT revenue bonds	-	31,894	118,051								149,945
Total cash disbursements	19,523,828	355,490	693,574	-	-	-	-	-	-	46,143	20,619,035
Cash and investments - June 30, 2018	\$26,528,088	\$308,848	\$572,947	\$1,391,222	\$13,446,428	\$20,336	\$7,639,332	\$604,656	\$86,391	\$1,691,890	\$52,290,138
Summary of cash and investments:											
Cash	\$5,426,808									\$46,670	\$5,473,478
Short-term investments	11,226,097	\$308,848	\$572,947	\$1,391,222	\$13,446,428	\$20,336	\$7,639,332	\$604,656	\$86,391	1,645,220	36,941,477
Long-term investments	9,875,183										9,875,183
Restricted Investments (current)	-										-
Restricted Investments (long-term)	-										-
Total cash and investments	\$26,528,088	\$308,848	\$572,947	\$1,391,222	\$13,446,428	\$20,336	\$7,639,332	\$604,656	\$86,391	\$1,691,890	\$52,290,138

**NEW JERSEY WATER SUPPLY AUTHORITY
A COMPONENT UNIT OF THE STATE OF NEW JERSEY**

**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - MANASQUAN WATER SUPPLY SYSTEM
YEAR ENDED JUNE 30, 2018**

	Operating Fund						Operating Fund	Reserve for O&M	Self-Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
	Revenue Fund - PNC	Operating Account - PNC	Payroll Account - PNC	Revenue Fund - TD	Operating Account - TD	Payroll Account - TD										
Cash and investments - July 1, 2017	\$126,244	\$484,443	\$20,000	\$ -	\$ -	\$ -	\$4,177,005	\$1,616,408	\$221,967	\$3,706,911	\$30,192	\$1,533,274	\$562,519	\$155,430	\$196,298	\$12,830,691
Cash receipts:																
Water sales operations and maintenance	3,028,735			34,128												3,062,863
Water sales debt service	4,273,038			44,982												4,318,020
Source water protection	96,451			1,182												97,633
Water sales debt service NJEIT	174,721			1,965												176,686
Water sales overdrafts	41,783															41,783
NJ-American pumping costs	164,503			44,865												209,368
Headquarters overhead																-
Reimbursement of WTP capital expenses																-
Disposition of assets																-
Reimbursement from (to) Raritan Basin	6,918			2,473			(16,750)									(7,359)
Sale of investments securities																-
Nonrefundable bid deposits																-
Miscellaneous reimbursement	7,996			23,912	299,247											331,155
Transfers:																
Contributions from operating fund	454,600	2,529,219	912,627	13,780	897,877	210,134	(9,284,147)			207,500		57,581	27,919		30,000	(3,942,910)
Contributions to operating fund		65,000	(65,000)	(99,725)	583		1,563,288		(42)	(55,765)		(27,707)	(18,185)	(218)	(458)	1,361,771
Transfers for operations	(8,402,908)	2,599					8,400,792									483
Distribution from reserves to operations		5,569		2,994			(2,994)									5,569
Investment income				4	90	32	35,963	26,768	10,158	26,871	115	10,648	15,320	2,028	1,152	129,149
Per resolution, Section 603:																
Investment income, transfer from	56,902						(22,183)	(23,774)	(10,116)				(13,500)	(1,810)	(695)	(15,176)
Investment income, transfer to	(28,983)						28,983									-
Unrealized gain/(loss) on fair value							(11,425)	(2,900)				(6,222)		1,263		(19,284)
Total cash receipts	(126,244)	2,602,387	847,627	70,560	1,197,797	210,166	705,946	(11,425)	(2,900)	178,606	115	40,522	5,332	1,263	29,999	5,749,751
Total cash and investments	\$ -	\$3,086,830	\$867,627	\$70,560	\$1,197,797	\$210,166	\$4,882,951	\$1,604,983	\$219,067	\$3,885,517	\$30,307	\$1,573,796	\$567,851	\$156,693	\$226,297	\$18,580,442

**NEW JERSEY WATER SUPPLY AUTHORITY
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**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - MANASQUAN WATER SUPPLY SYSTEM (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Water Treatment Plant/Transmission System														Totals
	Subtotal	Operating Account - PNC	Operating Account -TD	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self-Insurance Reserve	Capital Improvement Reserve	NJEIT Debt Service	2016 Debt Service Account	2016 Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	
Cash and investments - July 1, 2017	\$12,830,691	\$128,322	\$ -	\$1,284,697	\$9,491	\$98,466	\$253,295	\$354,730	\$146,156	\$3,193,946	\$1,746,553	\$242,830	\$41,197	\$463,693	\$20,794,067
Cash receipts:															
Water sales operations and maintenance	3,062,863														3,062,863
Water sales debt service	4,318,020														4,318,020
Source water protection	97,633														97,633
Water sales debt service NJEIT	176,686														176,686
Water sales overdrafts	41,783														41,783
N.J-American pumping costs	209,368														209,368
Headquarters overhead	-			2,422,200											2,422,200
Reimbursement of WTP capital expenses	-														-
Disposition of assets	-														-
Reimbursement from/(to) Raritan Basin	(7,359)														(7,359)
Sale of investments securities	-														-
Nonrefundable bid deposits	-														-
Miscellaneous reimbursement	331,155		178,055	555,962				29,784							1,094,956
Transfers:															
Contributions from operating fund	(3,942,910)	1,100,000	203,642	(1,509,384)				200,000	177,222	3,501,538				269,892	-
Contributions to operating fund	1,361,771			(787,578)				(574,142)					(51)		-
Transfers for operations	483			(483)											-
Distribution from reserves to operations	5,569													(5,569)	-
Investment income	129,149		76	9,202	62	429	1,530	1,315	414			1,459	207	3,139	146,982
Per resolution, Section 603:															
Investment income, transfer from	(15,176)				(34)	(195)	(813)						(156)		(16,374)
Investment income, transfer to	-			1,043											1,043
Unrealized gain/(loss) on fair value	(19,284)														(19,284)
Total cash receipts	5,749,751	1,100,000	381,773	690,962	28	234	717	(343,043)	177,636	3,501,538	-	1,459	-	267,462	11,528,517
Total cash and investments	\$18,580,442	\$1,228,322	\$381,773	\$1,975,659	\$9,519	\$98,700	\$254,012	\$11,687	\$323,792	\$6,695,484	\$1,746,553	\$244,289	\$41,197	\$731,155	\$32,322,584

**NEW JERSEY WATER SUPPLY AUTHORITY
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**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS – MANASQUAN WATER SUPPLY SYSTEM (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Revenue Fund - PNC	Operating Account - PNC	Payroll Account - PNC	Revenue Fund - TD	Operating Account - TD	Payroll Account - TD	Operating Fund	Reserve for O&M	Self- Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
Total available cash and investments	\$ -	\$3,086,830	\$867,627	\$70,560	\$1,197,797	\$210,166	\$4,882,951	\$1,604,983	\$219,067	\$3,885,517	\$30,307	\$1,573,796	\$567,851	\$156,693	\$226,297	\$18,580,442
Cash disbursements:																
Payroll			867,627			170,133										1,037,760
Fringe benefits		1,593,311			317,512		(1,521,924)									388,899
Employee deferred compensation and credit union							225,991									225,991
Operations and maintenance		1,493,519			215,156		806,254									2,514,929
NJ-American pumping costs																-
Prepaid insurance																-
Headquarters overhead							649,000									649,000
Capital assets reservoir																-
Capital improvement program (reservoir)																-
Purchase of Investments securities								4,422					1,368	2,047		7,837
Principal on bonds																-
Interest on bonds																-
Total cash disbursements	-	3,086,830	867,627	-	532,668	170,133	159,321	-	4,422	-	-	-	1,368	2,047	-	4,824,416
Cash and investments - June 30, 2018	\$ -	\$ -	\$ -	\$70,560	\$665,129	\$40,033	\$4,723,630	\$1,604,983	\$214,645	\$3,885,517	\$30,307	\$1,573,796	\$566,483	\$154,646	\$226,297	\$13,756,026
Summary of cash and investments:																
Cash (Manasquan)	\$ -	\$ -	\$ -	\$70,560	\$665,129	\$40,033										\$775,722
Cash (Water Treatment Plant/TS)																-
Short-term investments							\$4,723,630	\$1,244,939	\$37,693	\$3,885,517	\$30,307	\$1,573,796	\$293,574	\$124,652	\$226,297	12,140,405
Short-term investments (Water Treatment Plant/TS)																-
Long-term investments								360,044	176,952				272,909	29,994		839,899
Restricted investments (current)																-
Restricted investments (long-term)																-
Total cash and investments	\$ -	\$ -	\$ -	\$70,560	\$665,129	\$40,033	\$4,723,630	\$1,604,983	\$214,645	\$3,885,517	\$30,307	\$1,573,796	\$566,483	\$154,646	\$226,297	\$13,756,026

**NEW JERSEY WATER SUPPLY AUTHORITY
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**SCHEDULE OF CHANGES IN CASH AND INVESTMENTS - MANASQUAN WATER SUPPLY SYSTEM (CONTINUED)
YEAR ENDED JUNE 30, 2018**

	Water Treatment Plant/Transmission System								NJ/EIT Debt Service	2006 Debt Service Account	2006 Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
	Subtotal	Operating Account - PNC	Operating Account -TD	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self- Insurance Reserve	Capital Improvement Reserve							
Total available cash and investments	\$18,580,442	\$1,228,322	\$381,773	\$1,975,659	\$9,519	\$98,700	\$254,012	\$11,687	\$323,792	\$6,695,484	\$1,746,553	\$244,289	\$41,197	\$731,155	\$32,322,584
Cash disbursements:															
Payroll	1,037,760														1,037,760
Fringe benefits	388,899													217,721	606,620
Employee deferred compensation and credit union	225,991														225,991
Operations and maintenance	2,514,929	1,228,322	97,097												3,840,348
NJ-American pumping costs	-														-
Prepaid insurance	-														-
Headquarters overhead	649,000			111,000											760,000
Capital assets reservoir	-														-
Capital improvement program (reservoir)	-														-
Purchase of Investments securities	7,837														7,837
Principal on bonds	-								147,572	2,805,000					2,952,572
Interest on bonds	-								29,924	\$49,588					679,512
Total cash disbursements	4,824,416	1,228,322	97,097	111,000	-	-	-	-	177,496	3,454,588	-	-	-	217,721	10,110,640
Cash and investments - June 30, 2018	\$13,756,026	\$-	\$284,676	\$1,864,659	\$9,519	\$98,700	\$254,012	\$11,687	\$146,296	\$3,240,896	\$1,746,553	\$244,289	\$41,197	\$513,434	\$22,211,944
Summary of cash and investments:															
Cash (Manasquan)	\$775,722														\$775,722
Cash (Water Treatment Plant/TS)	-		\$284,676												284,676
Short-term investments	12,140,405												\$41,197	\$513,434	12,695,036
Short-term investments (Water Treatment Plant/TS)	-			\$1,864,659	\$9,519	\$98,700	\$254,012	\$11,687							2,238,577
Long-term investments	839,899														839,899
Restricted investments (current)	-								\$146,296	\$3,240,896	\$1,746,553	\$244,289			5,378,034
Restricted investments (long-term)	-														-
Total cash and investments	\$13,756,026	\$-	\$284,676	\$1,864,659	\$9,519	\$98,700	\$254,012	\$11,687	\$146,296	\$3,240,896	\$1,746,553	\$244,289	\$41,197	\$513,434	\$22,211,944

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 Commissioners of New Jersey Water Supply Authority

We have audited, 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, the financial statements of the business-type activities of the New Jersey Water Supply Authority (the "Authority"), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 29, 2019.

Internal Control Over Financial Reporting

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

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

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

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 (CONTINUED)

Compliance and Other Matters

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

Purpose of this Report

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

Mercadieu, P.C.
Certified Public Accountants

April 29, 2019