

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2017

**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 year ended June 30, 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. The financial statements of the Authority as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 3, 2016, expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four through eleven and schedules of proportionate share of PERS net pension liability (NPL) determined as of June 30, 2017, PERS measurement date, contributions and changes in total net pension liability on page thirty-nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other accompanying supplementary information which consists of the combining schedule of net position, combining schedule of revenue, expenses and changes in net position, the schedule of changes in cash and investments – Raritan Basin System, and the schedule of changes in cash and investments – Manasquan Water Supply System are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information listed above 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information (Continued)

In our opinion, the combining schedule of net position, combining schedule of revenue, expenses and changes in net position, the schedule of changes in cash and investments – Raritan Basin System and schedule of changes in cash and investments – Manasquan Water Supply System, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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.

Mercadieu, P.C.

Certified Public Accountants

October 5, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

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, 2017 and June 30, 2016. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2017

- Operating revenue for fiscal year 2017 was \$28.0 million, an increase 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 \$99.3 million. This is an increase of 7.3% 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. 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, 2017

FINANCIAL HIGHLIGHTS – FISCAL YEAR 2016

- Operating revenue for fiscal year 2016 was \$27.8 million, an increase over fiscal year 2015, which was the result of a 6.16% increase in Raritan, and a .34% increase in Manasquan sales. In the Raritan Basin System, there was an increase in the rate from \$246.00 per million gallons to \$253.00 per million gallons, and the sales base increased .04%, from 182.271 million gallons per day (“mgd”) to 182.339mgd. In the Manasquan Reservoir System, there was an increase in the rate from \$1,015.90 per million gallons to \$1,057.40 per million gallons. The fiscal year 2016 sales base decreased 5.43% from 20.560mgd to 19.443mgd.
- Unrestricted cash and cash equivalents for fiscal year 2016 were \$41.1 million, an increase of 10.68% from fiscal year 2015. Income from operations increased for the Raritan System 59.35% and increased 2.32% for the Manasquan System.
- Total liabilities for fiscal year 2016 were \$92.5 million. This is a decrease of 5.99% from fiscal year 2015 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. 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 2016 decreased to \$21.4 million, which represents a .17% decrease from fiscal year 2015. Payroll increased 2.03% because of step increments awarded to union employees and the filling of funded vacancies. Direct operations and maintenance expenses decreased 14.06% to \$5.0 million because there were no extraordinary storm related expenses incurred in the fiscal year as there were in fiscal year 2015.
- Other changes for fiscal year 2016 include the following: non-operating revenue increased 123.11% to \$1.2 million; investment income increased 476.4% because of the net impact of adjustments of securities to fair market value and recognizing the balance of bond premiums. The receipt of grant program reimbursement increased 5.6% from the previous year, and other income decreased because of a one-time reimbursement from other state agencies which shared capital project costs in the prior fiscal year.
- Non-operating expenses for fiscal year 2016 decreased 1.84% to \$2.1 million. The interest component of debt service decreased 11.26% 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 2 to the basic financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

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 \$119.0 million as of June 30, 2017. In fiscal year 2017, total assets and deferred outflows increased 4.5% to \$218.6 million, primarily due to an increase in pension related deferred outflow of resources and an increase in cash bank balances. Total liabilities increased 7.3% to \$99.3 million, due to an increase in the Authority's portion of the State of New Jersey's net unfunded pension liability as required by GASB 68. Total net position as of June 30, 2016, was approximately \$113.6 million. Total assets at June 30, 2016 increased .03% to \$209.2 million, and total liabilities decreased 6.0% to \$92.5 million. Total net position as of June 30, 2015, was \$108.1 million. Changes in assets, liabilities and net position at June 30, 2017, 2016 and 2015, are summarized in the following table:



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

	2017	2016	2015*	Percentage Change 2017-2016	Percentage Change 2016-2015
Current assets	\$58,452,649	\$53,645,149	\$54,790,017	8.96 %	(2.09) %
Capital assets, net	139,466,728	140,382,085	141,237,393	(0.65)	(0.61)
Other non-current assets	11,104,025	11,527,173	11,824,171	(3.67)	(2.51)
Total assets	209,023,402	205,554,407	207,851,581	1.69	(1.11)
Deferred outflows of resources	9,612,405	3,646,920	1,280,619	163.58	
Total assets and deferred outflows of resources	218,635,807	209,201,327	209,132,200	4.51	0.03
Current liabilities	8,585,118	6,027,320	9,039,888	42.44	(33.33)
Non-current liabilities	29,886,847	21,534,789	18,141,342	38.78	
Non-current portion of bonds, notes and loans payable	60,835,554	64,954,602	71,231,389	(6.34)	(8.81)
Total liabilities	99,307,519	92,516,711	98,412,619	7.34	(5.99)
Deferred inflows of resources	340,094	3,075,869	2,623,839	(88.94)	17.23
Net investment in capital assets	99,631,597	98,890,303	91,638,454	0.75	7.91
Restricted for debt service	7,262,065	3,876,937	9,229,092	87.31	(57.99)
Unrestricted	12,094,532	10,841,507	7,228,196	11.56	49.99
Total net position	\$118,988,194	\$113,608,747	\$108,095,742	4.74	5.10
Total liabilities, deferred inflows of resources, and net position	\$218,635,807	\$209,201,327	\$209,132,200	4.51	0.03

* Certain balances have been reclassified to conform to current year presentation



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

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 2017 Authority meeting, respectively, based on anticipated operating expenses:

	Rate Effective <u>7/01/2017</u>	Rate Effective <u>7/01/2016</u>	Rate Effective <u>7/01/2016</u>	<u>Percent Change</u>
Raritan Basin System	\$ 336.00/mg	\$ 253.00/mg	\$ 253.00/mg	32.8%
Manasquan Water Supply System				
Initial users	\$1,043.35/mg	\$1,104.58/mg	\$1,057.40/mg	(5.5)%
Delayed water users	\$1,137.76/mg	\$1,238.04/mg	\$1,190.26/mg	(8.1)%

The Authority's total operating revenue for fiscal year 2017 was \$28.0 million, an increase of .7% from fiscal year 2016, due to a 1.2% decrease in Raritan water sales and a 5.1% increase in Manasquan water sales. The Authority's total operating expenses for fiscal year 2017 were \$24.7 million, an increase of 15.3% from fiscal year 2016, mainly because of an increase in pension expense. The Authority's total operating revenue for fiscal year 2016 was \$27.8 million, an increase of 3.9% from fiscal year 2015. The Authority's total operating expenses for fiscal year 2016 were \$21.4 million, a decrease of .2% from fiscal year 2015. The following table summarizes the changes in revenue, expenses and net position between fiscal years 2017, 2016 and 2015:



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

	2017	2016	2015	Percentage Change 2017-2016	Percentage Change 2016-2015
Operating revenue:					
Water sales	\$25,394,799	\$25,199,424	\$24,168,432	0.78 %	4.27 %
Reimbursement of operating expenses	2,642,400	2,642,400	2,642,400	-	-
Total operating revenue	28,037,199	27,841,824	26,810,832	0.70	3.85
Non-operating revenue:					
State of New Jersey - Grant Programs	171,310	62,375	59,083	174.65	5.57
Investment income	(25,188)	975,579	169,265	(102.58)	476.36
Rental income	49,606	58,467	58,244	(15.16)	0.38
Other income	(192,822)	89,744	245,063	(314.86)	(63.38)
Total non-operating revenue	2,906	1,186,165	531,655	(99.76)	123.11
Total revenue	28,040,105	29,027,989	27,342,487	(3.40)	6.16
Operating expenses:					
Payroll	7,425,938	7,225,026	7,081,593	2.78	2.03
Operations and maintenance	5,165,250	4,991,547	5,808,377	3.48	(14.06)
Fringe benefits	7,498,085	4,755,520	4,190,610	57.67	13.48
Depreciation	4,596,764	4,441,492	4,368,723	3.50	1.67
Total operating expenses	24,686,037	21,413,585	21,449,303	15.28	(0.17)
Non-operating expenses:					
Interest component of debt service to the State of New Jersey	464,824	1,226,563	1,382,205	(62.10)	(11.26)
Bond discount/insurance premium expense	12,491	158,053	28,343	(92.10)	457.64
Recovery of deferred inflows of resources	(2,502,694)	716,783	730,229	(449.16)	(1.84)
Total non-operating expenses	(2,025,379)	2,101,399	2,140,777	(196.38)	(1.84)
Total Expenses	22,660,658	23,514,984	23,590,080	(3.63)	(0.32)
Change in net position	5,379,447	5,513,005	3,752,407	(2.42)	46.92
Net position, beginning of year, as previously reported	113,608,747	108,095,742	121,682,236	5.10	(11.17)
GASB 68 adjustment			(17,338,901)	-	(100.00)
Net position, beginning of year, as restated	113,608,747	108,095,742	104,343,335	5.10	3.60
Net position, end of year	\$118,988,194	\$113,608,747	\$108,095,742	4.74	5.10

See accompanying notes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

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 last year. At June 30, 2016, the Authority had a total of \$140,382,085 invested in the Systems that it operates: \$83,080,156 invested in the Raritan Basin System, and \$57,301,929 invested in the Manasquan System. This total amount represents a .6% decrease from the prior year.



NEW JERSEY WATER SUPPLY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2017

The following table summarizes the changes in capital assets, net of depreciation, between fiscal years 2017, 2016 and 2015:

	2017	2016	2015	Percentage Change 2017-2016	Percentage Change 2016-2015
Land and land rights	\$26,444,952	\$26,444,952	\$25,566,853	0.00 %	3.43 %
Dams	47,407,020	48,205,015	49,003,010	(1.66)	(1.63)
Building, structures and improvements	54,876,544	51,714,341	55,038,675	6.11	(6.04)
Machinery and equipment	1,411,333	1,303,991	1,183,611	8.23	10.17
Construction work in progress	9,326,879	12,713,786	10,445,244	-26.64	21.72
Total capital assets	\$139,466,728	\$140,382,085	\$141,237,393	(0.65)	(0.61)

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 2017, 2016 and 2015:

	2017	2016	2015	Percentage Change 2017-2016	Percentage Change 2016-2015
Bonds payable	\$18,802,335	\$19,281,414	\$27,135,913	(2.48) %	(28.95) %
Notes payable	33,566,892	33,566,892	33,647,103	-	(0.24)
Loans payable	12,318,018	13,382,948	14,379,107	(7.96)	(6.93)
Total bonds, notes and loans payable	\$64,687,245	\$66,231,254	\$75,162,123	(2.33)	(11.88)

At year-end, the Authority had \$64,687,245 in bonds, notes and loans principal outstanding, compared to \$66,231,254 at June 30, 2016. This change represents a decrease of 2.3%. The change in bonds, notes and loans principal outstanding at June 30, 2016, compared to the total of \$75,162,123 at June 30, 2015, represents a decrease of 11.9%, 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, 2017

CURRENT AND NEW BUSINESS

During fiscal year 2017, 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 will be 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 2017, 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 Authority area. During fiscal years 2017 and 2016, three customers accounted for approximately 88% and 86%, 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 in fiscal year 2018.

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,	
	2017	2016
Assets		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$44,408,430	\$41,144,423
Unbilled sales	1,174,697	1,082,506
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2017 and 2016	2,270,753	3,101,106
Interest receivable	170,608	272,443
Prepaid expenses and other current assets	1,000,513	1,012,080
Total unrestricted current assets	<u>49,025,001</u>	<u>46,612,558</u>
Restricted assets:		
Cash equivalents	4,098,163	4,541,572
Investments	5,329,485	2,491,019
Total restricted current assets	<u>9,427,648</u>	<u>7,032,591</u>
Total current assets	<u>58,452,649</u>	<u>53,645,149</u>
Non-current assets:		
Investments	11,104,025	11,527,173
Capital assets, net	139,466,728	140,382,085
Total non-current assets	<u>150,570,753</u>	<u>151,909,258</u>
Deferred outflows of resources - pension related	9,612,405	3,646,920
Total assets and deferred outflows of resources	<u>\$218,635,807</u>	<u>\$209,201,327</u>
Liabilities		
Current liabilities:		
Current portion of bonds, notes and loans payable	\$3,851,691	\$1,276,652
Accounts payable	431,084	445,212
Accrued liabilities	2,136,760	1,149,802
Unearned revenue	2,165,583	3,155,654
Total current liabilities	<u>8,585,118</u>	<u>6,027,320</u>
Non-current liabilities:		
Non-current portion of bonds, notes and loans payable	60,835,554	64,954,602
Net pension liability	29,886,847	21,534,789
Total non-current liabilities	<u>90,722,401</u>	<u>86,489,391</u>
Deferred inflows of resources:		
Cost recovery	(896,366)	1,231,135
Pension related	525,390	1,021,022
Gain on refunding	711,070	823,712
Total deferred inflows of resources	<u>340,094</u>	<u>3,075,869</u>
Net Position		
Net investment in capital assets	99,631,597	98,890,303
Restricted for debt service	7,262,065	3,876,937
Unrestricted	12,094,532	10,841,507
Total net position	<u>118,988,194</u>	<u>113,608,747</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$218,635,807</u>	<u>\$209,201,327</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,	
	2017	2016
Operating revenue:		
Water sales	\$25,394,799	\$25,199,424
Reimbursement of operating expenses	2,642,400	2,642,400
Total operating revenue	<u>28,037,199</u>	<u>27,841,824</u>
Operating expenses:		
Payroll	7,425,938	7,225,026
Operations and maintenance	5,165,250	4,991,547
Fringe benefits	7,498,085	4,755,520
Depreciation	4,596,764	4,441,492
Total operating expenses	<u>24,686,037</u>	<u>21,413,585</u>
Income from operations	3,351,162	6,428,239
Non-operating revenue:		
State of New Jersey - Grant Programs	171,310	62,375
Investment income	(25,188)	975,579
Rental income	49,606	58,467
Other income	(192,822)	89,744
Total non-operating revenue	<u>2,906</u>	<u>1,186,165</u>
Non-operating expenses:		
Interest component of debt service to the State of New Jersey	464,824	1,226,563
Bond discount/insurance premium expense	12,491	158,053
Recovery of deferred inflows of resources	(2,502,694)	716,783
Total non-operating expenses	<u>(2,025,379)</u>	<u>2,101,399</u>
Change in net position	5,379,447	5,513,005
Net position, beginning of year	<u>113,608,747</u>	<u>108,095,742</u>
Net position, end of year	<u>\$118,988,194</u>	<u>\$113,608,747</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,	
	2017	2016
Cash flows from operating activities		
Cash received from water sales	\$26,150,080	\$25,038,797
Cash received from reimbursable expenses	2,641,113	2,648,442
Cash received from rental income	38,126	35,673
Cash paid to or on behalf of employees	(12,681,123)	(11,642,062)
Cash paid to suppliers	(5,202,949)	(5,064,598)
Net cash provided by operating activities	<u>10,945,247</u>	<u>11,016,252</u>
Cash flows from noncapital financing activities		
Cash received for grant programs	171,310	62,375
Net cash provided by non-capital financing activities	<u>171,310</u>	<u>62,375</u>
Cash flows from capital and related financing activities		
Proceeds from borrowing	-	23,596,826
Gain on refunding	-	823,712
Principal paid on bonds, notes and loans	(2,302,554)	(26,653,829)
Interest paid on bonds, notes and loans	(314,752)	(1,646,829)
Acquisition and construction of capital assets	(3,661,204)	(3,729,938)
Proceeds from sale of capital assets	321,222	87,160
Net cash used in capital and related financing activities	<u>(5,957,288)</u>	<u>(7,522,898)</u>
Cash flows from investing activities		
Sale of investment securities	7,313,765	3,005,598
Purchase of investment securities	(10,470,306)	(3,624,715)
Interest received on investments	76,647	946,471
Premium on matured investments	741,223	128,684
Net cash provided by investing activities	<u>(2,338,671)</u>	<u>456,038</u>
Net increase in cash and cash equivalents	2,820,598	4,011,767
Cash and cash equivalents, beginning of year	45,685,995	41,674,228
Cash and cash equivalents, end of year	<u>\$48,506,593</u>	<u>\$45,685,995</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	3,351,162	6,428,239
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Non-cash items expensed to operations and maintenance	49,606	58,467
Cash received for operating activity included in other income	(514,044)	2,584
Depreciation	4,596,764	4,441,492
Increase (decrease) in cash from:		
Unbilled sales	(92,191)	14,499
Accounts receivable	839,893	(219,644)
Prepaid expenses and other current assets	11,567	14,483
Accounts payable	(43,871)	(40,046)
Accrued liabilities	(13,302)	31,644
Accrued payroll and taxes	868,751	(30,063)
Net pension liability	1,890,912	314,597
Net cash provided by operating activities	<u>\$10,945,247</u>	<u>\$11,016,252</u>
Non-cash investing activities		
Decrease in fair value of investments	<u>(\$369,015)</u>	<u>(\$277,520)</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 Governmental Accounting Standards Board ("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 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

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

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

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 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. During fiscal year 2016, two customers accounted for approximately 87% of total Raritan Basin System accounts receivable, and five customers accounted for approximately 87% 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

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, 2017 and 2016, were determined as follows:

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Raritan Basin System	2017	2016
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	(19,963)	27,016
Accrued sick pay	(391)	186,576
	<u>814,855</u>	<u>1,048,801</u>
Cost included in rate model:		
Debt principal repayment	-	-
	<u>814,855</u>	<u>1,048,801</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	(1,846)	(2,006)
Accrued sick pay	3,638	14,337
	<u>1,542,646</u>	<u>1,553,185</u>
Cost included in rate model:		
Debt principal repayment	(230,000)	(2,942,853)
	<u>1,312,646</u>	<u>(1,389,668)</u>
 Total Raritan Basin and Manasquan	 2,127,501	 (340,867)
Balance, beginning of year	(1,231,135)	(890,268)
Balance, end of year	<u>\$896,366</u>	<u>(\$1,231,135)</u>

As shown in the statements of revenue, expenses and changes in net position for the years ended June 30, 2017 and 2016, respectively, deferred inflow of resources credit of \$2,502,694 and a debit balance of \$716,783 includes a credit balance of \$356,631, and a debit balance of \$149,993 of Manasquan Water Treatment Plant deferred revenue, which is not part of the rate model, and does not include a debit balance of \$18,562 pay and a credit balance of \$225,923 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
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows and Outflows of Resources (Continued)

Deferred Inflows/Outflow of Resources - Pensions

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 pension plan investments, changes in the State's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension 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 statement of net position. These excess costs or billings will be recovered or recognized in future periods. As of June 30, 2017 and 2016, unearned revenue amounting to \$1,690,964 and \$2,047,595, respectively, was determined as follows:

	2017	2016
Reimbursement of operating expenses	\$2,647,704	\$2,646,563
Operating expenses	3,004,335	2,496,570
Unearned revenue	(356,631)	149,993
Balance, beginning of year	2,047,595	1,897,602
Balance, end of year	<u>\$1,690,964</u>	<u>\$2,047,595</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, 2017 and 2016, the amount included in unearned revenue was \$474,619, and \$1,108,059, respectively.

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Watershed Protection Program

For the fiscal years ended June 30, 2017 and 2016, the Authority received \$79,187 and \$113,483, respectively, from the NJDEP 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 NJDEP 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, 2017, all the funds received had been recognized as revenue.

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

On July 1, 2007, the Authority implemented GASB Number 45, which covers accounting and financial reporting requirements for government employers that provide post-employment benefits other than pensions. Since the Authority participates in the State’s multiple-employer cost-sharing plan (Public Employees’ Retirement System (“PERS”), the Authority’s portion of this liability and cost is calculated and recorded at the State level and included in the State’s Comprehensive Annual Financial Report. The Authority records OPEB expense based on billings from the State PERS. Required financial statement disclosures are included in Note F of these financial statements.

C. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016, was as follows:

	2017			2017
	Beginning			Ending
	Balance	Additions	Retirements	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 capital assets	\$ 140,382,085	\$ 5,690,745	\$ (6,606,102)	\$ 139,466,728

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

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS (CONTINUED)

	2016			2016
	Beginning		Retirements	Ending
	Balance	Additions		Balance
Capital assets not being depreciated:				
Land	\$ 25,566,853	\$ 878,099	\$ -	\$ 26,444,952
Construction work in progress	10,445,244	2,268,542	-	12,713,786
Total capital assets not being depreciated	36,012,097	3,146,641	-	39,158,738
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	133,475,474	-	-	133,475,474
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	6,320,308	439,543	(367,977)	6,391,874
Total capital assets being depreciated	238,325,216	439,543	(367,977)	238,396,782
Less accumulated depreciation for:				
Dams	(28,366,150)	(797,995)	-	(29,164,145)
Building, structures and improvements	(78,436,800)	(3,324,334)	-	(81,761,134)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(5,136,697)	(319,163)	367,977	(5,087,883)
Total accumulated depreciation	(133,099,920)	(4,441,492)	367,977	(137,173,435)
Total capital assets being depreciated, net	105,225,296	(4,001,949)	-	101,223,347
Total capital assets	\$ 141,237,393	\$ (855,308)	\$ -	\$ 140,382,085

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, 2017 and 2016, the Authority's bank balance was \$5,490,531 and \$4,038,014, respectively, of which \$250,000 was covered through the FDIC. The remaining balance of \$5,240,531 and \$3,788,014 as of June 30, 2017 and 2016, respectively, was collateralized, and the cash balance per the statement of net position is shown exclusive of outstanding checks totaling \$102,349 and \$159,916, respectively. The statement of net position amount includes petty cash totaling \$300 as of June 30, 2017 and 2016, respectively.

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

NOTES TO FINANCIAL STATEMENTS

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 \$5,490,531 and \$4,038,014 as of June 30, 2017 and 2016, respectively, was exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</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; and Level 3 inputs are significant unobservable inputs.

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:

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

As of June 30, 2016, 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
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NOTES TO FINANCIAL STATEMENTS

D. CASH, CASH EQUIVALENTS AND INVESTMENTS (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	\$44,298,616	\$44,298,616	\$ -
NJ G/O Bonds	Level 2	11,799,616	4,001,505	7,798,111
Total		\$56,098,232	\$48,300,121	\$7,798,111

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, 2017, all deposits were collateralized.

4. Investment Income

The following comprises investment income for the years ended June 30, 2017 and 2016, respectively:

	2017	2016
Interest earned on bank accounts and certificates of deposit	(\$185,717)	\$661,886
Interest earned on securities	529,544	591,213
Decrease in fair value of securities	(369,015)	(277,520)
	<u>(\$25,188)</u>	<u>\$975,579</u>

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,

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

NOTES TO FINANCIAL STATEMENTS

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

Manasquan System (Continued)

1. Notes Due to State of New Jersey (Continued)

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, 2017 and 2016.

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, 2017 and 2016, the State Loan Notes and Completion Notes are summarized as follows:

State Loan Notes	2017	2016
Current Notes	\$ -	\$ -
Deferred Notes	30,365,115	30,365,115
Completion Notes		
Current Notes	\$ -	\$ -
Deferred Notes	3,201,777	3,201,777
	<u>\$33,566,892</u>	<u>\$33,566,892</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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 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, 2017 and 2016, the debt service component of the rate generated \$4,733,869 and \$4,746,838, 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, 2017 and 2016, interest expense on the 2005 Bonds amounted to \$0 and \$1,029,827, respectively, and the related interest income earned on the restricted investments amounted to \$0 and \$246, 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 Notes.

The Refunding Bonds, Series 2016, have a principal balance of \$17,230,000 at June 30, 2017, carry a bond yield of 1.59%, and mature in incremental annual principal amounts through 2031. Principal maturities for the year ending June 30, 2018, are \$2,805,000.

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. For the years ended June 30, 2017 and 2016, the debt service component of the rate generated 4,733,869 and \$4,746,838, respectively.

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

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

For the years ended June 30, 2017 and 2016, interest expense on the 2016 Bonds amounted to \$617,736 and \$123,390, respectively, and the related interest income earned on the restricted investments account amounted to \$2.70 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, 2017:

NJEIFP Series	Date of Issuance	State Revolving Fund Original Principal	Percent	Trust Original Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2012B	05/03/2012	\$2,312,250	76%	\$715,000	24%	.80%	\$2,287,041	08/01/2031

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NOTES TO FINANCIAL STATEMENTS

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.

The following table summarizes the NJEIFP loans outstanding for the Raritan Basin System, as of June 30, 2017:

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%	\$331,551	8/1/2023
2004A	11/4/2004	1,030,000	75%	350,000	25%	1.31%	\$599,472	8/1/2024
2005A	11/10/2005	2,940,974	75%	1,050,000	25%	1.25%	\$1,457,052	8/1/2025
2006A	11/9/2006	2,099,363	75%	745,000	25%	1.26%	\$1,483,043	8/1/2026
2007A	11/8/2007	1,740,563	75%	620,000	25%	1.06%	\$1,386,582	8/1/2027
2008A	11/6/2008	1,152,000	64%	660,000	36%	1.74%	\$1,190,316	8/1/2028
2010A	3/10/2010	300,493	51%	290,000	49%	1.69%	\$396,965	8/1/2029
2010B	12/2/2010	1,064,338	52%	990,000	48%	1.87%	\$1,548,667	8/1/2030
2012A	5/3/2012	1,501,455	76%	465,000	24%	0.65%	\$1,519,729	8/1/2031
Total		\$12,456,205		\$5,405,000			\$9,913,377	

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NOTES TO FINANCIAL STATEMENTS

E. BONDS, NOTES AND LOANS PAYABLE (CONTINUED)

The following table summarizes the changes in bonds, notes and loans payable between fiscal years 2017, 2016 and 2015:

	Fiscal Year 2016	Less 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

	Fiscal Year 2015	Less Payments, Net of Amortization	Debt Issued	Fiscal Year 2016	Due Within One Year
Bonds payable	\$ 27,135,913	\$ 25,314,499	\$ 17,460,000	\$ 19,281,414	\$ 230,000
Notes payable	33,647,103	80,211	-	33,566,892	-
Loans payable	14,379,107	996,159	-	13,382,948	1,046,652
Total	\$ 75,162,123	\$ 26,390,869	\$ 17,460,000	\$ 66,231,254	\$ 1,276,652

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
2018	\$ 1,064,348	\$ 175,372	\$ -	\$ 3,454,588	\$ 4,694,308
2019	1,056,425	174,172	-	3,443,937	4,674,534
2020	1,052,871	172,822	-	3,445,962	4,671,655
2021	1,070,857	176,197	-	3,446,338	4,693,392
2022	1,043,333	174,447	-	582,213	1,799,993
2023-2027	4,211,973	868,610	-	2,892,188	7,972,771
2028-2032	1,489,189	779,870	-	2,857,931	5,126,990
Deferred Portion	-	-	33,566,892	-	33,566,892
Subtotal	10,988,996	2,521,490	33,566,892	20,123,157	67,200,535
Less amounts representing interest	1,075,619	234,450	-	2,893,156	4,203,225
Plus unamortized bond premium	76,230	41,370	-	1,572,335	1,689,935
Subtotal	9,989,607	2,328,410	33,566,892	18,802,336	64,687,245
Less: Current principal portion	899,119	147,572	-	2,805,000	3,851,691
Total	\$ 9,090,488	\$ 2,180,838	\$ 33,566,892	\$ 15,997,336	\$ 60,835,554

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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 PERS. For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Following is the total of the local portion of the Systems 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, 2016.

Net Pension Liabilities	\$29,886,847
Deferred Outflow of Resources	8,715,929
Deferred Inflow of Resources	525,390
Pension Expense	2,885,084
Contributions Made	896,476

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

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 7.34% 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 www.state.nj.us/treasury/pensions/annrpts.shtml.

The payroll for employees covered by PERS for the years ended June 30, 2017, 2016 and 2015, was \$7,002,687, \$6,949,632, and \$6,808,193, respectively. The Authority's total payroll for the years ended June 30, 2017, 2016, and 2015 was \$7,425,938 \$7,225,026, and \$7,081,593, respectively. The actuarial contribution requirements and the contributions made for the years ended June 30, 2017, 2016 and 2015, were \$1,400,670, \$1,312,670, and \$1,270,306, respectively, which consisted of \$896,476, \$823,798, and \$798,757 from the Authority, and \$504,194 and \$488,872 and \$471,549 from the employees, respectively. As required by PERS, the employer and employee contributions represented 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, 11.73% and 6.92% of covered payroll for the year ended June 30, 2015, and 11.20% and 6.78% of covered payroll for the year ended June 30, 2014, respectively. Contributions were made in accordance with the actuarial funding requirement.

Assumptions

The total pension liability for June 30, 2016, measurement date was determined by an actuarial valuation as of July 1, 2015. The pension liability was rolled forward to June 30, 2016. The actuarial valuation used an inflation rate of 3.08%, 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 7.65%.

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, 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 30% of the actuarially

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NOTES TO FINANCIAL STATEMENTS

F. EMPLOYEE BENEFITS (CONTINUED)

determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions, and investment policies, can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

The following presents the Authority's proportionate share of the PERS net pension liability calculated using the discount rate of 3.98% and 4.90% as of June 30, 2016 and 2015, 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 (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
2016	<u>\$36,622,842</u>	<u>\$29,886,847</u>	<u>\$24,325,698</u>
	At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
2015	<u>\$26,733,985</u>	<u>\$21,534,789</u>	<u>\$17,129,785</u>

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 determined 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.

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NOTES TO FINANCIAL STATEMENTS

F. EMPLOYEE BENEFITS (CONTINUED)

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 for each group as of June 30, 2016 and 2015, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015. The Authority's proportionate share of the collective net pension liability as of June 30, 2016 and 2015, was .1009% and .0958%, respectively.

At June 30, 2017, the amount recognized as the Authority's proportionate share of the PERS net pension liability was \$29,886,847. At June 30, 2016, the amount recognized as the Authority's proportionate share of the PERS net pension liability was \$21,534,789. For the years ended June 30, 2017 and 2016, the Authority recognized PERS pension expense of \$3,875,761 and \$1,138,400, respectively. At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the PERS pension are as follows:

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Experience	\$ 555,805	\$ -	\$ 513,147	\$ -
Change of Assumptions	6,190,958	-	2,309,975	-
Net Difference Between Projected and Actual Investment Earnings	1,139,613	-	-	345,835
Net Change in Proportions	829,553	525,390	-	675,187
Total Contributions and Proportionate Share of Contributions after the Measurement Date	896,476	-	823,798	-
	<u>\$ 9,612,405</u>	<u>\$ 525,390</u>	<u>\$ 3,646,920</u>	<u>\$ 1,021,022</u>

**NEW JERSEY WATER SUPPLY AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

F. EMPLOYEE BENEFITS (CONTINUED)

The Authority recognized the \$896,476 and the \$823,798 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PERS net pension liability in the year ended June 30, 2017. 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:

Year Ending June 30	Amortization
2018	\$ 1,807,270
2019	1,807,270
2020	2,088,754
2021	1,833,726
2022	<u>653,537</u>
Total	<u>\$ 8,190,557</u>

Post-Retirement Health Care Benefits

The Authority provides continued health care benefits to employees retiring after 25 years of service and their eligible dependents. Benefits, contributions, funding and the manner of administration are determined by the State Legislature. The Authority's portion of this liability and cost is included in the State's comprehensive annual financial report on an annual basis. As such, the liability for Authority employees is covered under the State plan. The Division of Pensions within the New Jersey Treasury Department administers the funds. Monthly, the Division of Pensions charges the Authority for its contribution. The total number of employees receiving benefits was 56, 55, and 53 at June 30, 2017, 2016 and 2015, respectively. Total cost for these post-retirement benefits, included in fringe benefits, approximated \$978,578, \$914,743, and \$875,644 for the years ended June 30, 2017, 2016 and 2015, respectively.

G. MAJOR WATER CUSTOMERS

During fiscal years 2017 and 2016, the Authority supplied water to approximately 32 customers of the Raritan Basin System and 13 customers of the Manasquan System.

During fiscal years 2017 and 2016, two customers accounted for approximately 84% of total Raritan Basin System operating revenue. During fiscal years 2017 and 2016, three customers accounted for approximately 88% and 86%, respectively, of total Manasquan System operating revenue.

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NOTES TO FINANCIAL STATEMENTS

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. This Statement will become effective for the June 30, 2018 year-end. The Authority has not yet completed the process of evaluating the impact of GASB 75 on its financial statements.

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

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NOTES TO FINANCIAL STATEMENTS

J. INSURANCE REIMBURSEMENTS

There are no insurance or FEMA reimbursements included in "Other income" on the statement of revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016.

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. 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:

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NOTES TO FINANCIAL STATEMENTS

L. INFORMATION BY BUSINESS SEGMENT (CONTINUED)

	Years Ended			
	June 30, 2017		June 30, 2016	
	Raritan Basin System	Manasquan Reservoir System	Raritan Basin System	Manasquan Reservoir System
Condensed statement of net position				
Assets and deferred outflows of resources:				
Current assets	\$34,538,852	\$14,652,005	\$33,539,086	\$13,242,472
Restricted cash	1,969,162	2,129,001	1,872,225	2,669,347
Other restricted assets	-	5,329,486	-	2,491,019
Capital assets	83,660,222	55,806,506	83,080,156	57,301,929
Other non-current assets	10,237,004	867,021	10,615,449	911,724
Deferred outflows of resources	7,272,745	2,339,660	2,808,128	838,792
Total assets and deferred outflows of resources	<u>\$137,677,985</u>	<u>\$81,123,679</u>	<u>\$131,915,044</u>	<u>\$77,455,283</u>
Liabilities and deferred inflows of resources:				
Current liabilities	\$2,618,463	\$6,132,511	\$2,067,051	\$4,129,269
Non-current liabilities	31,702,871	59,019,530	26,586,885	59,902,506
Deferred inflows of resources	13,782,179	(13,442,085)	14,985,711	(11,909,842)
Total liabilities and deferred inflows of resources	48,103,513	51,709,956	43,639,647	52,121,933
Net Position:				
Net investment in capital assets	73,670,615	25,960,982	72,175,978	26,714,325
Restricted for debt service	1,969,162	5,292,903	1,872,225	2,004,712
Unrestricted	13,934,695	(1,840,163)	14,227,194	(3,385,687)
Total net position	<u>89,574,472</u>	<u>29,413,722</u>	<u>88,275,397</u>	<u>25,333,350</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$137,677,985</u>	<u>\$81,123,678</u>	<u>\$131,915,044</u>	<u>\$77,455,283</u>

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

NOTES TO FINANCIAL STATEMENTS

L. INFORMATION BY BUSINESS SEGMENT (CONTINUED)

	Years Ended			
	June 30, 2017		June 30, 2016	
	Raritan Basin System	Manasquan Reservoir System	Raritan Basin System	Manasquan Reservoir System
Condensed statement of revenue, expenses and changes in net position				
Total operating revenues	\$17,088,270	\$8,306,529	\$17,298,270	\$7,901,154
Operating expenses	13,913,539	3,171,399	11,442,968	3,032,555
Depreciation	2,782,788	1,813,976	2,758,921	1,682,571
Operating income	391,943	3,321,154	3,096,381	3,186,028
Non-operating revenues	228,731	(231,129)	563,547	618,455
Non-operating (recovery) expenses	(678,401)	(990,347)	(656,282)	2,607,688
Change in net position	1,299,075	4,080,372	4,316,210	1,196,795
Net position, beginning of the year	88,275,397	25,333,350	83,959,187	24,136,555
Net position, end of year	<u>\$89,574,472</u>	<u>\$29,413,722</u>	<u>\$88,275,397</u>	<u>\$25,333,350</u>
Condensed statement of cash flows				
Net cash provided by:				
Operating activities	\$5,247,519	\$5,694,584	\$5,988,367	\$5,027,885
Non-capital financing activities	171,310	-	62,375	-
Capital and related financing activities	(4,166,916)	(1,787,228)	(3,578,112)	(3,944,786)
Investing activities	685,245	(3,023,916)	583,415	(127,377)
Net increase in cash and cash equivalents	1,937,158	883,440	3,056,045	955,722
Beginning cash and cash equivalent balances	31,971,874	13,714,121	28,915,829	12,758,399
Ending cash and cash equivalent balances	<u>\$33,909,032</u>	<u>\$14,597,561</u>	<u>\$31,971,874</u>	<u>\$13,714,121</u>

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
2017	0.10%	\$29,886,847	\$7,002,687	427%	40.14%
2016	0.10%	\$21,534,789	\$6,949,632	310%	47.94%
2015	0.10%	\$18,141,342	\$6,808,193	266%	52.08%

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Required Contribution	Contributions Recognized by PERS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
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
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	\$0	\$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 three years of pension 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, 2017**

	Raritan Basin System	Manasquan Reservoir System	Elimination Entries	Combined Total
Assets				
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	\$31,939,870	\$12,468,560	\$ -	\$44,408,430
Unbilled sales	1,174,697	-	-	1,174,697
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2017	471,715	1,964,894	(165,856)	2,270,753
Interest receivable	163,285	7,323	-	170,608
Prepaid expenses and other current assets	789,285	211,228	-	1,000,513
Total unrestricted assets	<u>34,538,852</u>	<u>14,652,005</u>	<u>(165,856)</u>	<u>49,025,001</u>
Restricted assets:				
Cash equivalents	1,969,162	2,129,001	-	4,098,163
Investments	-	5,329,485	-	5,329,485
Total restricted assets	<u>1,969,162</u>	<u>7,458,486</u>	<u>-</u>	<u>9,427,648</u>
Total current assets	<u>36,508,014</u>	<u>22,110,491</u>	<u>(165,856)</u>	<u>58,452,649</u>
Non-current assets:				
Investments	10,237,004	867,021	-	11,104,025
Capital assets net of accumulated depreciation of \$141,372,769 at June 30, 2017	83,660,222	55,806,506	-	139,466,728
Total non-current assets	<u>93,897,226</u>	<u>56,673,527</u>	<u>-</u>	<u>150,570,753</u>
Deferred outflows of resources	7,272,745	2,339,660	-	9,612,405
Total assets and deferred outflows of resources	<u>\$137,677,985</u>	<u>\$81,123,678</u>	<u>(\$165,856)</u>	<u>\$218,635,807</u>
Liabilities				
Current liabilities:				
Current portion of bonds, notes and loans payable	\$899,119	\$2,952,572	\$ -	\$3,851,691
Accounts payable	277,022	319,918	(165,856)	431,084
Accrued liabilities	1,442,322	694,438	-	2,136,760
Unearned revenue	-	2,165,583	-	2,165,583
Total current liabilities	<u>2,618,463</u>	<u>6,132,511</u>	<u>(165,856)</u>	<u>8,585,118</u>
Non-current liabilities:				
Non-current portion of bonds, notes and loans payable	9,090,488	51,745,066	-	60,835,554
Net pension liability	22,612,383	7,274,464	-	29,886,847
Total non-current liabilities	<u>31,702,871</u>	<u>59,019,530</u>	<u>-</u>	<u>90,722,401</u>
Deferred inflows of resources				
Cost recovery	13,384,669	(14,281,035)	-	(896,366)
Pension related	397,510	127,880	-	525,390
Gain on refunding	-	711,070	-	711,070
Total deferred inflow of resources	<u>13,782,179</u>	<u>(13,442,085)</u>	<u>-</u>	<u>340,094</u>
Net position				
Net investment in capital assets	73,670,615	25,960,982	-	99,631,597
Restricted for debt service	1,969,162	5,292,903	-	7,262,065
Unrestricted	13,934,695	(1,840,163)	-	12,094,532
Total net position	<u>89,574,472</u>	<u>29,413,722</u>	<u>-</u>	<u>118,988,194</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$137,677,985</u>	<u>\$81,123,678</u>	<u>(\$165,856)</u>	<u>\$218,635,807</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, 2017

	Raritan Basin System	Manasquan Reservoir System	Manasquan Water Treatment Plant	Combined Total
Operating revenues:				
Water sales	\$17,088,270	\$8,306,529	\$ -	\$25,394,799
Reimbursement of operating expenses	-	-	2,642,400	2,642,400
Total operating revenues	<u>17,088,270</u>	<u>8,306,529</u>	<u>2,642,400</u>	<u>28,037,199</u>
Operating expenses:				
Payroll	5,678,167	774,695	973,076	7,425,938
Operations and maintenance (direct)	3,428,321	820,196	785,703	5,034,220
Operations and maintenance (general and administrative)	-	70,909	60,121	131,030
Fringe benefits	5,551,055	865,599	1,081,431	7,498,085
Headquarters overhead	(744,004)	640,000	104,004	-
Depreciation	2,782,788	1,813,976	-	4,596,764
Total operating expenses	<u>16,696,327</u>	<u>4,985,375</u>	<u>3,004,335</u>	<u>24,686,037</u>
Income from operations	<u>391,943</u>	<u>3,321,154</u>	<u>(361,935)</u>	<u>3,351,162</u>
Non-operating revenues:				
State of New Jersey - Grant Programs	171,310	-	-	171,310
Investment income	222,025	(252,517)	5,304	(25,188)
Rental income	49,606	-	-	49,606
Other income	(214,210)	21,388	-	(192,822)
Total non-operating revenues	<u>228,731</u>	<u>(231,129)</u>	<u>5,304</u>	<u>2,906</u>
Non-operating expenses:				
Interest component of debt service to the State of New Jersey	156,808	308,016	-	464,824
Bond discount/insurance premium expense	-	12,491	-	12,491
Recovery of deferred inflows of resources	(835,209)	(1,310,854)	(356,631)	(2,502,694)
Total non-operating expenses	<u>(678,401)</u>	<u>(990,347)</u>	<u>(356,631)</u>	<u>(2,025,379)</u>
Change in net position	1,299,075	4,080,372	-	5,379,447
Net position, beginning of year	<u>88,275,397</u>	<u>25,333,350</u>	-	<u>113,608,747</u>
Net position, end of year	<u>\$89,574,472</u>	<u>\$29,413,722</u>	<u>\$ -</u>	<u>\$118,988,194</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, 2017**

	Operating Fund										Subtotal
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M	Self-Insurance Reserve	Depreciation Reserve	Pumping Reserve	Capital Improvements II	Source Water Protection Fund	
Cash and investments - July 1, 2016	\$784,554	\$2,192,156	\$162,771	\$816,063	\$3,601,232	\$978,497	\$3,930,446	\$1,078,640	\$6,642,657	\$3,415,738	\$23,602,754
Cash receipts:											
Water sales operations and maintenance	11,911,012										11,911,012
Water sales debt service	1,742,816										1,742,816
Water sales capital fund	2,300,516										2,300,516
Water sales source water protection fund	1,560,692										1,560,692
Water sales overdrafts	304,040										304,040
Rental income	38,126										38,126
Manasquan reservoir support	239,165			14,689							253,854
Headquarters overhead				744,004							744,004
Disposition of property	286,684										286,684
Recycling revenue											-
Sale of investment securities					328,830	689,815	477,925				1,496,570
Nonrefundable bid deposits											-
Insurance reimbursement											-
Miscellaneous expense reimbursement	223,246	31,144		30							254,420
Transfers:											
Contributions from operating fund		13,879,912	3,266,340	(24,527,075)			574,696	150,000		516,000	(6,140,127)
Contributions to operating fund				4,509,819			(195,706)			(37,078)	4,277,035
Transfers for operations	(18,821,350)			20,391,350							1,570,000
Transfers for investments											-
Distribution from reserves to operations		18,140									18,140
Investment income				4,469	109,704	52,542	143,674	2,840	312,564	9,288	635,081
Per resolution, Section 603:											
Investment income, transfer from	617,309			(4,469)	(109,704)	(52,542)	(138,094)		(312,500)		-
Investment income, transfer to	(10,511)				10,511						-
Unrealized gain/(loss) on fair value					110,435	107,532	232,450		(260,339)		190,078
Total cash receipts	391,745	13,929,196	3,266,340	1,132,817	449,776	797,347	1,094,945	152,840	(260,275)	488,210	21,442,941
Total available cash and investments	\$1,176,299	\$16,121,352	\$3,429,111	\$1,948,880	\$4,051,008	\$1,775,844	\$5,025,391	\$1,231,480	\$6,382,382	\$3,903,948	\$45,045,695

**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, 2017**

	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	\$23,602,754	\$293,831	\$538,692	\$1,378,196	\$13,268,885	\$20,157	\$1,852,067	\$300,387	\$85,956	\$1,246,398	\$42,587,323
Cash receipts:											
Water sales operations and maintenance	11,911,012										11,911,012
Water sales debt service	1,742,816										1,742,816
Water sales capital fund	2,300,516										2,300,516
Water sales source water protection fund	1,560,692										1,560,692
Water sales overdrafts	304,040										304,040
Rental income	38,126										38,126
Manasquan reservoir support	253,854										253,854
Headquarters overhead	744,004										744,004
Disposition of property	286,684										286,684
Recycling revenue	-										-
Sale of investment securities	1,496,570										1,496,570
Nonrefundable bid deposits	-										-
Insurance reimbursement	-										-
Miscellaneous expense reimbursement	254,420										254,420
Transfers:											
Contributions from operating fund	(6,140,127)	373,200	708,000		2,196,273		1,663,843	150,000		1,048,811	-
Contributions to operating fund	4,277,035				(3,595,676)					(681,359)	-
Transfers for operations	1,570,000						(1,570,000)				-
Transfers for investments	-										-
Distribution from reserves to operations	18,140									(18,140)	-
Investment income	635,081	324	582	3,452	33,346	46	3,048	817	93	3,302	680,091
Per resolution, Section 603:											
Investment income, transfer from	-										-
Investment income, transfer to	-										-
Unrealized gain/(loss) on fair value	190,078										190,078
Total cash receipts	21,442,941	373,524	708,582	3,452	(1,366,057)	46	96,891	150,817	93	352,614	21,762,903
Total available cash and investments	\$45,045,695	\$667,355	\$1,247,274	\$1,381,648	\$11,902,828	\$20,203	\$1,948,958	\$451,204	\$86,049	\$1,599,012	\$64,350,226

**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, 2017**

	Revenue Fund	Operating Fund						Pumping Reserve	Capital Improvements II	Source Water Protection Fund	Subtotal
		Operating Account	Payroll Account	Operating Fund	Reserve for O&M	Self-Insurance Reserve	Depreciation Reserve				
Total available cash and investments	\$1,176,299	\$16,121,352	\$3,429,111	\$1,948,880	\$4,051,008	\$1,775,844	\$5,025,391	\$1,231,480	\$6,382,382	\$3,903,948	\$45,045,695
Cash disbursements:											
Payroll			3,399,111								3,399,111
Fringe benefits		43,576		778,272							821,848
Employee deferred compensation and credit union		1,614,431		118,289							1,732,720
Operations and maintenance		11,084,993									11,084,993
Prepaid insurance											-
Miscellaneous disbursements	56										56
Watershed Management Fund											-
Capital improvements:											
Capital assets											-
New five-year construction project											-
Purchase of investments securities					472,481	822,339	770,273				2,065,093
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	56	12,743,000	3,399,111	896,561	472,481	822,339	770,273	-	-	-	19,103,821
Cash and investments - June 30, 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
Summary of cash and investments:											
Cash	\$1,176,243	\$3,378,352	\$30,000								\$4,584,595
Short-term investments				\$1,052,319	\$2,186,688	\$296,679	\$2,374,550	\$1,231,480	\$74,611	\$3,903,948	11,120,275
Long-term investments					1,391,839	656,826	1,880,568		6,307,771		10,237,004
Restricted Investments (current)											-
Restricted Investments (long-term)											-
Total cash and investments	\$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

**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, 2017**

	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	\$45,045,695	\$667,355	\$1,247,274	\$1,381,648	\$11,902,828	\$20,203	\$1,948,958	\$451,204	\$86,049	\$1,599,012	\$64,350,226
Cash disbursements:											
Payroll	3,399,111										3,399,111
Fringe benefits	821,848										821,848
Employee deferred compensation and credit union	1,732,720										1,732,720
Operations and maintenance	11,084,993										11,084,993
Prepaid insurance	-										-
Miscellaneous disbursements	56									44,261	44,317
Watershed Management Fund	-										-
Capital improvements:											
Capital assets	-										-
New five-year construction project	-										-
Purchase of investments securities	2,065,093										2,065,093
Principal on 1981 bonds	-										-
Interest on 1981 bonds	-										-
Principal on 1998 bonds	-										-
Interest on 1998 revenue bonds	-										-
Principal on NJEIT bonds	-	293,696	471,075								764,771
Interest on NJEIT revenue bonds	-	72,145	219,192								291,337
Total cash disbursements	19,103,821	365,841	690,267	-	-	-	-	-	-	44,261	20,204,190
Cash and investments - June 30, 2017	\$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

Summary of cash and investments:

Cash	\$4,584,595									\$44,879	\$4,629,474
Short-term investments	11,120,275	\$301,514	\$557,007	\$1,381,648	\$11,902,828	\$20,203	\$1,948,958	\$451,204	\$86,049	1,509,872	29,279,558
Long-term investments	10,237,004										10,237,004
Restricted Investments (current)	-										-
Restricted Investments (long-term)	-										-
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

**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, 2017**

	Operating Fund					Self-	Renewal and	Water Reuse & Recycling	Source Water Protection	Water Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M	Insurance Reserve	Replacement Account						
Cash and investments - July 1, 2016	\$11,149	\$449,497	\$61,845	\$5,141,613	\$1,634,549	\$232,632	\$1,580,171	\$30,123	\$1,499,503	\$539,819	\$158,843	\$166,297	\$11,506,041
Cash receipts:													
Water sales operations and maintenance	3,021,091												3,021,091
Water sales debt service	4,781,601												4,781,601
Source water protection	71,713												71,713
Water sales debt service NJEIT	179,451												179,451
Water sales overdrafts	250,664												250,664
NJ-American pumping costs	190,592												190,592
Headquarters overhead													-
Reimbursement of WTP capital expenses													-
Disposition of assets	7,500												7,500
Reimbursement from Raritan Basin	16,413												16,413
Sale of investments securities					792,644	395,659			595,095	67,042			1,850,440
Nonrefundable bid deposits													-
Miscellaneous reimbursement	365,260												365,260
Transfers:													
Contributions from operating fund		3,832,493	1,011,254	(11,949,631)			2,614,228		71,016	82,622		30,000	(4,308,018)
Contributions to operating fund	(27,860)	324		2,243,227			(495,651)		(1,006)	(47,962)			1,671,072
Transfers for operations	(8,810,432)			8,850,432					(40,000)				-
Distribution from reserves to operations		517,742											517,742
Investment income				10,788	28,949	12,155	8,163	69	3,761	22,230	2,642	295	89,052
Per resolution, Section 603:													
Investment income, transfer from	77,269			(10,787)	(28,949)	(12,149)			(21,712)	(2,642)	(294)		736
Investment income, transfer to	(8,111)			7,483									(628)
Unrealized gain/(loss) on fair value					59,123	31,098			48,198	6,095			144,514
Total cash receipts	115,151	4,350,559	1,011,254	(848,488)	851,767	426,763	2,126,740	69	33,771	678,471	73,137	30,001	8,849,195
Total cash and investments	\$126,300	\$4,800,056	\$1,073,099	\$4,293,125	\$2,486,316	\$659,395	\$3,706,911	\$30,192	\$1,533,274	\$1,218,290	\$231,980	\$196,298	\$20,355,236

**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 (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	<u>Water Treatment Plant/Transmission System</u>														Totals
	Subtotal	Operating Account	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self-Insurance Reserve	Capital Improvement Reserve	NJEIT Debt Service	2016 Cost of Issuance	2016 Debt Service Account	2016 Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	
Cash and investments - July 1, 2016	\$11,506,041	\$172,434	\$1,206,935	\$9,490	\$98,457	\$253,259	\$928,772	\$146,851	\$47,280	\$49,838	\$1,711,765	\$535,285	\$41,197	\$409,260	\$17,116,864
Cash receipts:															
Water sales operations and maintenance	3,021,091														3,021,091
Water sales debt service	4,781,601														4,781,601
Source water protection	71,713														71,713
Water sales debt service NJEIT	179,451														179,451
Water sales overdrafts	250,664														250,664
NJ-American pumping costs	190,592														190,592
Headquarters overhead	-		2,642,400												2,642,400
Reimbursement of WTP capital expenses	-														-
Disposition of assets	7,500														7,500
Reimbursement from Raritan Basin	16,413														16,413
Sale of investments securities	1,850,440														1,850,440
Nonrefundable bid deposits	-														-
Miscellaneous reimbursement	365,260		41,543												406,803
Transfers:															
Contributions from operating fund	(4,308,018)	1,400,000	(1,399,611)				(10,793)	177,698		3,862,637				278,087	-
Contributions to operating fund	1,671,072		(1,105,772)				(565,299)		(34,789)		34,788				-
Transfers for operations	-														-
Distribution from reserves to operations	517,742											(293,082)		(224,660)	-
Investment income	89,052		2,578	22	126	527	2,050	165		3		627	107	1,006	96,263
Per resolution, Section 603:															
Investment income, transfer from	736			(21)	(117)	(491)							(107)		-
Investment income, transfer to	(628)		628												-
Unrealized gain/(loss) on fair value	144,514														144,514
Total cash receipts	8,849,195	1,400,000	181,766	1	9	36	(574,042)	177,863	(34,789)	3,862,640	34,788	(292,455)	-	54,433	13,659,445
Total cash and investments	\$20,355,236	\$1,572,434	\$1,388,701	\$9,491	\$98,466	\$253,295	\$354,730	\$324,714	\$12,491	\$3,912,478	\$1,746,553	\$242,830	\$41,197	\$463,693	\$30,776,309

**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 (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	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	Operating Account	Payroll Account	Operating Fund									
Total available cash and investments	\$126,300	\$4,800,056	\$1,073,099	\$4,293,125	\$2,486,316	\$659,395	\$3,706,911	\$30,192	\$1,533,274	\$1,218,290	\$231,980	\$196,298	\$20,355,236
Cash disbursements:													
Payroll			1,053,099										1,053,099
Fringe benefits		1,993,498		(1,538,008)									455,490
Employee deferred compensation and credit union				233,260									233,260
Operations and maintenance	56	2,322,115		780,868									3,103,039
NJ-American pumping costs													-
Prepaid insurance													-
Headquarters overhead				640,000									640,000
Capital assets reservoir													-
Capital improvement program (reservoir)													-
Purchase of Investments securities					869,908	437,428				655,771	76,550		2,039,657
Principal on bonds													-
Interest on bonds													-
Total cash disbursements	56	4,315,613	1,053,099	116,120	869,908	437,428	-	-	-	655,771	76,550	-	7,524,545
Cash and investments - June 30, 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
Summary of cash and investments:													
Cash (Manasquan)	\$126,244	\$484,443	\$20,000										\$630,687
Cash (Water Treatment Plant/TS)													-
Short-term investments				\$4,177,005	\$1,244,939	\$37,691	\$3,706,911	\$30,192	\$1,533,274	\$282,021	\$124,652	\$196,298	11,332,983
Short-term investments (Water Treatment Plant/TS)													-
Long-term investments					371,469	184,276				280,498	30,778		867,021
Restricted investments (current)													-
Restricted investments (long-term)													-
Total cash and investments	\$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

**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 (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	Water Treatment Plant/Transmission System														
	Subtotal	Operating Account	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self-Insurance Reserve	Capital Improvement Reserve	NJ/EIT Debt Service	2016 Cost of Issuance	2006 Debt Service Account	2006 Debt Service Reserve	2006 Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
Total available cash and investments	\$20,355,236	\$1,572,434	\$1,388,701	\$9,491	\$98,466	\$253,295	\$354,730	\$324,714	\$12,491	\$3,912,478	\$1,746,553	\$242,830	\$41,197	\$463,693	\$30,776,309
Cash disbursements:															
Payroll	1,053,099														1,053,099
Fringe benefits	455,490														455,490
Employee deferred compensation and credit union	233,260														233,260
Operations and maintenance	3,103,039	1,444,112						12,491							4,559,642
NJ-American pumping costs	-														-
Prepaid insurance	-														-
Headquarters overhead	640,000		104,004												744,004
Capital assets reservoir	-														-
Capital improvement program (reservoir)	-														-
Purchase of Investments securities	2,039,657														2,039,657
Principal on bonds	-							108,381		230,000					338,381
Interest on bonds	-							70,177		488,532					558,709
Total cash disbursements	7,524,545	1,444,112	104,004	-	-	-	-	178,558	12,491	718,532	-	-	-	-	9,982,242
Cash and investments - June 30, 2017	\$12,830,691	\$128,322	\$1,284,697	\$9,491	\$98,466	\$253,295	\$354,730	\$146,156	\$0	\$3,193,946	\$1,746,553	\$242,830	\$41,197	\$463,693	\$20,794,067
Summary of cash and investments:															
Cash (Manasquan)	\$630,687														\$630,687
Cash (Water Treatment Plant/TS)	-	\$128,322													128,322
Short-term investments	11,332,983												\$41,197	\$463,693	11,837,873
Short-term investments (Water Treatment Plant/TS)	-		\$1,284,697	\$9,491	\$98,466	\$253,295	\$354,730								2,000,679
Long-term investments	867,021														867,021
Restricted investments (current)	-							\$146,156	\$0	\$3,193,946	\$1,746,553	\$242,830			5,329,485
Restricted investments (long-term)	-														-
Total cash and investments	\$12,830,691	\$128,322	\$1,284,697	\$9,491	\$98,466	\$253,295	\$354,730	\$146,156	\$0	\$3,193,946	\$1,746,553	\$242,830	\$41,197	\$463,693	\$20,794,067

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, 2017, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 5, 2017.

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.

Mercedien, P.C.

Certified Public Accountants

October 5, 2017