

**THE TOWN OF HACKETTSTOWN  
MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016**

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members  
Town of Hackettstown Municipal Utilities Authority  
Hackettstown, New Jersey 07840

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the business-type activities and the aggregate remaining fund information of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of and for the year ended November 30, 2016, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that the audit evidence obtained is sufficient to provide a reasonable basis for our audit opinion.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of November 30, 2016, and the respective changes in financial position and cash flows, where applicable, 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 Management's Discussion and Analysis, schedule of the Authority's proportionate share of the net pension liability-PERS and schedule of the Authority's contributions-PERS, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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.

### **Supplementary and Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information listed in the table of contents including statistical information and the letter of comments and recommendations section are presented for purposes of additional analysis, as required by the Division of Local Government Services and are not a required part of the financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole.



**Other Reporting Required by Government Auditing Standards**

In accordance with Governmental Auditing Standards, we have also issued our report dated May 15, 2017 on our consideration of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown)'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in considering the Authority's internal control over financial reporting and compliance.

*Ferraioli, Wielkotz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Newton, New Jersey

May 15, 2017





**REQUIRED SUPPLEMENTARY INFORMATION – PART I**

**The Town of Hackettstown Municipal Utilities Authority**  
**(A Component Unit of the Town of Hackettstown)**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended November 30, 2016**  
**(UNAUDITED)**

Our discussion and analysis of the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) financial activities for the fiscal year ended November 30, 2016. Please read it in conjunction with the Authority's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Authority's net position of its business-type activities decreased 532,051.28 or 1.04 percent as a result of this year's operations.
- Total cost of all of the Authority's programs was \$5,602,958.93 in 2015-2016 compared to \$5,348,582.56 in 2014-2015. During the year, the Authority had expenses for its business-type activities that were \$532,051.28 more than the \$5,070,907.65 generated in service fees and other program revenues.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances.

For business-type activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operation in more detail than the government-wide statements by providing information about the Authority's most financially significant funds

**Reporting the Authority as a Whole**

**The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net position* and changes in them. You can think of the Authority's net position, the difference between assets and liabilities, as one way to measure the Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Authority's net position are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's user fee base, and the condition of the Authority's capital assets to assess the overall *health* of the Authority.

**Reporting the Authority's Most Significant Funds**

**Fund Financial Statements**

*Proprietary funds*: when the Authority charges customers for the full cost of the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Authority's enterprise funds (a component of business type funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**The Authority as Trustee**

**Reporting the Authority’s Fiduciary Responsibilities**

The Authority is the trustee, or *fiduciary*, for Developer’s Escrow Fund. All of the Authority’s fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the Authority’s other financial statements because the Authority cannot use these assets to finance its operations. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Notes to the Basic Financial Statements:** The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

**Major Features of  
The Town of Hackettstown Municipal Utilities Authority  
(A Component Unit of the Town of Hackettstown)  
Fund Financial Statements  
(Figure A-1)**

Scope	Fund Statements	
	Proprietary Funds	Fiduciary Funds
	Activities the Authority operates similar to private businesses.	Instances in which the Authority is the trustee or agent for someone else’s resources such as Unemployment Compensation Trust
Required financial statements	Statement of net position  Statement of revenues, expenses, and changes in net position  Statement of cash flows	Statement of fiduciary net position  Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflow/inflows and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses, regardless of when cash is received or paid.	All revenues and expenses, regardless of when cash is received or paid.

## THE AUTHORITY AS A WHOLE

The Authority's *combined* net position changed from a year ago, *decreased* from \$51,124,736.32 to \$50,592,685.04. Looking at the net position and net expenses of the business-type activities separately, different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority's business-type activities as of November 30.

**Table 1**  
**Net Position**

	Business-type Activities		Total Primary Government	
	2016	2015	2016	2015
Current and Other Assets	\$ 11,747,899.31	\$ 12,002,278.28	\$ 11,747,899.31	\$ 12,002,278.28
Capital Assets	45,843,526.71	44,855,100.31	45,843,526.71	44,855,100.31
Total Assets	<u>57,591,426.02</u>	<u>56,857,378.59</u>	<u>57,591,426.02</u>	<u>56,857,378.59</u>
Deferred Outflows of Resources	1,470,354.00	676,956.00	1,470,354.00	676,956.00
Long-term Debt Outstanding	2,020,639.13	2,054,779.88	2,020,639.13	2,054,779.88
Net Pension Liability	5,070,098.00	3,711,263.00	5,070,098.00	3,711,263.00
Other Liabilities	1,295,660.85	478,957.39	1,295,660.85	478,957.39
Total Liabilities	<u>8,386,397.98</u>	<u>6,245,000.27</u>	<u>8,386,397.98</u>	<u>6,245,000.27</u>
Deferred Inflows of Resources	82,697.00	164,598.00	82,697.00	164,598.00
Net Position:				
Net Investment in Capital Assets	43,788,746.83	42,767,625.72	43,788,746.83	42,767,625.72
Restricted	5,629,119.91	6,192,360.96	5,629,119.91	6,192,360.96
Unrestricted	<u>1,174,818.30</u>	<u>2,164,749.64</u>	<u>1,174,818.30</u>	<u>2,164,749.64</u>
Total Net Position	<u>\$ 50,592,685.04</u>	<u>\$ 51,124,736.32</u>	<u>\$ 50,592,685.04</u>	<u>\$ 51,124,736.32</u>

- Net Position of the Authority's business-type activities *decreased* \$532,051.28 or 1.04 percent.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – *decreased* \$989,931.34.
- Restricted net position, that is restricted mainly for capital projects *decreased* \$563,241.05 or 9.1%.
- The net investment in capital assets category *increased* \$1,021,121.11.

**Table 2**  
**Changes in Net Position**

	<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Revenues</u>				
Program Revenues:				
Charges for Services-Water	\$ 2,275,321.61	\$ 2,238,983.15	\$ 2,275,321.61	\$ 2,238,983.15
Charges for Services-Sewer	2,584,261.96	2,422,571.06	2,584,261.96	2,422,571.06
General Revenues:				
Interest and Investment Earnings	58,001.86	107,235.25	58,001.86	107,235.25
Other General Revenues	<u>153,322.22</u>	<u>190,929.44</u>	<u>153,322.22</u>	<u>190,929.44</u>
Total Revenues:	<u>5,070,907.65</u>	<u>4,959,718.90</u>	<u>5,070,907.65</u>	<u>4,959,718.90</u>
 <u>Program expenses including indirect expenses</u>				
Business-type Activities:				
Water	2,660,176.77	2,839,438.59	2,660,176.77	2,839,438.59
Sewer	<u>2,942,782.16</u>	<u>2,509,143.97</u>	<u>2,942,782.16</u>	<u>2,509,143.97</u>
Total Expenses	<u>5,602,958.93</u>	<u>5,348,582.56</u>	<u>5,602,958.93</u>	<u>5,348,582.56</u>
Increase/(Decrease) in Net Position	<u>\$ (532,051.28)</u>	<u>\$ (388,863.66)</u>	<u>\$ (532,051.28)</u>	<u>\$ (388,863.66)</u>

**Business-type Activities**

The Authority has two major Enterprise Funds consisting of the Water and Sewer operations.

**Table 3**

	<u>Water</u>	<u>Sewer</u>
Total Assets	\$ 28,634,756.30	\$ 28,956,669.72
Net Position	25,571,886.34	25,020,798.70
Change in Net Position	(292,455.69)	(239,595.59)
Return on Ending Total Assets	-1.021%	-0.827%
Return on Ending Net Position	-1.144%	-0.958%

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

**Table 4**

**Capital Assets at Year-end  
(Net of Depreciation)**

	<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 747,800.00	\$ 747,800.00	\$ 747,800.00	\$ 747,800.00
Infrastructure	43,899,751.04	43,899,751.04	43,899,751.04	43,899,751.04
Buildings and Improvements	19,629,856.47	19,616,033.59	19,629,856.47	19,616,033.59
Vehicles	869,097.13	863,869.89	869,097.13	863,869.89
Machinery and Equipment	6,671,240.82	6,671,240.82	6,671,240.82	6,671,240.82
Construction-in-Progress	<u>2,099,523.10</u>	<u>-</u>	<u>2,099,523.10</u>	<u>-</u>
Subtotal	73,917,268.56	71,798,695.34	73,917,268.56	71,798,695.34
Accumulated Depreciation	<u>(28,073,741.85)</u>	<u>(26,943,595.03)</u>	<u>(28,073,741.85)</u>	<u>(26,943,595.03)</u>
Totals	<u>\$ 45,843,526.71</u>	<u>\$ 44,855,100.31</u>	<u>\$ 45,843,526.71</u>	<u>\$ 44,855,100.31</u>

This year's significant changes in the Business-type Activities were for various building improvements and Construction in Progress for contracts 44S (WPCP Modification) and 45W (Water Main Replacement – Phase VII).

The Authority's 2016-2017 capital budgets anticipate a spending level of \$1,405,000.00 for Water System capital projects and \$570,000.00 for Sewer System capital projects. More detailed information about the Authority's capital assets is presented in the notes to the basic financial statements

## DEBT

At year – end the Authority had total debt of \$7,422,355.79 outstanding versus \$6,184,026.86 last year – an increase of 20.02 percent, mostly due to the Net Pension Liability – as shown in Table 5.

**Outstanding Debt, at year –end**  
**Table 5**

	Business-Type	
	<u>Activities</u>	
	<u>2016</u>	<u>2015</u>
Loans	\$ 2,054,779.88	\$ 2,087,474.59
Net Pension Liability	5,070,098.00	3,711,263.00
Compensated Absences	<u>297,477.91</u>	<u>385,289.27</u>
	<u>\$ 7,422,355.79</u>	<u>\$ 6,184,026.86</u>

An analysis of Authority Debt is presented in the notes to the basic financial statements.

## BUDGETS

There were no significant variances between the originally adopted budget for the fiscal year 2015-2016 and the final budget.

## CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathleen Corcoran, Executive Director, 424 Hurley Drive, Hackettstown, New Jersey 07840.

**BASIC FINANCIAL STATEMENTS**



**ENTITY WIDE FINANCIAL STATEMENTS**

**BUSINESS-TYPE FUNDS**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>ASSETS</b>			
Current Assets:			
Cash Unrestricted	\$ 1,010,833.24	\$ 1,010,833.25	\$ 2,021,666.49
Investments Unrestricted	2,589,533.56	2,589,533.56	5,179,067.12
Cash Restricted-Escrow Deposits	73,575.62	73,575.62	147,151.24
Cash Restricted-Other	84,610.62	84,610.62	169,221.24
Investments Restricted	587,253.97	3,533,200.45	4,120,454.42
Change Fund	50.00	50.00	100.00
Accounts Receivable	48,631.54	53,352.90	101,984.44
Prepaid Expenses	4,127.18	4,127.18	8,254.36
Total Current Assets	<u>4,398,615.73</u>	<u>7,349,283.58</u>	<u>11,747,899.31</u>
Noncurrent Assets:			
Capital Assets Not Being Depreciated:			
Land	350,000.00	397,800.00	747,800.00
Construction in Progress	798,709.10	1,300,814.00	2,099,523.10
Total Capital Assets Not Being Depreciated	<u>1,148,709.10</u>	<u>1,698,614.00</u>	<u>2,847,323.10</u>
Capital Assets Being Depreciated:			
Capital Assets	34,406,425.78	36,663,519.68	71,069,945.46
Less: Accumulated Depreciation	<u>(11,318,994.31)</u>	<u>(16,754,747.54)</u>	<u>(28,073,741.85)</u>
Total Capital Assets Being Depreciated	<u>23,087,431.47</u>	<u>19,908,772.14</u>	<u>42,996,203.61</u>
Total Capital Assets	<u>24,236,140.57</u>	<u>21,607,386.14</u>	<u>45,843,526.71</u>
Total Noncurrent Assets	<u>24,236,140.57</u>	<u>21,607,386.14</u>	<u>45,843,526.71</u>
Total Assets	<u>28,634,756.30</u>	<u>28,956,669.72</u>	<u>57,591,426.02</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Deferred Outflows	<u>735,177.00</u>	<u>735,177.00</u>	<u>1,470,354.00</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	105,929.47	139,406.23	245,335.70
Contracts Payable	83,374.02	591,952.28	675,326.30
Accrued Interest on Debt	6,292.76	8,690.01	14,982.77
Retainage Payable	14,306.70	14,090.72	28,397.42
Loan Payable	14,339.12	19,801.63	34,140.75
Total Current Liabilities	<u>224,242.07</u>	<u>773,940.87</u>	<u>998,182.94</u>
Noncurrent Liabilities:			
Compensated Absences Payable	148,738.96	148,738.95	297,477.91
Net Pension Liability	2,535,049.00	2,535,049.00	5,070,098.00
Loans Payable	848,668.43	1,171,970.70	2,020,639.13
Total Noncurrent Liabilities	<u>3,532,456.39</u>	<u>3,855,758.65</u>	<u>7,388,215.04</u>
Total Liabilities	<u>3,756,698.46</u>	<u>4,629,699.52</u>	<u>8,386,397.98</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Deferred Inflows	<u>41,348.50</u>	<u>41,348.50</u>	<u>82,697.00</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	23,373,133.02	20,415,613.81	43,788,746.83
Restricted/Assigned for:			
Escrow Deposits	73,575.62	73,575.62	147,151.24
Post Employment Benefits Fund	406,703.82	406,703.82	813,407.64
Reserve for Compensated Absences	50,000.00	50,000.00	100,000.00
Future Capital Projects	653,399.50	1,920,642.06	2,574,041.56
Bond Reserve-USDA Loan	42,840.00	59,160.00	102,000.00
Renewal and Replacement	465,981.00	656,538.47	1,122,519.47
Rate Stabilization	375,000.00	375,000.00	750,000.00
Operating	10,000.00	10,000.00	20,000.00
Unrestricted/Unassigned	<u>121,253.38</u>	<u>1,053,564.92</u>	<u>1,174,818.30</u>
Total Net Position	<u>\$ 25,571,886.34</u>	<u>\$ 25,020,798.70</u>	<u>\$ 50,592,685.04</u>

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

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**ENTERPRISE FUNDS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016**

	<b>Business-type Activities - Enterprise Funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Service Charges	\$ 2,243,883.61	\$ 2,581,207.96	\$ 4,825,091.57
Connection Fees	31,438.00	3,054.00	34,492.00
Total Operating Revenues	<u>2,275,321.61</u>	<u>2,584,261.96</u>	<u>4,859,583.57</u>
<b>Operating Expenses:</b>			
Salaries and Wages	646,961.37	652,036.99	1,298,998.36
Fringe Benefits	585,233.50	585,233.23	1,170,466.73
Other Expenses	604,035.36	754,300.63	1,358,335.99
Depreciation	464,605.90	673,224.72	1,137,830.62
Total Operating Expenses	<u>2,300,836.13</u>	<u>2,664,795.57</u>	<u>4,965,631.70</u>
Operating Income	<u>(25,514.52)</u>	<u>(80,533.61)</u>	<u>(106,048.13)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Fixed Asset Additions	2,613.62	29,100.62	31,714.24
Non-Capitalized Expenditures	(306,866.66)	(205,976.55)	(512,843.21)
Adjustment to Capital Assets		(4,980.32)	(4,980.32)
Accrued Interest on Debt	100.13	138.27	238.40
Debt Service Interest	(38,208.78)	(52,764.51)	(90,973.29)
Compensated Absences	43,905.68	43,905.68	87,811.36
Escrow Deposits	16,779.11	16,779.11	33,558.22
Escrow Refunds and Disbursements	(14,265.20)	(14,265.21)	(28,530.41)
Interest on Investments	29,000.93	29,000.93	58,001.86
Total Nonoperating Revenues (Expenses)	<u>(266,941.17)</u>	<u>(159,061.98)</u>	<u>(426,003.15)</u>
Change in Net Position	<u>(292,455.69)</u>	<u>(239,595.59)</u>	<u>(532,051.28)</u>
Total Net Position—Beginning	<u>25,864,342.03</u>	<u>25,260,394.29</u>	<u>51,124,736.32</u>
Total Net Position—Ending	<u>\$ 25,571,886.34</u>	<u>\$ 25,020,798.70</u>	<u>\$ 50,592,685.04</u>

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

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
( A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016

	Business-type Activities - Enterprise Funds		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers	\$ 2,303,687.84	\$ 2,618,786.10	\$ 4,922,473.94
Payments to Employees	(646,961.37)	(652,036.99)	(1,298,998.36)
Payments for Employee Benefits	(343,455.50)	(343,465.23)	(686,920.73)
Payments to Suppliers	(504,359.61)	(654,688.24)	(1,159,047.85)
Net Cash Provided by Operating Activities	<u>808,911.36</u>	<u>968,595.64</u>	<u>1,777,507.00</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Escrow Deposits	16,779.11	16,779.11	33,558.22
Escrow Refunds and Disbursements	(14,265.20)	(14,265.21)	(28,530.41)
Net Cash Provided by Non-Capital Financing Activities	<u>2,513.91</u>	<u>2,513.90</u>	<u>5,027.81</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Non-Capitalized Expenditures	(306,866.66)	(205,976.55)	(512,843.21)
Principal Paid on Capital Debt	(13,731.78)	(18,962.93)	(32,694.71)
Interest Paid on Capital Debt	(38,208.78)	(52,764.51)	(90,973.29)
Contracts and Retainage Payable	(701,028.38)	(694,771.00)	(1,395,799.38)
Net Cash (Used for) Capital and Related Financing Activities	<u>(1,059,835.60)</u>	<u>(972,474.99)</u>	<u>(2,032,310.59)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and Dividends	29,000.93	29,000.93	58,001.86
Net Cash Provided by Investing Activities	<u>29,000.93</u>	<u>29,000.93</u>	<u>58,001.86</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(219,409.40)	27,635.48	(191,773.92)
Balances—Beginning of Year	4,565,266.41	7,264,168.02	11,829,434.43
Balances—End of Year	<u>\$ 4,345,857.01</u>	<u>\$ 7,291,803.50</u>	<u>\$ 11,637,660.51</u>
<b>Reconciliation of Operating Income to Net Cash Provided/(Used) by Operating Activities:</b>			
Operating Income	\$ (25,514.52)	\$ (80,533.61)	\$ (106,048.13)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	464,605.90	673,224.72	1,137,830.62
(Increase)/Decrease in Accounts Receivable, Net	28,366.23	34,524.14	62,890.37
(Increase)/Decrease in Prepaid Expenses	(142.66)	(142.66)	(285.32)
Increase/(Decrease) in Accounts Payable	99,828.41	99,755.05	199,583.46
Increase in Net Pension Adjustment	241,768.00	241,768.00	483,536.00
Total Adjustments	<u>834,425.88</u>	<u>1,049,129.25</u>	<u>1,883,555.13</u>
Net Cash Provided by Operating Activities	<u>\$ 808,911.36</u>	<u>\$ 968,595.64</u>	<u>\$ 1,777,507.00</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of The Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement became effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

These financial statements present the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown). GASB has issued Statement's No. 39 and 61, which amends GASB 14 and requires the financial reporting entity to include both the primary government and those component units. Component units are legally separate organizations for which the Authority is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Authority is financially accountable to the Town of Hackettstown (the "Town") since the Town appoints a voting majority of the Authority's board, and (1) the Town is able to significantly influence the programs and services performed or provided by the Authority; or (2) the Town is legally entitled to or can otherwise access the Authority's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the Authority; or the Town is obligated for the debt of the Authority. Component units may also include organizations that are fiscally dependent on the Town in that the Town approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the Authority is a component unit of the Town.

The Division of Local Government Services, Department of Community Affairs, State of New Jersey has not mandated that municipalities in the State of New Jersey implement GASB 34 therefore the Town's financial statements are not presented.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Pursuant to the Municipal Utilities Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 1957, of the State of New Jersey, approved August 22, 1957, as amended and supplemented, the Authority was created by virtue of an ordinance duly and finally adopted on February 15, 1965, by the Town Council of the Town of Hackettstown as the governing body thereof, and is a public body politic and corporate of the State of New Jersey organized and existing under said Law, constituting a political subdivision and established as an instrumentality exercising public and essential governmental functions to provide for the public health and welfare, with all necessary or proper powers to acquire, construct, maintain, operate or improve works for the accumulation, supply or distribution of water and works for the collection, treatment, purification or disposal of sewage or other wastes and to provide for utility services designed to provide or distribute an adequate supply of water for public and private uses and to relieve pollution of the water in, bordering or entering the Town from pollution or threatened pollution and for improvement of conditions affecting the public health and with all the powers, privileges and authority conferred by said law.

The Town of Hackettstown Municipal Utilities Authority is a component unit of the primary government of the Town of Hackettstown. The Commissioners of the Town of Hackettstown Municipal Utilities Authority are appointed by the Town Council of the Town of Hackettstown for staggered terms of five years.

The Authority acquired and placed into operation a water supply and distribution system for provision and distribution of water within a portion of the Town and a sanitary sewerage system for collection, treatment and disposal of certain sanitary sewage and other wastes arising in a portion of the Town, the Authority proceeded with plans and designs for a water supply and distribution system and a sanitary sewerage system and acquired and constructed said systems to provide for the distribution of water for the collection, treatment and disposal of sanitary sewerage and other wastes in the remaining portions of the Town.

The Town and the Authority have each determined that it was economical and otherwise advantageous to each of them and to the residents and property owners of the Town for the Town and the Authority to enter into a single contract providing for and relating to the sale and supplying of water in the Town by means of said water system and the treatment and disposal of sewage and other wastes originating in the Town by means of said sewerage system and the cost and expense of such sale and supplying of water and of such treatment and disposal, which contract, among other things, obligated the Authority to proceed promptly with the design, acquisition and construction and placing in operation of said water system and said sewerage system and obligated the Town to pay to the Authority such sum or sums of money as may be necessary to provide for deficits (if any) resulting from failure or disability of the Authority to derive adequate revenues from the operation of said water system and said sewerage system, the Town and Authority have each duly authorized its proper officials to enter into and execute an agreement between the Town and the Authority, each binding itself and its successors.

The Authority services portions of the Townships of Washington and Mount Olive in Morris County, the Township of Mansfield and Independence in Warren County, and all of the Town of Hackettstown in Warren County.

The Authority bills and collects its revenue from users of the system and its rates are not regulated by the Board of Public Utilities.

As a public body under existing statute, the Authority is exempt from both Federal and State Taxes.



THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

The primary criterion for including activities within the Authority's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Authority. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the Authority over which the Board exercises operating control.

There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Authority is not includable in any other reporting entity on the basis of such criteria.

C. Basic Financial Statements- Fund Financial Statements

The financial transactions of the Authority are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, net position, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net position, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Authority:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Authority is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges; or, where the Authority has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Improvements	10-20 Years
Machinery and Equipment	5-10 Years
Light Trucks and Vehicle	5 Years
Heavy Trucks and Vehicle	6 Years
Infrastructure	10-50 Years

Land and Construction in Progress are not depreciated.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Basic Financial Statements- Fund Financial Statements (Continued)

Proprietary Fund Type (Continued)

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Authority programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The Authority's fiduciary funds are presented in the fiduciary fund financial statements by type (Developer's Escrow Funds). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

D. Measurement Focus and Basis of Accounting

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

E. Budgets/Budgetary Control

The annual budget is required to be balanced and authorities are permitted to utilize unreserved net position to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved net position or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

For the purpose of using projected Unreserved Net Position or funding operating deficits, Authorities are permitted to amend or modify the annual operating budget, since actual results may differ from the amount estimated in the budget process.

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 et. seq. provides a list of permissible investments that may be purchased by New Jersey Authorities.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Authority and that are due within one year.

3. Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements and the Authority has therefore chosen to report these items as expenditures/expenses at the time of purchase.

4. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees and interest earnings as their major receivables.

5. Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt related trustee accounts, future and designated capital projects, renewal and replacement, rate stabilization, developer's deposits, and operating requirements.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

6. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, notes and loans payable.

The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

7. Compensated Absences

The Authority's policies regarding compensated absences permit employees to accumulate earned but unused sick leave and vacation time. The proprietary fund reports the liability as it is incurred.

8. Net Position Classifications

Fund Statements

Net Position is classified as total assets plus deferred outflows minus total liabilities minus deferred inflows and displayed in three components:

- a. Investment in capital assets— Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net positions with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other elements of net position that do not meet the definition of “restricted” or “investment in capital assets.”

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Fund Equity (Continued)

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates. The items where estimates would occur are for depreciation of fixed assets and their useful lives.

G. Revenues, Expenditures and Expenses

1. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for business-type activities.

In the fund financial statements, expenditures are classified as follows:

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, proprietary funds report expenses relating to use of economic resources.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements

GASB 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", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

GASB 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 82, "Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, will be effective for entities with fiscal years beginning after June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to the aforementioned Statements and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB 83, "Certain Asset Retirement Obligations" will be effective for reporting periods beginning after June 15, 2018 and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 84, "Fiduciary Activities" will be effective for reporting periods beginning after December 15, 2018 and establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 85, "Omnibus 2017" will be effective for reporting periods beginning after June 15, 2017 and addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note II: Stewardship, Compliance and Accountability

By its nature as a local government unit, the Authority is subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

A. Revenue Restrictions and Debt Covenants

In accordance with the 1967 bond resolution, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenues received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses and, as of the last day of each quarter, transfers to the various accounts described below.
Construction	Proceeds of debt issued, construction grants-in-Aid and connection fees.	Construction costs of the Water and Sewer System.
Bond Service (Current Debt Service)	Amount needed to pay matured principal and interest.	Principal and interest on the debt.
Bond Reserve (Future Debt Service)	Amount needed to equal the reserve requirement.	Transfers to meet minimum levels required in the bond service account.
Improvement and Retirement	Amount needed to increase the balance to equal the requirements as defined by the resolution (Section 510)	Transfers to meet deficiencies in any fund or account, after which funds may be expended for any lawful corporate purpose of the Authority including payment of loans or redemption of bonds
Renewal and Replacement	Amount needed in the Renewal and Replacement Fund to equal the System Reserve Requirement Means an amount equal to \$50,000.00	Major repairs, renewals, replacements or maintenance items of a type not recurring annually.
General	To any extent.	Amount to increase the amount in the Bond Reserve Account to equal Bond Reserve Requirement.
Rate Stabilization	Until the aggregate amount thus deposited equals \$750,000	Supplement revenues should there be a deficiency in revenues in any year.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA). Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

At November 30, 2016 the Town of Hackettstown Municipal Utilities Authority's cash and cash equivalents amounted to \$2,345,417.37. Of this amount, \$254,042.21 was covered by federal depository insurance (F.D.I.C.) and \$258,454.16 was covered by a collateral pool maintained by the banks as required by GUDPA. Although the individual developers' accounts are subject to F.D.I.C. coverage, it cannot be accurately determined whether the total amount of \$147,151.24 included in Developers' Escrow deposits is covered.

At November 30, 2016 the Town of Hackettstown Municipal Utilities Authority's participation in the State of New Jersey Cash Management Fund amounted to \$1,685,769.76.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of November 30, 2016, \$1,832,921.00 of the Town of Hackettstown Municipal Utilities Authority's cash and cash equivalents of \$2,345,417.37 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 147,151.24
Uninsured and collateral held by public depository or by its' trust department not in the Authority's name	<u>1,685,769.76</u>
	<u>\$1,832,921.00</u>



THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the Town of Hackettstown Municipal Utilities Authority to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of commissioners of any Authority may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the Authority or bonds or other obligations of local unit or units within which the Authority is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Authority;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments (Continued)

The Town of Hackettstown Municipal Utilities Authority had the following investments valued at cost, which approximates fair value, at November 30, 2016:

	<u>Fair Value</u>
Certificates of Deposit	\$ 7,385,501.13
FHLMC	188,691.92
Tenn. Valley Strips	233,307.90
Government Bonds	703,198.73
Flexible Savings Certificates	253,328.77
Money Market Funds	<u>535,493.09</u>
 Total Investments	 <u>\$9,299,521.54</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). U.S. government debt is considered to have no credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the Town of Hackettstown Municipal Utilities Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. Since certificates of deposits are covered by F.D.I.C. and GUDPA and U. S. government debt is guaranteed, there is no custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in a single issuer.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Capital Assets

Capital asset activity for the year ended November 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments &amp; Deletions</u>	<u>Ending Balance</u>
Business - Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 747,800.00	\$ -	\$ -	\$ 747,800.00
Construction in Progress	-	2,099,523.10	-	2,099,523.10
Total Capital Assets Not Being Depreciated	<u>747,800.00</u>	<u>2,099,523.10</u>	<u>-</u>	<u>2,847,323.10</u>
Infrastructure	43,899,751.04			43,899,751.04
Buildings and Improvements	19,616,033.59	26,487.00	(12,664.12)	19,629,856.47
Vehicles	863,869.89	5,227.24		869,097.13
Machinery and Equipment	6,671,240.82	-	-	6,671,240.82
Totals at historical cost	<u>71,050,895.34</u>	<u>31,714.24</u>	<u>(12,664.12)</u>	<u>71,069,945.46</u>
Less Accumulated Depreciation for:				
Infrastructure	(11,539,582.82)	(477,853.68)		(12,017,436.50)
Buildings and Improvements	(11,762,911.93)	(458,017.71)	7,683.80	(12,213,245.84)
Vehicles	(530,933.16)	(61,528.27)		(592,461.43)
Machinery and Equipment	(3,110,167.12)	(140,430.96)	-	(3,250,598.08)
Total Accumulated Depreciation	<u>(26,943,595.03)</u>	<u>(1,137,830.62)</u>	<u>7,683.80</u>	<u>(28,073,741.85)</u>
Net Capital Assets Being Depreciated	<u>44,107,300.31</u>	<u>(1,106,116.38)</u>	<u>(4,980.32)</u>	<u>42,996,203.61</u>
Business - Type Activities Capital Assets, Net	<u>\$ 44,855,100.31</u>	<u>\$ 993,406.72</u>	<u>\$ (4,980.32)</u>	<u>\$ 45,843,526.71</u>

(1) Depreciation expense was charged to governmental functions as follows:

Water	\$ 464,605.90
Sewer	<u>673,224.72</u>
	<u>\$ 1,137,830.62</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The Authority has no commitments under operating leases.

B. Long - Term Liabilities

Long - Term liability activity for the year ended November 30, 2016 was as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities:					
Long - Term Debt:					
Loans	\$ 2,087,474.59	\$ -	\$ (32,694.71)	\$ 2,054,779.88	\$ 34,140.75
Total Debt Payable	<u>2,087,474.59</u>	<u>-</u>	<u>(32,694.71)</u>	<u>2,054,779.88</u>	<u>34,140.75</u>
Other Liabilities:					
Net Pension Liability	3,711,263.00	1,358,835.00		5,070,098.00	
Compensated Absences	<u>385,289.27</u>	<u>17,258.15</u>	<u>(105,069.51)</u>	<u>297,477.91</u>	<u>-</u>
Total Other Liabilities	<u>4,096,552.27</u>	<u>1,376,093.15</u>	<u>(105,069.51)</u>	<u>5,367,575.91</u>	<u>-</u>
Business-type Activities					
Long - Term Liabilities	<u>\$ 6,184,026.86</u>	<u>\$ 1,376,093.15</u>	<u>\$ (137,764.22)</u>	<u>\$ 7,422,355.79</u>	<u>\$ 34,140.75</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

2. Loans Payable

The Town of Hackettstown Municipal Utilities Authority has also entered into a loan agreement in the amount of \$2,315,000.00 with the United States Department of Agriculture, Rural Development, the loan proceeds were used to fund the Diamond Hill Project.

An analysis of loans payable at November 30, 2016 can be found on Schedule 6.

3. Bonds Authorized But Not Issued

As of November 30, 2016 the Authority had no authorized but not issued bonds.

Principal and Interest due on the loan is as follows:

Year ending November 30.	Water		Sewer		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 14,339.11	\$ 37,601.45	\$ 19,801.64	\$ 51,925.80	\$ 34,140.75	\$ 89,527.25
2018	14,973.31	36,967.25	20,677.44	51,050.00	35,650.75	88,017.25
2019	15,635.56	36,305.00	21,591.97	50,135.47	37,227.53	86,440.47
2020	16,327.10	35,613.46	22,546.94	49,180.50	38,874.04	84,793.96
2021	17,049.22	34,891.34	23,544.17	48,183.27	40,593.39	83,074.61
2022	17,803.28	34,137.28	24,585.49	47,141.95	42,388.77	81,279.23
2023	18,590.65	33,349.91	25,672.81	46,054.63	44,263.46	79,404.54
2024	19,412.93	32,527.63	26,808.34	44,919.10	46,221.27	77,446.73
2025	20,271.54	31,669.02	27,994.03	43,733.41	48,265.57	75,402.43
2026	21,168.12	30,772.44	29,232.17	42,495.27	50,400.29	73,267.71
2027	22,104.36	29,836.20	30,525.06	41,202.38	52,629.42	71,038.58
2028	23,081.99	28,858.57	31,875.14	39,852.30	54,957.13	68,710.87
2029	24,102.88	27,837.68	33,284.93	38,442.51	57,387.81	66,280.19
2030	25,168.92	26,771.64	34,757.07	36,970.37	59,925.99	63,742.01
2031	26,282.10	25,658.46	36,294.32	35,433.12	62,576.42	61,091.58
2032	27,444.52	24,496.04	37,899.57	33,827.87	65,344.09	58,323.91
2033	28,658.35	23,282.21	39,575.81	32,151.63	68,234.16	55,433.84
2034	29,925.86	22,014.70	41,326.19	30,401.25	71,252.05	52,415.95
2035	31,249.44	20,691.12	43,153.99	28,573.45	74,403.43	49,264.57
2036	32,631.56	19,309.00	45,062.62	26,664.82	77,694.18	45,973.82
2037	34,074.80	17,865.76	47,055.68	24,671.76	81,130.48	42,537.52
2038	35,581.88	16,358.68	49,136.88	22,590.56	84,718.76	38,949.24
2039	37,155.62	14,784.95	51,310.13	20,417.31	88,465.75	35,202.26
2040	38,798.95	13,141.61	53,579.51	18,147.93	92,378.46	31,289.54
2041	40,514.97	11,425.59	55,949.25	15,778.19	96,464.22	27,203.78
2042	42,306.89	9,633.67	58,423.79	13,303.65	100,730.68	22,937.32
2043	44,178.06	7,762.50	61,007.80	10,719.64	105,185.86	18,482.14
2044	46,131.99	5,808.57	63,706.08	8,021.36	109,838.07	13,829.93
2045	48,172.34	3,768.22	66,523.70	5,203.74	114,696.04	8,971.96
2046	49,871.25	1,090.93	68,869.81	1,506.53	118,741.06	2,597.46
	<u>\$ 863,007.55</u>	<u>\$ 694,230.88</u>	<u>\$ 1,191,772.33</u>	<u>\$ 958,699.77</u>	<u>\$ 2,054,779.88</u>	<u>\$ 1,652,930.65</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note V: Detailed Disclosure Regarding Fund Equity

A. Restricted Net Position

Enterprise Fund:

Restricted for:

Future Capital Projects	\$2,574,041.56
Post Employment Benefits Fund	813,407.64
Reserve for Compensated Absences	100,000.00
Escrow Deposits	147,151.24
Bond Reserve – USDA	102,000.00
Renewal and Replacement	1,122,519.47
Rate Stabilization	750,000.00
Operations	20,000.00

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note VI: Pension Plans

Description of Systems

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer defined benefit plan.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. These reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

**Public Employees' Retirement System (PERS)**

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

Summary of Significant Accounting Policies-

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

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

At November 30, 2016, the Authority reported a liability of \$5,070,098 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability is based on a projection of the Authority's long term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2016, the Authority's proportion was 0.0171188%, which was a decrease of 0.0005866% from its proportion measured as of June 30, 2015.

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

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

For the year ended November 30, 2016, the Authority recognized pension expense of \$493,470. At November 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 94,288.00	
Changes of Assumptions	\$1,050,254.00	
Net difference between Projected and Actual Earnings on Pension Plan Investments	\$ 193,327.00	
Changes in proportion and differences between Authority Contributions and Proportionate Share of Contributions	<u>\$ 132,485.00</u>	<u>\$82,697.00</u>
Total	<u>\$ 1,470,354.00</u>	<u>\$82,697.00</u>

Amounts reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the fiscal year ending November 30, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net position liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$257,683.25
2018	257,683.25
2019	298,534.69
2020	250,812.80
2021	<u>79,828.01</u>
Total	<u>\$1,144,542.00</u>

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

	<u>6/30/16</u>	<u>6/30/15</u>
Collective Deferred Outflows of Resources	\$8,685,338,380.00	\$3,578,755,666.00
Collective Deferred Inflows of Resources	\$870,133,595.00	\$993,410,455.00
Collective Net Pension Liability (Non-State-Local Group)	\$29,617,131,759.00	\$22,447,996,119.00
Authority's Portion of Net Pension Liability	\$5,070,098.00	\$3,711,263.00
Authority's Proportion %	0.0171188%	0.016533%

Actuarial Assumptions

The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation	3.08%
Salary Increases:	
2012-2021	1.65%-4.15% based on age
Thereafter	2.65%-5.15% based on age
Investment Rate of Return	7.65%

Long-Term Expected Rate of Return

Mortality Rates

Pre-mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

Long-Term Expected Rate of Return (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

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THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The 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 contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2016, calculated using the discount rate of 3.98%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	1% Decrease <u>(2.98%)</u>	Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
Authority's proportionate share of the net pension liability	\$6,212,815	\$5,070,098	\$4,126,687

Pension Plan Fiduciary Net Position

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

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

During the year ended June 30, 2016, for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Contribution Actual

The Town of Hackettstown Municipal Utilities Authority's total payroll for the year ended November 30, 2016 was \$1,298,998.36 and covered payroll was \$1,180,801.67 for PERS. Contributions to PERS for the last three fiscal years made by the employees and the Authority were as follows:

		<u>PERS</u>	Percent of Covered <u>Payroll</u>
Employees	11/30/14	77,835.33	6.88%
	11/30/15	83,087.73	7.02%
	11/30/16	84,564.43	7.16%
Authority	11/30/14	126,819.00	11.21%
	11/30/15	141,739.00	11.98%
	11/30/16	142,137.00	12.04%

Note VII: Post Retirement Medical Benefits

PERS employees do not receive post – retirement medical benefits from the State of New Jersey, however the Authority has recently been budgeting monies to pay post retirement medical benefits for 3 previously retired employees and is also reserving monies to pay for future post retirement medical benefits. The amount reserved as of November 30, 2016 was \$813,407.64.

Note VIII: Risk Management

The Town of Hackettstown Municipal Utilities Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority is a member of the New Jersey Utility Authority Joint Insurance Fund (the "Fund"). The Fund is both an insured and self-administered group of municipalities established for the purpose of providing certain low-cost property, liability, public officials' liability and workers' compensation insurance coverage for member authorities. The Authority pays an annual assessment to the Fund and should it be determined that payments received by the Fund are deficient, additional assessments may be levied.

The Town of Hackettstown Municipal Utilities Authority continues to carry commercial insurance coverage for all other risks of loss, including health and accident insurance. There have been no significant reductions in insurance coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Note IX: Accrued Sick and Vacation Benefits

The Town of Hackettstown Municipal Utilities Authority permits employees to accrue a limited amount of unused vacation and sick pay, which may be paid upon retirement or death at an agreed-upon rate. It is estimated that the current cost of such unpaid compensation would approximate \$297,477.91. It is expected that the cost of such unpaid compensation would be included in the Town of Hackettstown Municipal Utilities Authority's budget operating expenditures in the year in which it is used.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED NOVEMBER 30, 2016  
(CONTINUED)

Note X: Related Parties

The Town of Hackettstown does not pay any water or sewer charges to the Town of Hackettstown Municipal Utilities Authority. The benefit to the Town in 2016 is approximately \$57,188.15. Likewise, the Town of Hackettstown Municipal Utilities Authority does not pay property taxes on any of the four properties owned in the Town. The benefit to the Authority, which includes the Library share of taxes (\$800.83) is \$72,975.82.

In addition the Town of Hackettstown Public Library does not pay any water or sewer charges to the Town of Hackettstown Municipal Utilities Authority. The benefit to the Library is approximately \$632.72.

Note XI: Letters of Credit

The following irrevocable Letters of Credit are on file with the Authority as of November 30, 2016:

Heath Village - Water	\$ 385,830.00
Heath Village – Sewer	824,580.00
Woodfield – Section IIIA	<u>208,459.50</u>
	<u>\$1,418,869.50</u>

Note XII: Contingent Liabilities

The Authority is a defendant in a few lawsuits, none of which is unusual for an authority of its size. Additional liabilities, if not covered by insurance, should not be material in amount.

Note XIII Subsequent Events

The Authority's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through May 15<sup>th</sup> the date of audit.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

ROSTER OF OFFICIALS

Authority Members

Position

William Harper

Chairperson

Gerald Di Maio, Jr.

Vice Chairperson

William Kuster, Jr.

Board Member

Leonard Kunz

Board Member

John Di Maio

Board Member

Other Officials

Kathleen Corcoran

Executive Director  
Secretary and Treasurer

Deborah Palma

Qualified Purchasing Agent

**REQUIRED SUPPLEMENTARY INFORMATION – PART II**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
 (A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)  
 Schedule of the Authority's Share of the Net Pension Liability-PERS  
 Last Ten Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability (Asset)**	0.017119%	0.016532%	0.017193%
Authority's Proportionate Share of the Net Pension Liability (Asset)**	\$ 5,070,098.00	\$ 3,711,263.00	\$ 3,219,054.00
Authority's Covered Payroll-PERS	\$ 1,180,801.67	\$ 1,183,516.33	\$ 1,131,335.33
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	429.38%	313.58%	284.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40.13%	47.93%	52.08%

\*\* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.



**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY**  
**(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**  
**Schedule of Authority's Contributions- PERS**  
**Last Ten Fiscal Years\***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 152,081.00	\$ 142,137.00	\$ 141,739.00
Contributions in Relation to the Contractually Required Contribution	<u>(152,081.00)</u>	<u>(142,137.00)</u>	<u>(141,739.00)</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll-PERS	\$ 1,180,801.67	\$ 1,183,516.33	\$ 1,131,335.33
Contributions as a Percentage of Covered Payroll	12.88%	12.01%	12.53%

\*\* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
( A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED NOVEMBER 30, 2016

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Changes of Benefit Terms

None

Change in Assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.80%) to the current measurement date (2.85%), resulting in a change in the discount rate from 4.90% to 3.98%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

**OTHER SUPPLEMENTARY SCHEDULES**

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2015

	Modified <u>Budget</u>	2015-2016 <u>Actual</u>	2014-2015 <u>Actual</u>
Operating Revenues:			
Water User Charges and Fees	\$ 2,359,000.00	\$ 2,243,883.61	\$ 2,238,983.15
Sewer User Charges and Fees	2,559,000.00	2,581,207.96	2,422,571.06
Connection Fees	-	34,492.00	114,868.65
Total Operating Fees	<u>4,918,000.00</u>	<u>4,859,583.57</u>	<u>4,776,422.86</u>
Non-Operating Revenues:			
Interest on Investments and Deposits(1)	76,000.00	19,084.13	63,815.33
Retained Earnings Appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 4,994,000.00</u>	<u>\$ 4,878,667.70</u>	<u>\$ 4,840,238.19</u>

(1) - Includes only interest that does not remain with their respective accounts as follows:

Unrestricted	\$ 1,607.29	\$ 304.01
Bond Service	433.49	118.98
Bond Reserve	870.01	3,027.88
Rate Stabilization	7,076.21	7,643.17
General	<u>9,097.13</u>	<u>52,721.29</u>
	<u>\$ 19,084.13</u>	<u>\$ 63,815.33</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2015  
(CONTINUED)

	Modified <u>Budget</u>	Paid or <u>Charged</u>	<u>Balance</u>	2014-2015 <u>Actual</u>
Expenses:				
Operating Appropriations:				
Water:				
Salaries and Wages:				
Operations	\$ 456,710.00	\$ 445,865.66	\$ 10,844.34	\$ 436,061.56
Administrative Personnel	215,795.00	201,095.71	14,699.29	162,122.03
Employee Benefits:				
Public Employees' Retirement System	80,000.00	147,109.00	(67,109.00)	70,869.50
Social Security Tax	50,100.00	44,106.66	5,993.34	43,410.91
Health Benefits	242,000.00	215,429.11	26,570.89	206,633.66
Dental Plan	16,000.00	12,564.85	3,435.15	13,302.11
Unemployment and Disability Insurance	400.00	306.38	93.62	292.65
Administration Expenses:				
Customer Refunds	595.00	250.64	344.36	130.21
Postage	11,000.00	6,944.59	4,055.41	9,298.41
Telephone and Lease Lines	7,000.00	6,374.34	625.66	6,476.47
Property and Liability Insurance	50,000.00	49,633.48	366.52	47,763.81
Administrative Supplies and Services	32,000.00	16,785.71	15,214.29	27,070.48
Professional Services	61,000.00	49,289.41	11,710.59	46,755.22
General Expenses	10,000.00	2,620.44	7,379.56	8,303.51
Property Taxes	19,500.00	935.57	18,564.43	17,900.39
Education and Training	10,200.00	5,610.58	4,589.42	4,441.57
Regulatory Fees	30,000.00	21,991.43	8,008.57	22,835.88
Operations and Maintenance Expenses:				
Reservoirs, Wells and Plant -				
Maintenance and Supplies	25,000.00	24,557.20	442.80	15,944.56
Filtration Plant - Chemicals	31,000.00	18,460.80	12,539.20	10,441.90
Filtration Plant - Electricity	250,000.00	252,592.79	(2,592.79)	217,257.14
Filtration Plant - Laboratory	20,000.00	11,470.28	8,529.72	11,703.07
Filtration Plant - Fuel Oil	9,500.00	3,211.74	6,288.26	-
Distribution System - Maint. and Supplies	45,000.00	44,413.19	586.81	50,337.38
Distribution System - Gasoline	18,200.00	8,057.85	10,142.15	9,237.69
Distribution System - Vehicles and Equipment Maintenance	10,000.00	4,784.82	5,215.18	5,046.72
Total Water Expenses	<u>1,701,000.00</u>	<u>1,594,462.23</u>	<u>106,537.77</u>	<u>1,443,636.83</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )

Exhibit 1  
Sheet 3

**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2015  
(CONTINUED)**

	<u>Modified Budget</u>	<u>Paid or Charged</u>	<u>Balance</u>	<u>2014-2015 Actual</u>
Expenses: (Continued)				
Operating Appropriations: (Continued)				
Sewer:				
Salaries and Wages:				
Operations	\$ 480,043.00	\$ 456,658.89	\$ 23,384.11	\$ 463,652.84
Administrative Personnel	215,795.00	195,378.10	20,416.90	162,121.77
Employee Benefits:				
Public Employees' Retirement System	80,000.00	147,109.00	(67,109.00)	70,869.50
Social Security Tax	50,100.00	44,106.55	5,993.45	43,410.80
Health Benefits	242,000.00	215,429.03	26,570.97	206,633.62
Dental Plan	16,000.00	12,554.79	3,445.21	13,301.99
Unemployment and Disability Insurance	400.00	306.36	93.64	292.63
Administration Expenses:				
Customer Refunds	362.00	339.29	22.71	143.43
Postage	9,000.00	5,883.31	3,116.69	6,677.78
Telephone and Lease Lines	7,000.00	6,374.24	625.76	6,476.33
Property and Liability Insurance	50,000.00	49,633.47	366.53	47,763.80
Administrative Supplies and Services	29,000.00	18,340.82	10,659.18	26,574.34
Professional Services	50,000.00	49,268.53	731.47	38,681.06
General Expenses	10,000.00	2,183.52	7,816.48	4,763.36
Property Taxes	9,800.00	7,986.21	1,813.79	7,824.70
Education and Training	11,600.00	10,990.39	609.61	8,703.92
Regulatory Fees	23,000.00	21,177.35	1,822.65	19,257.44
Operations and Maintenance Expenses:				
Pollution Control Plant - Maintenance and Supplies	51,000.00	36,700.62	14,299.38	38,266.82
Pollution Control Plant - Chemicals	125,000.00	108,548.76	16,451.24	117,607.92
Pollution Control Plant - Electricity	175,000.00	174,911.49	88.51	118,844.77
Pollution Control Plant - Laboratory	23,500.00	16,964.95	6,535.05	15,110.26
Pollution Control Plant - Fuel Oil	16,200.00	9,528.81	6,671.19	3,870.40
Pollution Control Plant - Sludge Disposal	169,000.00	136,238.88	32,761.12	172,539.37
Collection System - Maintenance and Supplies	18,000.00	7,770.30	10,229.70	6,668.14
Collection System - Gasoline	18,200.00	8,057.79	10,142.21	9,276.62
Collection System - Vehicles and Equipment Maint.	10,000.00	7,361.40	2,638.60	5,710.90
Total Sewer Expenses	<u>1,890,000.00</u>	<u>1,749,802.85</u>	<u>140,197.15</u>	<u>1,615,044.51</u>
Total Operating Appropriations	<u>3,591,000.00</u>	<u>3,344,265.08</u>	<u>246,734.92</u>	<u>3,058,681.34</u>
Accumulated Deficit	<u>-</u>			<u>195,872.00</u>
Debt Service:				
Loan Principal	32,695.00	32,694.71	-	31,310.00
Loan Interest	90,974.00	90,973.29	-	92,358.00
Total Debt Service	<u>123,669.00</u>	<u>123,668.00</u>	<u>-</u>	<u>123,668.00</u>
Reserves:				
Renewal and Replacement	1,178,964.00	1,178,964.00	-	150,000.00
Reserve for Future Health Benefits	88,000.00	88,000.00	-	50,000.00
Reserve for Accrued Sick and Vacation	-	-	-	30,000.00
Debt Service Coverage	12,367.00	12,367.00	-	12,367.00
Total Reserves	<u>1,279,331.00</u>	<u>1,279,331.00</u>	<u>-</u>	<u>242,367.00</u>
Total Budget	<u>\$ 4,994,000.00</u>	<u>\$ 4,747,264.08</u>	<u>\$ 246,734.92</u>	<u>\$ 3,620,588.34</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED NOVEMBER 30, 2015  
(CONCLUDED)

	<u>Modified Budget</u>	<u>Paid or Charged</u>	<u>Balance</u>	2014-2015 <u>Actual</u>
<b>Excess (Deficit) of Revenues over Expenses</b>		\$ 131,403.62		\$ 1,219,649.85
<b>Reconciliation of Budgetary Basis to GAAP:</b>				
Depreciation Expense		(1,137,830.62)		(1,102,545.44)
Net Adjustment for Pension Expense		(483,536.00)		(89,447.00)
Debt Service Principal		32,694.71		31,309.92
Accrued Interest on Debt		238.40		228.30
Compensated Absences		87,811.36		(13,293.66)
Escrow Deposits		33,558.22		71,764.15
Escrow Refunds and Disbursements		(28,530.41)		(26,989.46)
Non-Capitalized Expenditures		(512,843.21)		(556,167.58)
Prior Year Accounts Payable Canceled				4,068.34
Reserve for Renewal and Replacement		1,178,964.00		150,000.00
Reserve for Future Health Benefits		88,000.00		50,000.00
Reserve for Accrued Sick and Vacation				30,000.00
Budgeted Debt Service Coverage		12,367.00		12,367.00
Budgeted Accumulated Deficit				195,872.00
Interest Earned on Restricted Accounts		38,917.73		43,419.92
Capital Asset Additions and Adjustments		<u>26,733.92</u>		<u>(409,100.00)</u>
Total Adjustments		<u>(663,454.90)</u>		<u>(1,608,513.51)</u>
<b>Change in Net Position</b>		<u>\$ (532,051.28)</u>		<u>\$ (388,863.66)</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION - RESTRICTED AND UNRESTRICTED

	Restricted/Assigned										Totals	
	Net Investment in Capital Assets and Unrestricted/ Unassigned	Developer's Escrow	Post Employment Benefits Fund	Reserve for Compensated Absences	Construction	Bond Service	Bond Reserve- USDA	Renewal and Replacement	Rate Stabilization	General	Operating	2015-2016
Operating Revenues:												
Water Charges and Fees	\$ 2,243,883.61											\$ 2,243,883.61
Sewer Charges and Fees	2,581,207.96											2,581,207.96
Connection Fees	-				34,492.00							34,492.00
	<u>4,825,091.57</u>				<u>34,492.00</u>							<u>4,859,583.57</u>
Operating Expenses:												
Water	1,836,230.23											1,836,230.23
Sewer	1,991,570.85											1,991,570.85
Depreciation	1,137,830.82											1,137,830.82
	<u>4,965,631.70</u>											<u>4,965,631.70</u>
Operating Income	(140,540.13)				34,492.00							(106,048.13)
Non Operating Revenues and (Expenses):												
Interest Income	1,607.29											1,607.29
Interest Expense - USDA	(90,973.29)	111.94	7,826.63		30,801.90	433.49	870.01	7,076.21	9,097.13			(90,973.29)
Accrued Interest on Debt	238.40											238.40
Adjustment to Capital Assets	(4,980.32)											(4,980.32)
Compensated Absences	87,811.36											87,811.36
Non-Capitalized Expenditures	31,714.24				(40,626.62)							(8,912.38)
Fixed Asset Additions		33,558.22										33,558.22
Escrow Deposits		(28,530.41)										(28,530.41)
Escrow Refunds and Disbursements		5,139.75	7,826.63		(9,824.72)	433.49	870.01	7,076.21	9,097.13			(426,003.15)
	<u>25,417.68</u>	<u>5,139.75</u>	<u>7,826.63</u>		<u>24,667.28</u>	<u>433.49</u>	<u>870.01</u>	<u>7,076.21</u>	<u>9,097.13</u>			<u>(532,051.28)</u>
Net Income (Deficit) Before Transfers	(115,122.45)	5,139.75	7,826.63		2,698,874.28	433.49	870.01	7,076.21	9,097.13			(532,051.28)
Transfers:												
Other	128,835.38		88,000.00		(149,500.00)	(433.49)	(870.01)	(7,076.21)	(9,097.13)			0.00
Interest Income	17,476.84											(0.00)
Increase in Net Position	31,189.77	5,139.75	95,826.63		(124,832.72)							(532,051.28)
Net Position December 1	44,932,375.36	142,011.49	7,17,581.01	100,000.00	2,698,874.28		102,000.00	750,000.00		20,000.00		51,124,736.32
Net Position November 30	\$44,963,565.13	\$147,151.24	\$813,407.64	\$100,000.00	\$2,574,041.56	\$	\$102,000.00	\$750,000.00	\$	\$20,000.00		\$50,592,685.04



**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF ACCOUNTS RECEIVABLE - USER CHARGES AND FEES**

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Balance December 1, 2015	\$ 164,874.81	\$ 76,997.77	\$ 87,877.04
Increased by:			
User Charges Billed in 2015-2016	<u>4,825,091.57</u>	<u>2,243,883.61</u>	<u>2,581,207.96</u>
	<u>4,989,966.38</u>	<u>2,320,881.38</u>	<u>2,669,085.00</u>
Decreased by:			
Collections	<u>4,887,981.94</u>	<u>2,272,249.84</u>	<u>2,615,732.10</u>
Balance November 30, 2016	<u>\$ 101,984.44</u>	<u>\$ 48,631.54</u>	<u>\$ 53,352.90</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF CONSTRUCTION IN PROGRESS**

Balance December 1, 2015	\$	-
Increased by:		
Contracts Awarded in 2015-2016		<u>2,099,523.10</u>
Balance November 30, 2016		<u>\$ 2,099,523.10</u>

**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )**

**SCHEDULE OF CONTRACTS PAYABLE**

Balance December 1, 2015		\$ -
Increased by:		
Contracts Awarded in 2015-2016	\$ 2,095,109.10	
Change Orders Awarded in 2015-2016	<u>4,414.00</u>	
		<u>2,099,523.10</u>
		2,099,523.10
Decreased by:		
Paid in 2015-2016	\$ 1,395,799.38	
Transferred to Retainage Due to Contractors	<u>28,397.42</u>	
		<u>1,424,196.80</u>
Balance November 30, 2016		<u>\$ 675,326.30</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN )

SCHEDULE OF RETAINAGE DUE TO CONTRACTORS

Balance December 1, 2015	\$ -
Increased by:	
Transferred from Contracts Payable	<u>28,397.42</u>
Balance November 30, 2016	<u>\$ 28,397.42</u>

THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)

Schedule 6

SCHEDULE OF UNITED STATES DEPARTMENT OF AGRICULTURE  
LOAN PAYABLE

Balance December 1, 2015	\$ 2,087,474.59
Decreased by:	
Paid in 2015-2016	<u>32,694.71</u>
Balance November 30, 2016	<u>\$ 2,054,779.88</u>

Analysis of Loan Payable November 30, 2016

<u>Year</u>	<u>April 1,</u>	<u>October 1,</u>	<u>Total</u>
2017	\$ 16,885.69	\$ 17,255.06	\$ 34,140.75
2018	17,632.52	18,018.23	35,650.75
2019	18,412.38	18,815.15	37,227.53
2020	19,226.73	19,647.31	38,874.04
2021	20,077.10	20,516.29	40,593.39
2022	20,965.08	21,423.69	42,388.77
2023	21,892.23	22,371.23	44,263.46
2024	22,860.60	23,360.67	46,221.27
2025	23,871.69	24,393.88	48,265.57
2026	24,927.50	25,472.79	50,400.29
2027	26,030.01	26,599.41	52,629.42
2028	27,181.27	27,775.86	54,957.13
2029	28,383.46	29,004.35	57,387.81
2030	29,638.82	30,287.17	59,925.99
2031	30,949.70	31,626.72	62,576.42
2032	32,318.56	33,025.53	65,344.09
2033	33,747.96	34,486.20	68,234.16
2034	35,240.58	36,011.47	71,252.05
2035	36,799.22	37,604.21	74,403.43
2036	38,426.80	39,267.38	77,694.18
2037	40,126.36	41,004.12	81,130.48
2038	41,901.09	42,817.67	84,718.76
2039	43,754.31	44,711.44	88,465.75
2040	45,689.50	46,688.96	92,378.46
2041	47,710.28	48,753.94	96,464.22
2042	49,820.43	50,910.25	100,730.68
2043	52,023.92	53,161.94	105,185.86
2044	54,324.86	55,513.21	109,838.07
2045	56,727.56	57,968.48	114,696.04
2046	59,236.54	59,504.52	118,741.06
	<u>\$ 1,016,782.75</u>	<u>\$ 1,037,997.13</u>	<u>\$ 2,054,779.88</u>

**REPORTS PURSUANT TO GOVERNMENT AUDITING STANDARDS**

# Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
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Vincent M. Montanino, RMA, PSA

INDEPENDENT AUDITOR'S 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

Honorable Chairman and Members  
Town of Hackettstown Municipal Utilities Authority  
Hackettstown, New Jersey 07840

We have audited the financial statements of the Town of Hackettstown Municipal Utilities Authority (A Component Unit of the Town of Hackettstown) as of and for the year ended November 30, 2016, and have issued our report thereon dated May 15, 2017. 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; and in compliance with audit requirements prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) internal control over financial reporting as a basis for designing our auditing procedures 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 Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Hackettstown Municipal Utilities Authority's (A Component Unit of the Town of Hackettstown) basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have direct and material effect on the determination of basic 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 Governmental Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

#### **Purpose of this Report**

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

***Ferraioli, Wielkocz, Cerullo & Cuva, P.A.***

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Newton, New Jersey

May 15, 2017





**THE TOWN OF HACKETTSTOWN MUNICIPAL UTILITIES AUTHORITY  
(A COMPONENT UNIT OF THE TOWN OF HACKETTSTOWN)**

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**GENERAL COMMENTS AND RECOMMENDATIONS  
YEAR ENDED NOVEMBER 30, 2016**

## GENERAL COMMENTS

### CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A. 40A:11-4

The following is presented for the information of the Members and Officials:

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received".

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$40,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations".

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months

Effective July 1, 2015 and thereafter the bid threshold for the Authority in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.00.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Attorney's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed. No violations were discovered.

The results of our examination of expenditures did not reveal any individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

### EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy, supporting documentation and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Authority and Authority Officials regarding expenditures.

RECOMMENDATIONS

NONE

Status of Prior Years' Audit Findings/Recommendations:

NOT APPLICABLE

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Should any questions arise as to our comments, or should the Authority desire any assistance, please do not hesitate to call us.

APPRECIATION

We wish to express our appreciation of the assistance and courtesies rendered by the Authority Officials during the course of the audit.

Respectfully submitted,

*Ferraioli, Wielkocz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Newton, New Jersey

May 15, 2017