

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

Financial Statements and
Supplementary Information

June 30, 2016

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

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
New Jersey Water Supply Authority
Clinton, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the New Jersey Water Supply Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 and the Schedule of Proportionate Share of PERS Net Pension Liability and PERS Schedule of Contributions on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

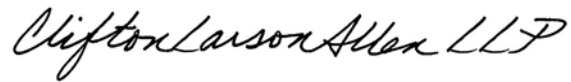
Our audit was conducted for the purpose of forming an opinion on the 2016 financial statements as a whole. The other accompanying 2016 supplementary information which consists of the combining schedule of net position, combining schedule of revenue, expenses and changes in net position, the schedule of changes in cash and investments – Raritan Basin System and the schedule of changes in cash and investments – Manasquan Water Supply System are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information listed above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule of net position, combining schedule of revenue, expenses and changes in net position, the schedule of changes in cash and investments – Raritan Basin System and the schedule of changes in cash and investments – Manasquan Water Supply System are fairly stated, in all material respects, in relation to the 2016 basic financial statements as a whole.

Board of Commissioners
New Jersey Water Supply Authority

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 3, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports are to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 3, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

This section of the Annual Financial Report of the New Jersey Water Supply Authority (the "Authority"), a Component Unit of the State of New Jersey, presents discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Operating revenue for fiscal year 2016 was \$27.8 million, an increase over fiscal year 2015, which was the result of a 6.16% increase in Raritan, and a .34% increase in Manasquan sales. In the Raritan Basin System, there was an increase in the rate from \$246.00 per million gallons to \$253.00 per million gallons, and the sales base increased .04%, from 182.271 million gallons per day ("mgd") to 182.339mgd. In the Manasquan Reservoir System, there was an increase in the rate from \$1,015.90 per million gallons to \$1,057.40 per million gallons. The fiscal year 2016 sales base decreased 5.43% from 20.560mgd to 19.443mgd.
- Unrestricted cash and cash equivalents for fiscal year 2016 were \$41.1 million, an increase of 10.68% from fiscal year 2015. Income from operations increased for the Raritan System 59.35% and increased 2.32% for the Manasquan System.
- Total liabilities for fiscal year 2016 were \$92.5 million. This is a decrease of 5.99% from fiscal year 2015 and reflects the recognition of the Authority's portion of the State of New Jersey's net unfunded pension liability as required by GASB 68, which is effective for fiscal years beginning after June 15, 2014. The Authority continues to pay down long-term debt in both systems and completed a current refunding of the 2005 Manasquan Water Supply System Revenue Bonds in FY2016.
- Total operating expenses for fiscal year 2016 decreased to \$21.4 million, which represents a .17% decrease from fiscal year 2015. Payroll increased 2.03% because of step increments awarded to union employees and the filling of funded vacancies. Direct operations and maintenance expenses decreased 14.06% to \$5.0 million because there were no extraordinary storm related expenses incurred in the fiscal year as there were in fiscal year 2015.
- Other changes for fiscal year 2016 include the following: non-operating revenue increased 123.11% to \$1.2 million; investment income increased 476.4% because of the net impact of adjustments of securities to fair market value and recognizing the balance of bond premiums. The receipt of grant program reimbursement increased 5.6% from the previous year, and other income decreased because of a one-time reimbursement from other state agencies which shared capital project costs in the prior fiscal year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

- Non-operating expenses for fiscal year 2016 decreased 1.84% to \$2.1 million. The interest component of debt service decreased 11.26% with the refunding of the 2005 Manasquan Water Supply System Revenue Bonds and the continued pay-down of the system debt. There was a decrease in the reduction in costs to be recovered from future revenue, (deferred inflows of resources) and the change in the rate model is outlined in Note 2 to the basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position was approximately \$113.6 million as of June 30, 2016. In fiscal year 2016, total assets and deferred outflows increased .03% to \$209.2 million, primarily due to an increase in pension related deferred outflow of resources offset by a decrease in capital assets and a decrease in restricted asset investments. Total liabilities decreased 5.99% to \$92.5 million, due to an increase in the Authority's portion of the State of New Jersey's net unfunded pension liability as required by GASB 68, offset by a decrease in the current and non-current portion of bonds, loans and notes payable. Total net position as of June 30, 2015, was approximately \$108.1 million. Total assets at June 30, 2015 increased .78% to \$209.1 million, and total liabilities increased 15.26% to \$98.4 million. Total net position as of June 30, 2014, was \$121.7 million. Changes in assets, liabilities and net position at June 30, 2016, 2015 and 2014, are summarized in the following table:



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

	2016	2015	2014*	Percentage Change 2016-2015	Percentage Change 2015-2014
Current assets	\$53,645,149	\$54,790,017	\$53,937,175	(2.09) %	1.58 %
Capital assets, net	140,382,085	141,237,393	141,155,089	(0.61)	0.06
Other non-current assets	11,527,173	11,824,171	12,416,669	(2.51)	(4.77)
Total assets	205,554,407	207,851,581	207,508,933	(1.11)	0.17
Deferred outflows of resources	3,646,920	1,280,619		184.78	
Total assets and deferred outflows of resources	209,201,327	209,132,200	207,508,933	0.03	0.78
Current liabilities	6,027,320	9,039,888	10,041,207	(33.33)	(9.97)
Non-current liabilities	21,534,789	18,141,342		18.71	
Non-current portion of bonds, notes and loans payable	64,954,602	71,231,389	75,345,060	(8.81)	(5.46)
Total liabilities	92,516,711	98,412,619	85,386,267	(5.99)	15.26
Deferred inflows of resources	3,075,869	2,623,839	440,430	17.23	495.74
Net investment in capital assets Restricted for cash, investments and unearned revenue	98,890,303	91,638,454	87,589,285	7.91	4.62
Unrestricted	3,876,937	9,229,092	9,084,491	(57.99)	1.59
Total net position	10,841,507	7,228,196	25,008,460	49.99	(71.10)
Total liabilities, deferred inflows of resources, and net position	\$113,608,747	\$108,095,742	\$121,682,236	5.10	(11.17)
	\$209,201,327	\$209,132,200	\$207,508,933	0.78	0.78

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

OPERATING ACTIVITIES

The Authority operates three separate systems: the Raritan Basin System, the Manasquan Water Supply System, and the Manasquan Water Treatment Plant and Transmission System. The Manasquan Water Treatment Plant and Transmission System is owned by the Southeast



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

Monmouth Municipal Utilities Authority, which sets the rates, and is operated and maintained by the Authority under the terms of an operating agreement. Each system must generate sufficient revenue each year to cover its own operating expenses and debt service. The following rates were adopted at the June 2016 Authority meeting, respectively, based on anticipated operating expenses:

	<u>Rate</u> <u>7/01/2016</u>	<u>Rate</u> <u>7/01/2015</u>	<u>Percent</u> <u>Change</u>
Raritan Basin System	\$ 253.00/mg	\$ 253.00/mg	0.00%
Manasquan Water Supply System			
Initial users	\$1,104.58/mg	\$1,057.40/mg	4.46%
Delayed water users	\$1,238.04/mg	\$1,190.86/mg	3.96%

The Authority's total operating revenue for fiscal year 2016 was \$27.8 million, an increase of 3.85% from fiscal year 2015, due to a 6.16% increase in Raritan and a .34% increase in Manasquan water sales. The Authority's total operating expenses for fiscal year 2016 were \$21.4 million, a decrease of .17% from fiscal year 2015, because of a decrease in Raritan direct O&M expenses and a decrease in Manasquan direct O&M expenses and headquarters overhead. The Authority's total operating revenue for fiscal year 2015 was \$26.8 million, an increase of 3.75% from fiscal year 2014. The Authority's total operating expenses for fiscal year 2015 were \$21.4 million, an increase of 3.37% from fiscal year 2014. The following table summarizes the changes in revenue, expenses and net position between fiscal years 2016, 2015 and 2014:



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

	2016	2015	2014	Percentage Change 2016-2015	Percentage Change 2015-2014
Operating revenue:					
Water sales	\$25,199,424	\$24,168,432	\$23,240,511	4.27 %	3.99 %
Reimbursement of operating expenses	2,642,400	2,642,400	2,600,238	-	1.62
Total operating revenue	27,841,824	26,810,832	25,840,749	3.85	3.75
Non-operating revenue:					
State of New Jersey - Grant Programs	62,375	59,083	129,293	5.57	(54.30)
Investment income	975,579	169,265	366,678	476.36	(53.84)
Rental income	58,467	58,244	59,251	0.38	(1.70)
Other income	89,744	245,063	47,789	(63.38)	412.80
Total non-operating revenue	1,186,165	531,655	603,011	123.11	(11.83)
Total revenue	29,027,989	27,342,487	26,443,760	6.16	3.40
Operating expenses:					
Payroll	7,225,026	7,081,593	7,062,893	2.03	0.26
Operations and maintenance	4,991,547	5,808,377	5,132,956	(14.06)	13.16
Fringe benefits	4,755,520	4,190,610	4,212,357	13.48	(0.52)
Depreciation	4,441,492	4,368,723	4,342,781	1.67	0.60
Total operating expenses	21,413,585	21,449,303	20,750,987	(0.17)	3.37
Non-operating expenses:					
Interest component of debt service to the State of New Jersey	1,226,563	1,382,205	1,569,126	(11.26)	(11.91)
Bond discount/insurance premium expense	158,053	28,343	28,343	457.64	-
Recovery of deferred inflows of resources	716,783	730,229	3,083,270		
Total non-operating expenses	2,101,399	2,140,777	4,680,739	(1.84)	(54.26)
Total Expenses	23,514,984	23,590,080	25,431,726	(0.32)	(7.24)
Change in net position	5,513,005	3,752,407	1,012,034	46.92	270.78
Net position, beginning of year, as previously reported	108,095,742	121,682,236	120,670,202	(11.17)	0.84
GASB 68 adjustment		(17,338,901)		(100.00)	
Net position, beginning of year, as restated	108,095,742	104,343,335	120,670,202	3.60	(13.53)
Net position, end of year	\$113,608,747	\$108,095,742	\$121,682,236	5.10	(11.17)

See accompanying notes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2016, the Authority had a total of \$140,382,085 invested in the Systems that it operates: \$83,080,156 invested in the Raritan Basin System, and \$57,301,929 invested in the Manasquan System. This total amount represents a .61% decrease from last year. At June 30, 2015, the Authority had a total of \$141,237,393 invested in the Systems that it operates: \$83,240,516 invested in the Raritan Basin System, and \$57,996,877 invested in the Manasquan System. This total amount represents a .06% increase from the prior year.

The following table summarizes the changes in capital assets, net of depreciation, between fiscal years 2016, 2015 and 2014:



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

	2016	2015	2014	Percentage Change 2016-2015	Percentage Change 2015-2014
Land and land rights	\$26,444,952	\$25,566,853	\$25,566,853	3.43 %	0.00 %
Dams	48,205,015	49,003,010	49,801,005	(1.63)	(1.60)
Building, structures and improvements	51,714,341	55,038,675	54,900,182	(6.04)	0.25
Machinery and equipment	1,303,991	1,183,611	1,108,356	10.17	6.79
Construction work in progress	12,713,786	10,445,244	9,778,693	21.72	6.82
Total net investment in capital assets	\$140,382,085	\$141,237,393	\$141,155,089	(0.61)	0.06

More detailed information about the Authority's capital assets is presented in Note 3 to the basic financial statements.

The following table summarizes the changes in capital debt between fiscal years 2016, 2015 and 2014:

	2016	2015	2014	Percentage Change 2016-2015	Percentage Change 2015-2014
Bonds payable	\$19,281,414	\$27,135,913	\$30,058,221	(28.95) %	(9.72) %
Notes payable	33,566,892	33,647,103	33,649,796	(0.24)	(0.01)
Loans payable	13,382,948	14,379,107	15,420,971	(6.93)	(6.76)
Total bonds, notes and loans payable	\$66,231,254	\$75,162,123	\$79,128,988	(11.88)	(5.01)

At year-end, the Authority had \$66,231,254 in bonds, notes and loans principal outstanding, compared to \$75,162,123 at June 30, 2015. This change represents a decrease of 11.88%. The change in bonds, notes and loans principal outstanding at June 30, 2015, compared to the total of \$79,128,988 at June 30, 2014, represents a decrease of 5.01%, as shown in the above table.

More detailed information about the Authority's long-term debt is presented in Note 5 to the basic financial statements.

CURRENT AND NEW BUSINESS

During fiscal year 2016, the Authority supplied water to 30 contractual customers of the Raritan Basin System, who, in turn, supplied water to approximately 1,500,000 people in central New Jersey. Two customers accounted for approximately 84% of total Raritan Basin System operating revenue. There is no expected change the sales base of the Raritan Basin System of 182.339mgd in fiscal year 2017. In addition, during fiscal year 2016, the Authority



MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

provided water to 13 contractual customers of the Manasquan Water Supply System, who provided water to approximately 250,000 people in the Monmouth County area. Three customers accounted for approximately 86% of total Manasquan System operating revenue. Effective July 1, 2016, the total sales base for the Manasquan Reservoir System decreased to 19.443mgd from 20.560mgd.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Statement of Net Position

	June 30,	
	2016	2015
Assets		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$41,144,423	\$37,174,983
Unbilled sales	1,082,506	1,097,005
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2016 and 2015	3,101,106	2,908,472
Interest receivable	272,443	243,335
Prepaid expenses and other current assets	1,012,080	1,026,563
Total unrestricted current assets	46,612,558	42,450,358
Restricted assets:		
Cash equivalents	4,541,572	4,499,245
Investments	2,491,019	7,840,414
Total restricted current assets	7,032,591	12,339,659
Total current assets	53,645,149	54,790,017
Non-current assets:		
Investments	11,527,173	11,824,171
Capital assets, net	140,382,085	141,237,393
Total non-current assets	151,909,258	153,061,564
Deferred outflows of resources - pension related	3,646,920	1,280,619
Total assets and deferred outflows of resources	\$209,201,327	\$209,132,200
Liabilities		
Current liabilities:		
Current portion of bonds, notes and loans payable	\$1,276,652	\$3,930,734
Accounts payable	445,212	656,022
Accrued liabilities	1,149,802	1,342,565
Unearned revenue	3,155,654	3,110,567
Total current liabilities	6,027,320	9,039,888
Non-current liabilities:		
Non-current portion of bonds, notes and loans payable	64,954,602	71,231,389
Net pension liability	21,534,789	18,141,342
Total non-current liabilities	86,489,391	89,372,731
Deferred inflows of resources:		
Cost recovery	1,231,135	890,268
Pension related	1,021,022	1,733,571
Gain on refunding	823,712	-
Total deferred inflows of resources	3,075,869	2,623,839
Net Position		
Net investment in capital assets	98,890,303	91,638,454
Restricted for debt service	3,876,937	9,229,092
Unrestricted	10,841,507	7,228,196
Total net position	113,608,747	108,095,742
Total liabilities, deferred inflows of resources, and net position	\$209,201,327	\$209,132,200

See accompanying notes.

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Statement of Revenue, Expenses and Changes in Net Position

	Year Ended June 30,	
	2016	2015
Operating revenue:		
Water sales	\$25,199,424	\$24,168,432
Reimbursement of operating expenses	2,642,400	2,642,400
Total operating revenue	27,841,824	26,810,832
Operating expenses:		
Payroll	7,225,026	7,081,593
Operations and maintenance	4,991,547	5,808,377
Fringe benefits	4,755,520	4,190,610
Depreciation	4,441,492	4,368,723
Total operating expenses	21,413,585	21,449,303
Income from operations	6,428,239	5,361,529
Non-operating revenue:		
State of New Jersey - Grant Programs	62,375	59,083
Investment income	975,579	169,265
Rental income	58,467	58,244
Other income	89,744	245,063
Total non-operating revenue	1,186,165	531,655
Non-operating expenses:		
Interest component of debt service to the State of New Jersey	1,226,563	1,382,205
Bond discount/insurance premium expense	158,053	28,343
Recovery of deferred inflows of resources	716,783	730,229
Total non-operating expenses	2,101,399	2,140,777
Change in net position	5,513,005	3,752,407
Net position, beginning of year	108,095,742	104,343,335
Net position, end of year	\$ 113,608,747	\$ 108,095,742

See accompanying notes.

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Statement of Cash Flows

	Year Ended June 30,	
	2016	2015
Cash flows from operating activities		
Cash received from water sales	\$25,038,797	\$23,068,531
Cash received from reimbursable expenses	2,648,442	2,669,816
Cash received from rental income	35,673	28,022
Cash paid to or on behalf of employees	(11,642,062)	(10,900,075)
Cash paid to suppliers	(5,064,598)	(5,779,801)
Net cash provided by operating activities	11,016,252	9,086,493
Cash flows from noncapital financing activities		
Cash received for grant programs	62,375	59,083
Net cash provided by non-capital financing activities	62,375	59,083
Cash flows from capital and related financing activities		
Proceeds from borrowing	23,596,826	-
Gain on refunding	823,712	
Principal paid on bonds, notes and loans	(26,653,829)	(4,444,935)
Interest paid on bonds, notes and loans	(1,646,829)	(1,445,299)
Acquisition and construction of capital assets	(3,729,938)	(4,249,403)
Proceeds from sale of capital assets	87,160	85,033
Net cash used in capital and related financing activities	(7,522,898)	(10,054,604)
Cash flows from investing activities		
Sale of investment securities	3,005,598	4,345,501
Purchase of investment securities	(3,624,715)	(3,834,027)
Interest received on investments	946,471	194,265
Premium on matured investments	128,684	-
Net cash provided by investing activities	456,038	705,739
Net increase in cash and cash equivalents	4,011,767	(203,289)
Cash and cash equivalents, beginning of year	41,674,228	41,877,517
Cash and cash equivalents, end of year	\$45,685,995	\$41,674,228
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	6,428,239	5,361,529
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Non-cash items expensed to operations and maintenance	58,467	58,244
Cash received for operating activity included in other income	2,584	160,030
Depreciation	4,441,492	4,368,723
Increase (decrease) in cash from:		
Unbilled sales	14,499	(123,052)
Accounts receivable	(219,644)	(965,304)
Prepaid expenses and other current assets	14,483	33,199
Accounts payable	(40,046)	(938)
Accrued liabilities	31,644	(432)
Accrued payroll and taxes	(30,063)	194,494
Net pension liability	314,597	-
Net cash provided by operating activities	\$11,016,252	\$9,086,493
Non-cash investing activities		
Decrease in fair value of investments	(\$277,520)	(\$592,498)

See accompanying notes.

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

I. Organization and Operations

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Revenue

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

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

Capital Assets

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

Depreciation

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

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

Cash and Cash Equivalents

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Investments

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

Accounts Receivable

The Authority considers most of its accounts receivable to be collectible; accordingly, the change in net position is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. At June 30, 2016 and 2015, accounts receivable included amounts due from the New Jersey Environmental Infrastructure Financing Program ("NJEIFP") for \$0 and \$757, respectively.

During fiscal year 2016 two customers accounted for approximately 87% of total Raritan Basin System accounts receivable and five customers accounted for approximately 87% of total Manasquan System accounts receivable. During fiscal year 2015, two customers accounted for approximately 84% of total Raritan Basin System accounts receivable, and five customers accounted for approximately 88% of total Manasquan System accounts receivable.

Compensated Absences

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

Use of Estimates

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Income Taxes

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

Net Position

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

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

Deferred Inflows and Outflows of Resources

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

Deferred Inflows of Resources – Cost Recovery

The Authority’s cost recovery rate model used to establish rates, fees and charges includes an amount for debt principal repayment (but not for depreciation on the related debt financed assets) and also includes vacation amounts paid. In accordance with GASB No. 62, the Authority has deferred the excess of current depreciation on assets financed with debt proceeds over the costs for debt principal repayment and the excess of vacation expense over vacation paid, and accrued sick pay, which are being classified as deferred inflows of resources. The deferred inflows will be recovered through future revenue in accordance with the rate model. The deferred amount for the years ended June 30, 2016 and 2015, were determined as follows:

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Raritan Basin System	2016	2015
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	\$ 835,209	\$ 835,209
Excess vacation expense over vacation paid	27,016	(27,721)
Accrued sick pay	186,576	
	1,048,801	807,488
Cost included in rate model:		
Debt principal repayment	-	-
	1,048,801	807,488
Manasquan System		
Cost excluded from rate model:		
Depreciation of debt-financed capital assets recoverable from rate payers	\$ 1,540,854	\$ 1,540,854
Excess vacation expense over vacation paid	(2,006)	(487)
Accrued sick pay	14,337	
	1,553,185	1,540,367
Cost included in rate model:		
Debt principal repayment	(2,942,853)	(2,797,693)
	(1,389,668)	(1,257,326)
Total Raritan Basin and Manasquan	(340,867)	(449,838)
Balance, beginning of year	(890,268)	(440,430)
Balance, end of year	\$ (1,231,135)	\$ (890,268)

As shown in the statements of revenue, expenses and changes in net position for the years ended June 30, 2016 and 2015, respectively, deferred inflow of resources of \$716,783 and \$730,229 includes a debit balance \$149,993, and a debit balance of \$308,599 of Manasquan Water Treatment Plant deferred revenue, which is not part of the rate model, and does not include a credit balance of \$225,923 of accrued vacation and accrued sick pay and a debit balance of \$28,208 of accrued vacation.

Deferred Inflows/Outflow of Resource – Debt Refunding

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Deferred Inflows/Outflow of Resources - Pensions

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

Accounting for Southeast Monmouth Municipal Utilities Authority Agreement

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

Because of the difference resulting from billing the SMMUA for budgeted expenses versus actual expenses appearing in the financial statements, the Authority includes unearned costs (actual costs exceeding SMMUA billings) or unearned revenue (SMMUA billings exceeding actual costs) in its statement of net position. These excess costs or billings will be recovered or recognized in future periods. As of June 30, 2016 and 2015, unearned revenue amounting to \$2,047,595 and \$1,897,602, respectively, was determined as follows:

	2016	2015
Reimbursement of operating expenses	\$2,646,563	\$2,646,219
Operating expenses	2,496,570	2,337,620
Unearned revenue	149,993	308,599
Balance, beginning of year	1,897,602	1,589,003
Balance, end of year	<u>\$2,047,595</u>	<u>\$1,897,602</u>

In previous years, the Authority received additional funds that are restricted for use by the SMMUA for costs associated in operating the Water Treatment Plant. As of June 30, 2016 and 2015, the amount included in unearned revenue was \$1,108,059, and \$1,212,965, respectively.

Accounting for Watershed Protection Program

For the fiscal years ended June 30, 2016 and 2015, the Authority received \$113,483 and \$40,204, respectively, from the NJDEP for the costs associated with various watershed protection studies of the Raritan Basin System. These funds are restricted to uses specifically identified in grant agreements between the Authority and NJDEP and will be recognized as revenue as the related costs are incurred. Eligible project expenses include,

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

but are not limited to, the cost of mapping out streams and other water sources and studying and implementing best land use practices to improve water quality. As of June 30, 2016, all the funds received had been recognized as revenue.

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

On July 1, 2007, the Authority implemented Government Standards Board Statement (“GASB”) Number 45, which covers accounting and financial reporting requirements for government employers that provide post-employment benefits other than pensions. Since the Authority participates in the State’s multiple-employer cost-sharing plan (Public Employees’ Retirement System “PERS”), the Authority’s portion of this liability and cost is calculated and recorded at the State level and included in the State’s Comprehensive Annual Financial Report. The Authority records OPEB expense based on billings from the State PERS. Required financial statement disclosures are included in Note 6 of these financial statements.

3. Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015, was as follows:

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

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

	2015			2015
	Beginning	Additions	Retirements	Ending
	Balance			Balance
Capital assets not being depreciated:				
Land	\$ 25,566,853	\$ -	\$ -	\$ 25,566,853
Construction work in progress	9,778,693	4,037,997	(3,371,446)	10,445,244
Total capital assets not being depreciated	35,345,546	4,037,997	(3,371,446)	36,012,097
Capital assets being depreciated:				
Dams	77,369,160	-	-	77,369,160
Building, structures and improvements	130,095,629	3,379,845	-	133,475,474
D & R canal dredging	21,160,274	-	-	21,160,274
Machinery and equipment	6,564,082	425,196	(668,970)	6,320,308
Total capital assets being depreciated	235,189,145	3,805,041	(668,970)	238,325,216
Less accumulated depreciation for:				
Dams	(27,568,155)	(797,995)	-	(28,366,150)
Building, structures and improvements	(75,195,448)	(3,241,352)	-	(78,436,800)
D & R canal dredging	(21,160,273)	-	-	(21,160,273)
Machinery and equipment	(5,455,726)	(329,376)	648,405	(5,136,697)
Total accumulated depreciation	(129,379,602)	(4,368,723)	648,405	(133,099,920)
Total capital assets, being depreciated, net	105,809,543	(563,682)	(20,565)	105,225,296
Total net investment in capital assets	\$141,155,089	\$ 3,474,315	\$ (3,392,011)	\$141,237,393

4. Cash, Cash Equivalents, and Investments

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

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

a. Cash

As of June 30, 2016 and 2015, the Authority’s bank balance was \$4,038,014 and \$2,275,529, respectively, of which \$250,000 was covered through the FDIC. The remaining balance of \$3,788,014 and \$2,025,529 as of June 30, 2016 and 2015, respectively, was collateralized, and the cash balance per the statement of net position is shown exclusive of outstanding checks totaling \$159,916 and \$36,108,

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

respectively. The statement of net position amount includes petty cash totaling \$300, respectively as of June 30, 2016 and 2015.

b. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. The Authority’s bank balance of \$4,038,014 and \$2,275,529 as of June 30, 2016 and 2015, respectively, was exposed to custodial credit risk as follows:

	2016	2015
Uninsured and uncollateralized	\$ -	\$ -

c. Investments and Cash Equivalents

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

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

As of June 30, 2016, the Authority had the following recurring fair value measurements using quoted market prices for U.S. Treasuries (Level 1 inputs) and using current sale prices or sale prices of comparable securities for New Jersey General Obligation Bonds (Level 2 inputs) for investments and cash equivalents, and maturities:

Investment and Cash Equivalent Type	Valuation Inputs Level	Fair Value	<u>Investment Maturities (In Years)</u>	
			Less than 1	1-5
U.S. Treasuries	Level 1	\$44,298,616	\$44,298,616	\$ -
NJ G/O Bonds	Level 2	11,799,616	4,001,505	7,798,111
Total		\$56,098,232	\$48,300,121	\$7,798,111

As of June 30, 2015, the Authority had the following recurring fair value measurements using quoted market prices for U.S. Treasuries (Level 1 inputs) and using current sale prices or sale prices of comparable securities for New Jersey General Obligation Bonds (Level 2 inputs) for investments and cash equivalents, and maturities:

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

Investment and Cash Equivalent Type	Valuation Inputs Level	Fair Value	Investment Maturities (In Years)	
			Less than 1	1-5
U.S. Treasuries	Level 1	\$47,274,921	\$47,274,921	\$ -
NJ G/O Bonds	Level 2	12,067,506	-	12,067,506
Total		\$59,342,427	\$47,274,921	\$12,067,506

Credit and Custodial Credit Risk

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

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

The Authority entered into an agreement with PNC Bank and TD Bank to collateralize all deposits held at a market rate equal to 102% of the daily combined total of all deposits. As of June 30, 2016, all deposits were collateralized.

d. Investment Income

The following comprises investment income for the years ended June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Interest earned on bank accounts and certificates of deposit	\$661,886	\$179,377
Interest earned on securities	591,213	582,386
Decrease in fair value of securities	(277,520)	(592,498)
	<u>975,579</u>	<u>169,265</u>

5. Bonds, Notes and Loans Payable

Manasquan System

A. Notes due to State of New Jersey

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

The \$63,600,000 of Manasquan Reservoir Water Supply System State Loan Notes (the

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

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

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

Interest on the Deferred Notes accreted as principal through July 31, 1993, and is not payable until they have been exchanged for Current Notes. The interest that accreted as principal through July 31, 1990, accrued interest; however, the interest that accreted for the period from August 1, 1990 through July 31, 1993, did not accrue interest. The accretion of interest to the principal amount for the Current Notes and the Deferred Notes is \$25,563,184 at June 30, 2016 and 2015.

On May 12, 2016, the Authority repaid the State of New Jersey \$78,651.22 for principal and all accrued interest on outstanding Current State Loan Notes and Completion Notes. At June 30, 2016 and 2015, the State Loan Notes and Completion Notes are summarized as follows:

State Loan Notes	2016	2015
Current Notes	\$ -	\$72,505
Deferred Notes	30,365,115	30,365,115
Completion Notes		
Current Notes	-	7,706
Deferred Notes	3,201,777	3,201,777
	\$33,566,892	\$33,647,103

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

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

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

The property, and 100% of the revenue generated by the Debt Service Component of the Rate for both initial system customers and delayed water purchase customers of the Manasquan System, was pledged as collateral for the 2005 Bonds. The debt service component of the rate represents 120% of the principal and interest requirements. For the years ended June 30, 2016 and 2015, the debt service component of the rate generated \$4,746,838 and \$4,898,761, respectively.

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

For the years ended June 30, 2016 and 2015, interest expense on the 2005 Bonds amounted to \$1,029,827 and \$1,375,125, respectively, and the related interest income earned on the restricted investments amounted to \$246 and \$269, respectively.

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

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

The Refunding Bonds, Series 2016, have a principal balance of \$17,460,000 at June 30, 2016, carry a bond yield of 1.59%, and mature in incremental annual principal amounts through 2031. Principal maturities for the year ending June 30, 2017 are \$230,000.

The property, and 100% of the revenue generated by the Debt Service Component of the Rate for both initial system customers and delayed water purchase customers of the Manasquan System, was pledged as collateral for the 2005 Bonds. The debt service component of the rate represents 120% of the principal and interest requirements. The pledged revenue will be unavailable for other purposes until August 1, 2031. For the years ended June 30, 2016 and 2015, the debt service component of the rate generated \$4,746,838 and \$4,898,761, respectively.

New Jersey Water Supply Authority
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Notes to Financial Statements (continued)

For the years ended June 30, 2016 and 2015, interest expense on the 2016 Bonds amounted to \$123,390 and \$0, respectively and the related interest income earned on the restricted investments account amounted to \$0 and \$0 respectively.

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

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

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

The following table summarizes the NJEIFP loan outstanding for the Manasquan Reservoir System, as of June 30, 2016:

NJEIFP Series	Date of Issuance	State Revolving Fund Original Principal	Percent	Trust Original Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2012B	05/03/2012	\$2,312,250	76%	\$715,000	24%	.80%	\$2,434,613	08/01/2031

Raritan System

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

The New Jersey Water Supply Authority, a Component Unit of the State of New Jersey, obtained loans from the New Jersey Environmental Infrastructure Trust (the “Trust”) for the

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey
Notes to Financial Statements (continued)

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

The following table summarizes the NJEIFP loans outstanding for the Raritan Basin System, as of June 30, 2016:

NJEIFP Series	Date of Issuance	State Revolving Fund Original Principal	Percent	Trust Original Principal	Percent	Blended Interest Rate	Outstanding Principal	Maturity
2003A	11/6/2003	\$627,019	75%	\$235,000	25%	1.19%	\$381,622	8/1/2023
2004A	11/4/2004	1,030,000	75%	350,000	25%	1.31%	674,314	8/1/2024
2005A	11/10/2005	2,940,974	75%	1,050,000	25%	1.25%	1,662,499	8/1/2025
2006A	11/9/2006	2,099,363	75%	745,000	25%	1.26%	1,620,715	8/1/2026
2007A	11/8/2007	1,740,563	75%	620,000	25%	1.06%	1,507,104	8/1/2027
2008A	11/6/2008	1,152,000	64%	660,000	36%	1.74%	1,280,099	8/1/2028
2010A	3/10/2010	300,493	51%	290,000	49%	1.69%	437,244	8/1/2029
2010B	12/2/2010	1,064,338	52%	990,000	48%	1.87%	1,642,786	8/1/2030
2012A	5/3/2012	1,501,455	76%	465,000	24%	0.65%	1,616,074	8/1/2031
Total		\$12,456,205		\$5,405,000			\$10,822,457	

The following table summarizes the changes in bonds, notes and loans payable between fiscal years 2016, 2015 and 2014:

	Fiscal Year 2015	Less Payments, Net of Amortization	Debt Issued	Fiscal Year 2016	Due Within One Year
Bonds payable	\$27,135,913	\$25,314,499	\$17,460,000	\$19,281,414	\$230,000
Notes payable	33,647,103	80,211	0	33,566,892	0
Loans payable	14,379,107	996,159	0	13,382,948	1,046,652
Total	\$75,162,123	\$26,390,869	\$17,460,000	\$66,231,254	\$1,276,652

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	Fiscal Year 2014	Less Payments, Net of Amortization	Debt Issued	Fiscal Year 2015	Due Within One Year
Bonds payable	\$30,058,222	\$2,922,309	\$0	\$27,135,913	\$2,940,000
Notes payable	33,649,796	2,693	0	33,647,103	2,853
Loans payable	15,420,970	1,041,863	0	14,379,107	987,881
Total	\$79,128,988	\$3,966,865	\$0	\$75,162,123	\$3,930,734

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

Year Ending June 30,	Raritan Basin System	Manasquan Reservoir System	Notes Payable Manasquan System	Manasquan System Revenue Bonds Series 2016	Totals
2017	1,076,449	176,422	-	718,532	1,971,403
2018	1,064,348	175,372	-	3,454,588	4,694,308
2019	1,056,425	174,172	-	3,443,937	4,674,534
2020	1,052,871	172,822	-	3,445,962	4,671,655
2021	1,070,857	176,197	-	3,446,338	4,693,392
2022-2026	4,617,244	868,610	-	2,898,562	8,384,416
2027-2031	2,050,785	867,185	-	2,865,369	5,783,339
2032-2036	86,466	87,133	-	568,400	741,999
Deferred Portion	-	-	33,566,892	-	33,566,892
Subtotal	12,075,445	2,697,913	33,566,892	20,841,688	69,181,938
Less amounts representing interest	1,252,988	263,300	-	3,381,688	4,897,976
Plus unamortized bond premium	81,721	44,157	-	1,821,414	1,947,292
Subtotal	10,904,178	2,478,770	33,566,892	19,281,414	66,231,254
Less:					
Current principal portion	899,080	147,572	-	230,000	1,276,652
Total	\$10,005,098	\$2,331,198	\$33,566,892	\$19,051,414	\$64,954,602

New Jersey Water Supply Authority
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Notes to Financial Statements (continued)

6. Employee Benefits

Pension and Retirement Plans

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

Following is the total of the local portion of the System’s pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions and the pension expense and expenditures for the fiscal year ended June 30, 2015.

Net Pension Liabilities	\$21,534,789
Deferred Outflow of Resources	3,646,920
Deferred Inflow of Resources	1,021,022
Pension Expense	1,138,400
Contributions Made	823,798

Plan Description and Benefits

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

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

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Notes to Financial Statements (continued)

after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Contributions

Employee contribution rates to PERS governed by P.L. 2011, C. 78, effective June 28, 2011, were increased from 5.5% of salary to 6.5% of salary, and a phase-in to 7.5% of salary over a seven year period. Covered Authority employees are required by PERS to contribute 7.2% of their salaries. State statute requires the Authority to contribute an actuarially determined rate which includes the normal cost and the unfunded accrued liability. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Specific information on actuarial assumptions and rates of return can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

The payroll for employees covered by PERS for the years ended June 30, 2016, 2015 and 2014, was \$6,949,632, \$6,808,193 and \$6,781,700, respectively. The Authority's total payroll for the years ended June 30, 2016, 2015, and 2014 was \$7,225,026, \$7,081,593 and \$7,062,893, respectively. The actuarial contribution requirements and the contributions made for the years ended June 30, 2016, 2015 and 2014, were \$1,312,670, \$1,270,306, and \$1,217,153 respectively, which consisted of \$823,798, \$798,757 and \$758,938 from the Authority, and \$488,872, \$471,549 and \$458,215 from the employees, respectively. As required by PERS, the employer and employee contributions represented 11.85% and 7.06% of covered payroll for the year ended June 30, 2016, 11.73% and 6.92% of covered payroll for the year ended June 30, 2015, and 11.20% and 6.78% of covered payroll for the year ended June 30, 2014, respectively. Contributions were made in accordance with the actuarial funding requirement.

Assumptions

The total pension liability for June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014. The pension liability was rolled forward to June 30, 2015. The actuarial valuation used an inflation rate of 3.04%, projected salary increases from 2012 to 2021 of 2.15% to 4.40% based on age and thereafter 3.15% to 5.40% based on age and an investment rate of return of 7.90%.

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014 respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average

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Notes to Financial Statements (continued)

of the last five years of contributions made in relation to the last five years of recommended 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions, and investment policies, can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

The following presents the Authority’s proportionate share of the PERS net pension liability calculated using the discount rate of 4.90% and 5.39% as of June 30, 2015 and 2014, respectively, as well as what the PERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the assumed rate.

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

	At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
2015	<u>\$26,733,985</u>	<u>\$21,534,789</u>	<u>\$17,129,785</u>
	At 1% decrease (4.39%)	At current discount rate (5.39%)	At 1% increase (6.39%)
2014	<u>\$22,823,669</u>	<u>\$18,141,342</u>	<u>\$14,211,197</u>

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

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

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To facilitate the separate (sub) actuarial valuations, The Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amount by employer. The allocation percentages for each group as of June 30, 2015 and 2014 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2015 and 2014, respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collected deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the PERS schedule of employer allocations and applied to amounts presented in the PERS schedule of pension amounts by employer are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. The Authority's proportionate share of the collective net pension liability as of June 30, 2015 and 2014 was .0958% and .0969% respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Expenses	\$ 513,147	\$ -
Change of Assumptions	2,309,975	
Net Difference Between Projected and Actual Investment Earnings	-	345,835
Net Change in Proportions	-	675,187
Total Contributions and Proportionate Share of Contributions after the Measurement Date	823,798	-
	\$ 3,646,920	\$ 1,021,022

The Authority will recognize the \$823,798 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the PERS net pension liability in the year ended June 30, 2017. Other amounts reported as deferred

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Notes to Financial Statements (continued)

outflows of resources and deferred inflows of resources related to pension will be recognized in PERS pension expense as follows:

Year Ending June 30,	Amortization
2017	301,194
2018	301,194
2019	301,194
2020	568,478
2021	<u>330,040</u>
Total	<u>\$1,802,100</u>

Post-Retirement Health Care Benefits

The Authority provides continued health care benefits to employees retiring after twenty-five years of service and their eligible dependents. Benefits, contributions, funding and the manner of administration are determined by the State Legislature. The Authority's portion of this liability and cost is included in the State's comprehensive annual financial report on an annual basis. As such, the liability for Authority employees is covered under the State plan. The Division of Pensions within the New Jersey Treasury Department administers the funds. Monthly, the Division of Pensions charges the Authority for its contribution. The total number of employees receiving benefits was 55, 53 and 52 at June 30, 2016, 2015 and 2014, respectively. Total cost for these post-retirement benefits, included in fringe benefits, approximated \$914,743, \$875,644 and \$757,870 for the years ended June 30, 2016, 2015 and 2014, respectively.

7. Major Water Customers

During fiscal years 2016 and 2015, the Authority supplied water to approximately 30 customers of the Raritan Basin System and 13 customers of the Manasquan System.

During fiscal years 2016 and 2015, two customers accounted for approximately 84% of total Raritan Basin System operating revenue. Three customers accounted for approximately 86% of total Manasquan System operating revenue.

8. Risk Management

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

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Notes to Financial Statements (continued)

9. Recent Accounting Standards

The Authority has adopted GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”). Statement No. 72 requires the Authority to use a hierarchy of valuations methods and inputs in measuring its investments at fair value, and requires disclosure about the fair value measurements, hierarchy and valuation techniques. Required financial statement disclosures are included in Note 4 of these financial statements.

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

In June 2015, GASB issued Statement No 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”). This Statement establishes financial reporting for state and local governmental OPEB plans and defined contribution OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through trust or equivalent arrangements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2016. This Statement will become effective for the June 30, 2017 year-end. The Authority has not yet completed the process of evaluating the impact of GASB 74 on its financial statements.

In June 2015, GASB issued Statement No 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB 75”). This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local government employers through OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2017. This Statement will become effective for the June 30, 2018 year-end. The Authority has not yet completed the process of evaluating the impact of GASB 75 on its financial statements.

The Authority has adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). This statement establishes the hierarchy of GAAP for state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities and establishes the order of priority of pronouncements and other sources of accounting and financial reporting

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guidance that a governmental entity should apply. The Authority has reviewed the provision of this Statement and has determined that no retroactive accounting changes are necessary as a result of implementing this Statement.

In March 2016, GASB issued Statement No. 82, *Pension Issues* (“GASB 82”). This Statement requires the presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure, in schedules of required supplementary information. The Statement also addresses issues regarding the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2016. This Statement will become effective for the June 30, 2017 year-end. The Authority has implemented the provisions of GASB 82 with respect to covered payroll in its June 30, 2016 financial statements. The Authority has not yet completed the process of evaluating the remaining impact of GASB 82 on its financial statements.

10. Insurance Reimbursements

There are no insurance or FEMA reimbursements included in “Other income” on the statement of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015.

11. Contingencies

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

12. Information by Business Segment

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

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Notes to Financial Statements (continued)

	Year Ended			
	June 30, 2016		June 30, 2015	
	Raritan Basin System	Manasquan Reservoir System	Raritan Basin System	Manasquan Reservoir System
Condensed statement of net position				
Assets and deferred outflows of resources:				
Current assets	\$33,539,086	\$13,242,472	\$30,415,688	\$12,034,670
Restricted cash	1,872,225	2,669,347	1,771,825	10,567,834
Other restricted assets	0	2,491,019		
Capital assets	83,080,156	57,301,929	83,240,516	57,996,877
Other non-current assets	10,615,449	911,724	10,869,351	954,820
Deferred outflows of resources	2,808,128	838,792	988,207	292,412
Total assets and deferred outflows of resources	<u>\$131,915,044</u>	<u>\$77,455,283</u>	<u>\$127,285,587</u>	<u>\$81,846,613</u>
Liabilities and deferred inflows of resources:				
Current liabilities	\$2,067,051	\$4,129,269	\$1,733,741	\$7,306,147
Non-current liabilities	26,586,885	59,902,506	25,010,817	64,361,914
Deferred inflows of resources	14,985,711	(11,909,842)	16,581,842	(13,958,003)
Total liabilities and deferred inflows of resources	43,639,647	52,121,933	43,326,400	57,710,058
Net Position:				
Net investment in capital assets	72,175,978	26,714,325	71,485,538	20,152,916
Restricted for debt service	1,872,225	2,004,712	1,771,825	7,457,267
Unrestricted	14,227,194	(3,385,687)	10,701,824	(3,473,628)
Total net position	<u>88,275,397</u>	<u>25,333,350</u>	<u>83,959,187</u>	<u>24,136,555</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$131,915,044</u>	<u>\$77,455,283</u>	<u>\$127,285,587</u>	<u>\$81,846,613</u>

New Jersey Water Supply Authority
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Notes to Financial Statements (continued)

	Year Ended			
	June 30, 2016		June 30, 2015	
	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>
Condensed statement of revenue, expenses and changes in net assets				
Total operating revenue	\$17,298,270	\$7,901,154	\$16,293,863	\$7,874,569
Operating expenses	11,442,968	3,032,555	11,646,913	3,096,047
Depreciation	<u>2,758,921</u>	<u>1,682,571</u>	<u>2,703,857</u>	<u>1,664,866</u>
Operating income	3,096,381	3,186,028	1,943,093	3,113,656
Non-operating revenues	563,547	618,455	381,291	146,545
Non-operating expenses (recovery)	<u>(656,282)</u>	<u>2,607,688</u>	<u>(647,080)</u>	<u>2,479,258</u>
Change in net assets	4,316,210	1,196,795	2,971,464	780,943
Net position, beginning of the year	<u>83,959,187</u>	<u>24,136,555</u>	<u>80,987,723</u>	<u>23,355,612</u>
Net position, end of year	<u><u>\$88,275,397</u></u>	<u><u>\$25,333,350</u></u>	<u><u>\$83,959,187</u></u>	<u><u>\$24,136,555</u></u>
Condensed statement of cash flows				
Net cash provided by:				
Operating activities	\$5,988,367	\$5,027,885	\$3,906,867	\$5,179,625
Non-capital financing activities	62,375	0	59,083	0
Capital and related financing activities	(3,578,112)	(3,944,786)	(4,519,478)	(5,535,125)
Investing activities	<u>583,415</u>	<u>(127,377)</u>	<u>601,795</u>	<u>103,944</u>
Net (decrease) increase in cash and cash equivalents	3,056,045	955,722	48,267	(251,556)
Beginning cash and cash equivalent balances	<u>28,915,829</u>	<u>12,758,399</u>	<u>28,867,562</u>	<u>13,009,955</u>
Ending cash and cash equivalent balances	<u><u>\$31,971,874</u></u>	<u><u>\$13,714,121</u></u>	<u><u>\$28,915,829</u></u>	<u><u>\$12,758,399</u></u>

Required Supplementary Information

New Jersey Water Supply Authority
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Schedule of Proportionate Share of PERS Net Pension Liability (NPL)
Determined as of June 30, 2016, PERS Measurement Date

Fiscal Year	Authority's Proportion	Authority's Proportion Share	Authority's Covered Payroll	Authority's Proportionate Share of NPL as a % of Covered Payroll	PERS Local Fiduciary Net Position as a % of Total Pension Liability
2016	0.10%	\$21,534,789	\$6,949,632	310%	47.94%
2015	0.10%	\$18,141,342	\$6,808,193	266%	52.08%

Schedule of Contributions

Fiscal Year	Required Contribution	Contributions Recognized by PERS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2016	\$1,261,241	\$823,798	\$437,443	\$6,949,632	11.90%
2015	\$819,154	\$798,757	\$20,397	\$6,808,193	11.70%

Schedule of Changes in Total Net Pension Liability

Fiscal Year	Beginning Balance Total Net Pension Liability	Difference between Expected and Actual Experience	Change of Assumptions	Difference between Expected and Actual Earnings	Change in Proportion and Actual Less Proportion Share	Other Changes and Reclassifications	Ending Balance Total Net Pension Liability
2016	\$18,141,342	\$513,147	\$1,739,535	\$735,251	(\$206,140)	\$611,654	\$21,534,789
2015	\$19,250,440	-	\$570,440	(\$1,081,086)	(\$772,427)	\$173,975	\$18,141,342

The pension schedules are intended to show information for ten years. Additional years' information will be displayed as it becomes available.

Supplementary Information

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Combining Schedule of Net Position
June 30, 2016

	<u>Raritan Basin System</u>	<u>Manasquan Reservoir System</u>	<u>Elimination Entries</u>	<u>Combined Total</u>
Assets				
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	\$30,099,649	\$11,044,774		\$41,144,423
Unbilled sales	1,082,506			1,082,506
Accounts receivable, less allowance for doubtful accounts of \$1,000 at June 30, 2016	1,308,087	1,962,019	(169,000)	3,101,106
Interest receivable	248,060	24,383		272,443
Prepaid expenses and other current assets	800,784	211,296		1,012,080
Total unrestricted assets	<u>33,539,086</u>	<u>13,242,472</u>	<u>(169,000)</u>	<u>46,612,558</u>
Restricted assets:				
Cash equivalents	1,872,225	2,669,347		4,541,572
Investments	-	2,491,019		2,491,019
Total restricted assets	<u>1,872,225</u>	<u>5,160,366</u>	<u>-</u>	<u>7,032,591</u>
Total current assets	<u>35,411,311</u>	<u>18,402,838</u>	<u>(169,000)</u>	<u>53,645,149</u>
Non-current assets:				
Investments	10,615,449	911,724		11,527,173
Capital assets net of accumulated depreciation of \$137,173,435 at June 30, 2016	83,080,156	57,301,929		140,382,085
Total non-current assets	<u>93,695,605</u>	<u>58,213,653</u>		<u>151,909,258</u>
Deferred outflows of resources	2,808,128	838,792		3,646,920
Total assets and deferred outflows of resources	<u>\$131,915,044</u>	<u>\$77,455,283</u>	<u>(\$169,000)</u>	<u>\$209,201,327</u>
Liabilities				
Current liabilities:				
Current portion of bonds, notes and loans payable	\$899,080	\$377,572		\$1,276,652
Accounts payable	353,493	260,719	(169,000)	445,212
Accrued liabilities	814,478	335,324		1,149,802
Unearned revenue	0	3,155,654		3,155,654
Total current liabilities	<u>2,067,051</u>	<u>4,129,269</u>	<u>(169,000)</u>	<u>6,027,320</u>
Non-current liabilities:				
Non-current portion of bonds, notes and loans payable	10,005,098	54,949,504		64,954,602
Net pension liability	16,581,787	4,953,002		21,534,789
Total non-current liabilities	<u>26,586,885</u>	<u>59,902,506</u>		<u>86,489,391</u>
Deferred inflows of resources				
Cost recovery	14,199,524	(12,968,389)		1,231,135
Pension related	786,187	234,835		1,021,022
Gain on refunding	-	823,712		823,712
Total deferred inflow of resources	<u>14,985,711</u>	<u>(11,909,842)</u>		<u>3,075,869</u>
Net position				
Net investment in capital assets	72,175,978	26,714,325		98,890,303
Restricted for cash, investments and unearned revenue	1,872,225	2,004,712		3,876,937
Unrestricted	14,227,194	(3,385,687)		10,841,507
Total net position	<u>88,275,397</u>	<u>25,333,350</u>	<u>-</u>	<u>113,608,747</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$131,915,044</u>	<u>\$77,455,283</u>	<u>(\$169,000)</u>	<u>\$209,201,327</u>

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

**Combining Schedule of Revenue, Expenses
and Changes in Net Position
Year Ended June 30, 2016**

	Raritan Basin System	Manasquan Reservoir System	Manasquan Water Treatment Plant	Combined Total
Operating revenues:				
Water sales	\$17,298,270	\$7,901,154		\$25,199,424
Reimbursement of operating expenses			2,642,400	2,642,400
Total operating revenues	<u>17,298,270</u>	<u>7,901,154</u>	<u>2,642,400</u>	<u>27,841,824</u>
Operating expenses:				
Payroll	5,502,296	810,584	912,146	7,225,026
Operations and maintenance (direct)	3,117,781	957,041	777,344	4,852,166
Operations and maintenance (general and administrative)		79,330	60,051	139,381
Fringe benefits	3,559,891	545,600	650,029	4,755,520
Headquarters overhead	(737,000)	640,000	97,000	-
Depreciation	2,758,921	1,682,571	-	4,441,492
Total operating expenses	<u>14,201,889</u>	<u>4,715,126</u>	<u>2,496,570</u>	<u>21,413,585</u>
Income from operations	<u>3,096,381</u>	<u>3,186,028</u>	<u>145,830</u>	<u>6,428,239</u>
Non-operating revenues:				
State of New Jersey - Grant Programs	62,375			62,375
Investment income	356,009	615,407	4,163	975,579
Rental income	58,467			58,467
Other income	86,696	3,048		89,744
Total non-operating revenues	<u>563,547</u>	<u>618,455</u>	<u>4,163</u>	<u>1,186,165</u>
Non-operating expenses:				
Interest component of debt service to the State of New Jersey	178,927	1,047,636		1,226,563
Bond discount/insurance premium expense		158,053		158,053
Recovery of deferred inflows of resources	(835,209)	1,401,999	149,993	716,783
Total non-operating expenses	<u>(656,282)</u>	<u>2,607,688</u>	<u>149,993</u>	<u>2,101,399</u>
Changes in net position	4,316,210	1,196,795	-	5,513,005
Net position, beginning of year	<u>83,959,187</u>	<u>24,136,555</u>		<u>108,095,742</u>
Net position, end of year	<u>\$88,275,397</u>	<u>\$25,333,350</u>	<u>-</u>	<u>\$113,608,747</u>

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Raritan Basin System

Year Ended June 30, 2016

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Cash and investments - July 1, 2015	\$289,108	\$1,187,370	\$30,000	\$972,749	\$3,693,572
Cash receipts:					
Water sales operations and maintenance	11,428,162	-	-	-	-
Water sales debt service	1,674,833	-	-	-	-
Water sales capital fund	2,180,665	-	-	-	-
Water sales source water protection fund	1,607,659	-	-	-	-
Water sales overdrafts	371,664	-	-	-	-
Rental income	36,180	-	-	-	-
Manasquan reservoir support	203,038	-	-	12,316	-
Headquarters overhead	-	-	-	746,000	-
Disposition of property	28,554	-	-	-	-
Recycling revenue	-	-	-	-	-
Sale of investment securities	-	-	-	-	857,582
Nonrefundable bid deposits	-	-	-	-	-
Insurance reimbursement	44,296	-	-	-	-
Miscellaneous expense reimbursement	192,862	8,899	-	-	-
Transfers:					
Contributions from operating fund	-	11,114,342	3,282,076	(21,659,098)	-
Contributions to operating fund	-	-	-	2,371,514	-
Transfers for operations	(17,749,913)	-	-	19,318,355	1,558
Transfers for investments	-	-	-	-	-
Distribution from reserves to operations	-	15,365	-	-	-
Investment income	-	-	-	2,073	82,877
Per resolution, Section 603:					
Investment income, transfer from	537,844	-	-	(2,073)	(82,877)
Investment income, transfer to	(60,398)	-	-	-	8,404
Unrealized gain/(loss) on fair value	-	-	-	-	(246,266)
Total cash receipts	495,446	11,138,606	3,282,076	789,087	621,278
Total available cash and investments	\$784,554	\$12,325,976	\$3,312,076	\$1,761,836	\$4,314,850

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

Operating Fund					
<u>Self-Insurance Reserve</u>	<u>Depreciation Reserve</u>	<u>Pumping Reserve</u>	<u>Capital Improvements II</u>	<u>Source Water Protection Fund</u>	<u>Subtotal</u>
\$1,009,445	\$3,437,514	\$926,772	\$6,677,330	\$2,889,273	\$21,113,133
-	-	-	-	-	11,428,162
-	-	-	-	-	1,674,833
-	-	-	-	-	2,180,665
-	-	-	-	-	1,607,659
-	-	-	-	-	371,664
-	-	-	-	-	36,180
-	-	-	-	-	215,354
-	-	-	-	-	746,000
-	-	-	-	-	28,554
-	-	-	-	-	-
-	442,213	-	-	-	1,299,795
-	-	-	-	-	-
-	-	-	-	-	44,296
-	-	-	-	-	201,761
-	608,252	150,000	-	558,000	(5,946,428)
-	(126,713)	-	-	(37,600)	2,207,201
-	-	-	-	-	1,570,000
-	-	-	-	-	-
-	-	-	-	-	15,365
37,213	106,483	1,868	312,549	6,065	549,128
(37,213)	(103,181)	-	(312,500)	-	-
-	51,994	-	-	-	-
(30,948)	(29,442)	-	(34,722)	-	(341,378)
(30,948)	949,606	151,868	(34,673)	526,465	17,888,811
\$978,497	\$4,387,120	\$1,078,640	\$6,642,657	\$3,415,738	\$39,001,944

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

	Subtotal	Parity SWP Bond Fund	Subordinated SWP Bond Fund	Major Rehabilitation	Capital Improvement Fund
Cash and investments - July 1, 2015	\$21,113,133	\$287,978	\$535,658	\$1,375,581	\$13,411,879
Cash receipts:					
Water sales operations and maintenance	11,428,162	-	-	-	-
Water sales debt service	1,674,833	-	-	-	-
Water sales capital fund	2,180,665	-	-	-	-
Water sales source water protection fund	1,607,659	-	-	-	-
Water sales overdrafts	371,664	-	-	-	-
Rental income	36,180	-	-	-	-
Manasquan reservoir support	215,354	-	-	-	-
Headquarters overhead	746,000	-	-	-	-
Disposition of property	28,554	-	-	-	-
Recycling revenue	-	-	-	-	-
Sale of investment securities	1,299,795	-	-	-	-
Nonrefundable bid deposits	-	-	-	-	-
Insurance reimbursement	44,296	-	-	-	-
Miscellaneous expense reimbursement	201,761	-	-	-	-
Transfers:					
Contributions from operating fund	(5,946,428)	354,000	690,000	-	2,202,290
Contributions to operating fund	2,207,201	-	-	-	(1,574,652)
Transfers for operations	1,570,000	-	-	-	-
Transfers for investments	-	-	-	-	-
Distribution from reserves to operations	15,365	-	-	-	-
Investment income	549,128	225	506	2,615	26,201
Per resolution, Section 603:					
Investment income, transfer from	-	-	-	-	-
Investment income, transfer to	-	-	-	-	-
Unrealized gain/(loss) on fair value	(341,378)	-	-	-	-
Total cash receipts	17,888,811	354,225	690,506	2,615	653,839
Total available cash and investments	\$39,001,944	\$642,203	\$1,226,164	\$1,378,196	\$14,065,718

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

D & R Mitigation Fund	D & R Canal Dredging	Capital Equipment Reserve	Rate Stabilization Fund	Employment Benefit Funds	Totals
\$20,121	\$1,751,704	\$150,052	\$85,886	\$1,053,188	\$39,785,180
-	-	-	-	-	11,428,162
-	-	-	-	-	1,674,833
-	-	-	-	-	2,180,665
-	-	-	-	-	1,607,659
-	-	-	-	-	371,664
-	-	-	-	-	36,180
-	-	-	-	-	215,354
-	-	-	-	-	746,000
-	-	-	-	-	28,554
-	-	-	-	-	-
-	-	-	-	-	1,299,795
-	-	-	-	-	-
-	-	-	-	-	44,296
-	-	-	-	-	201,761
-	1,668,200	150,000	-	881,938	-
-	-	-	-	(632,549)	-
-	(1,570,000)	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(15,365)	-
36	2,163	335	70	2,132	583,411
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(341,378)
36	100,363	150,335	70	236,156	20,076,956
\$20,157	\$1,852,067	\$300,387	\$85,956	\$1,289,344	\$59,862,136

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Total available cash and investments	\$784,554	\$12,325,976	\$3,312,076	\$1,761,836	\$4,314,850
Cash disbursements:					
Payroll	-	-	3,149,305	-	-
Fringe benefits	-	36,698	-	775,616	-
Employee deferred comp. and credit union	-	1,463,065	-	170,157	-
Operations and maintenance	-	8,634,057	-	-	-
Prepaid insurance	-	-	-	-	-
Miscellaneous disbursements	-	-	-	-	-
Watershed Management Fund	-	-	-	-	-
Capital improvements:					
Capital assets	-	-	-	-	-
New five-year construction project	-	-	-	-	-
Purchase of investment securities	-	-	-	-	713,618
Principal on 1981 bonds	-	-	-	-	-
Interest on 1981 bonds	-	-	-	-	-
Principal on 1998 bonds	-	-	-	-	-
Interest on 1998 revenue bonds	-	-	-	-	-
Principal on NJEIT revenue bonds	-	-	-	-	-
Interest on NJEIT revenue bonds	-	-	-	-	-
Total cash disbursements	-	10,133,820	3,149,305	945,773	713,618
Cash and investments - June 30, 2015	\$784,554	\$2,192,156	\$162,771	\$816,063	\$3,601,232
Summary of cash and investments:					
Cash	\$784,554	\$2,192,156	\$162,771	-	-
Short-term investments	-	-	-	816,063	2,176,177
Long-term investments	-	-	-	-	1,425,055
Restricted investments (current)	-	-	-	-	-
Restricted investments (long term)	-	-	-	-	-
Total cash and investments	\$784,554	\$2,192,156	\$162,771	\$816,063	\$3,601,232

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

Operating Fund						
Self-Insurance Reserve	Depreciation Reserve	Pumping Reserve	Capital Improvements Investments II	Source Water Protection Fund	Subtotal	
\$978,497	\$4,387,120	\$1,078,640	\$6,642,657	\$3,415,738	\$39,001,944	
-	-	-	-	-	3,149,305	
-	-	-	-	-	812,314	
-	-	-	-	-	1,633,222	
-	-	-	-	-	8,634,057	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	456,674	-	-	-	1,170,292	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	456,674	-	-	-	15,399,190	
\$978,497	\$3,930,446	\$1,078,640	\$6,642,657	\$3,415,738	\$23,602,754	
-	-	-	-	-	\$3,139,481	
296,679	1,989,979	1,078,640	74,548	3,415,738	9,847,824	
681,818	1,940,467	-	6,568,109	-	10,615,449	
-	-	-	-	-	-	
-	-	-	-	-	-	
\$978,497	\$3,930,446	\$1,078,640	6,642,657	\$3,415,738	\$23,602,754	

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

	Subtotal	Parity SWP Bond Fund	Subordinated SWP Bond Fund	Major Rehabilitation	Capital Improvement Fund
Total available cash and investments	\$39,001,944	\$642,203	\$1,226,164	\$1,378,196	\$14,065,718
Cash disbursements:					
Payroll	3,149,305	-	-	-	-
Fringe benefits	812,314	-	-	-	-
Employee deferred comp. and credit union	1,633,222	-	-	-	-
Operations and maintenance	8,634,057	-	-	-	-
Prepaid insurance	-	-	-	-	-
Miscellaneous disbursements	-	-	-	-	796,833
Watershed Management Fund	-	-	-	-	-
Capital improvements:					
Capital assets	-	-	-	-	-
New five-year construction project	-	-	-	-	-
Purchase of investment securities	1,170,292	-	-	-	-
Principal on 1981 bonds	-	-	-	-	-
Interest on 1981 bonds	-	-	-	-	-
Principal on 1998 bonds	-	-	-	-	-
Interest on 1998 revenue bonds	-	-	-	-	-
Principal on NJEIT revenue bonds	-	308,820	536,488	-	-
Interest on NJEIT revenue bonds	-	39,552	150,984	-	-
Total cash disbursements	15,399,190	348,372	687,472	-	796,833
Cash and investments - June 30, 2015	\$23,602,754	\$293,831	\$538,692	\$1,378,196	\$13,268,885
Summary of cash and investments:					
Cash	\$3,139,481	-	-	-	-
Short-term investments	9,847,824	293,831	538,692	1,378,196	13,268,885
Long-term investments	10,615,449	-	-	-	-
Restricted investments (current)	-	-	-	-	-
Restricted investments (long term)	-	-	-	-	-
Total cash and investments	\$23,602,754	\$293,831	\$538,692	\$1,378,196	\$13,268,885

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Raritan Basin System (continued)

Year Ended June 30, 2016

D & R Mitigation Fund	D & R Canal Dredging	Capital Equipment Reserve	Rate Stabilization Fund	Employment Benefits Fund	Totals
\$20,157	\$1,852,067	\$300,387	\$85,956	\$1,289,344	\$59,862,136
-	-	-	-	-	3,149,305
-	-	-	-	-	812,314
-	-	-	-	-	1,633,222
-	-	-	-	-	8,634,057
-	-	-	-	-	-
-	-	-	-	42,946	839,779
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,170,292
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	845,308
-	-	-	-	-	190,536
-	-	-	-	42,946	17,274,813
\$20,157	\$1,852,067	\$300,387	\$85,956	\$1,246,398	\$42,587,323
-	-	-	-	\$43,992	\$3,183,473
20,157	1,852,067	300,387	85,956	1,202,406	28,788,401
-	-	-	-	-	10,615,449
-	-	-	-	-	-
-	-	-	-	-	-
\$20,157	\$1,852,067	\$300,387	\$85,956	\$1,246,398	\$42,587,323

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Manasquan Water Supply System

Year Ended June 30, 2016

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Cash and investments - July 1, 2015	\$171,096	\$312,936	\$20,000	\$3,610,830	\$1,653,051
Cash receipts:					
Water sales operations and maintenance	2,641,994	-	-	-	-
Water sales debt service	4,633,182	-	-	-	-
Source water protection	77,824	-	-	-	-
Water sales debt service NJEIT	172,147	-	-	-	-
Water sales overdrafts	160,609	-	-	-	-
NJ-American pumping costs	180,209	-	-	-	-
Headquarters overhead	-	-	-	-	-
Reimbursement of WTP capital expenses	-	-	-	-	-
Disposition of assets	1,980	-	-	-	-
Reimbursement from Raritan System	101,121	-	-	-	-
Sale of investment securities	-	-	-	-	-
Nonrefundable bid deposits	-	-	-	-	-
Miscellaneous reimbursement	91,529	-	-	1,096,500	-
Transfers:					
Contributions from operating fund	-	4,526,369	1,067,304	(9,651,645)	-
Contributions to operating fund	-	371	-	2,831,243	-
Transfers for operations	(8,237,615)	-	-	8,237,615	-
Distribution from reserves to operations	(27,310)	196,104	-	27,310	-
Investment income	-	-	-	7,264	23,326
Per resolution, Section 603:					
Investment income, transfer from	60,368	-	-	(7,264)	(23,326)
Investment income, transfer to	(15,985)	-	-	7,773	-
Unrealized (loss)gain on fair value	-	-	-	-	(18,502)
Total cash receipts	(159,947)	4,722,844	1,067,304	2,548,796	(18,502)
Total cash and investments	\$11,149	\$5,035,780	\$1,087,304	\$6,159,626	\$1,634,549

New Jersey Water Supply Authority
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Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

Self- Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
\$242,339	\$2,300,477	\$30,069	\$1,570,510	\$390,690	\$160,392	\$136,797	\$10,599,187
-	-	-	-	-	-	-	2,641,994
-	-	-	-	-	-	-	4,633,182
-	-	-	-	-	-	-	77,824
-	-	-	-	-	-	-	172,147
-	-	-	-	-	-	-	160,609
-	-	-	-	-	-	-	180,209
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,980
-	-	-	-	-	-	-	101,121
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,188,029
-	120,000	-	81,512	226,175	-	29,500	(3,600,785)
-	(844,344)	-	(74,080)	(72,004)	-	-	1,841,186
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	196,104
11,067	4,038	54	2,828	16,508	2,042	171	67,298
(11,067)	-	-	-	(16,425)	(2,042)	(171)	73
-	-	-	-	8,212	-	-	-
(9,707)	-	-	-	(13,337)	(1,549)	-	(43,095)
(9,707)	(720,306)	54	10,260	149,129	(1,549)	29,500	7,617,876
\$232,632	\$1,580,171	\$30,123	\$1,580,770	\$539,819	\$158,843	\$166,297	\$18,217,063

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

	<u>Water Treatment Plant/Transmission System</u>							NJIT Debt Service Fund
	Subtotal	Operating Account	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self- Insurance Reserve	Capital Improvement Reserve	
Cash and investments - July 1, 2015	\$10,599,187	\$185,236	\$1,011,428	\$9,488	\$98,444	\$253,205	\$1,169,619	\$349,508
Cash receipts:								
Water sales operations and maintenance	2,641,994	-	-	-	-	-	-	-
Water sales debt service	4,633,182	-	-	-	-	-	-	-
Source water protection	77,824	-	-	-	-	-	-	-
Water sales debt service NJEIT	172,147	-	-	-	-	-	-	-
Water sales overdrafts	160,609	-	-	-	-	-	-	-
NJ-American pumping costs	180,209	-	-	-	-	-	-	-
Headquarters overhead	-	-	2,642,400	-	-	-	-	-
Reimbursement of WTP capital expenses	-	-	-	-	-	-	-	-
Disposition of assets	1,980	-	-	-	-	-	-	-
Reimbursement from Raritan System	101,121	-	-	-	-	-	-	-
Sale of investment securities	-	-	-	-	-	-	-	-
Nonrefundable bid deposits	-	-	-	-	-	-	-	-
Miscellaneous reimbursement	1,188,029	-	53,107	-	-	-	34,410	-
Transfers:								
Contributions from operating fund	(3,600,785)	950,000	(945,986)	-	-	-	(10,180)	(21,880)
Contributions to operating fund	1,841,186	-	(1,458,779)	-	(83)	(347)	(266,977)	-
Transfers for operations	-	-	-	-	-	-	-	-
Distribution from reserves to operations	196,104	-	-	-	-	-	-	-
Investment income	67,298	-	1,750	17	96	401	1,900	493
Per resolution, Section 603:								
Investment income, transfer from	73	-	15	(15)	-	-	-	-
Investment income, transfer to	-	-	-	-	-	-	-	-
Unrealized (loss)gain on fair value	(43,095)	-	-	-	-	-	-	-
Total cash receipts	<u>7,617,876</u>	<u>950,000</u>	<u>292,507</u>	<u>2</u>	<u>13</u>	<u>54</u>	<u>(240,847)</u>	<u>(21,387)</u>
Total cash and investments	<u>\$18,217,063</u>	<u>\$1,135,236</u>	<u>\$1,303,935</u>	<u>\$9,490</u>	<u>\$98,457</u>	<u>\$253,259</u>	<u>\$928,772</u>	<u>\$328,121</u>

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

2005 Debt Service Account	2005 Debt Service Reserve	2006 Debt Service Account	2006 Debt Service Reserve	2016 Costs of Issuance	2016 Bonds Escrow	2016 Debt Service Account	2016 Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
\$3,709,558	\$3,606,827	\$14,247	\$10,186	-	-	-	-	\$150,088	\$41,198	\$345,414	\$21,553,633
-	-	-	-	-	-	-	-	-	-	-	2,641,994
-	-	-	-	-	-	-	-	-	-	-	4,633,182
-	-	-	-	-	-	-	-	-	-	-	77,824
-	-	-	-	-	-	-	-	-	-	-	172,147
-	-	-	-	-	-	-	-	-	-	-	160,609
-	-	-	-	-	-	-	-	-	-	-	180,209
-	-	-	-	-	-	-	-	-	-	-	2,642,400
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	1,980
-	-	-	-	-	-	-	-	-	-	-	101,121
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	19,039,626	-	-	-	-	-	20,315,172
461,945	(4,034,058)	(6,700)	(10,187)	180,533	4,631,416	49,838	1,711,765	385,000	-	259,279	-
-	(115,000)	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	(196,104)	-
247	542,231	1	1	-	3,736	-	-	197	72	671	619,111
-	-	-	-	-	-	-	-	-	(73)	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	(43,095)
462,192	(3,606,827)	(6,699)	(10,186)	180,533	23,674,778	49,838	1,711,765	385,197	(1)	63,846	31,502,654
\$4,171,750	-	\$7,548	-	180,533	23,674,778	49,838	1,711,765	\$535,285	\$41,197	\$409,260	\$53,056,287

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

	Operating Fund				
	Revenue Fund	Operating Account	Payroll Account	Operating Fund	Reserve for O&M
Total available cash and investments	\$11,149	\$5,035,780	\$1,087,304	\$6,159,626	\$1,634,549
Cash disbursements:					
Payroll	-	-	1,025,459	-	-
Fringe benefits	-	1,796,952	-	(1,557,629)	-
Employee deferred comp. and credit union	-	224,584	-	223,804	-
Operations and maintenance	-	2,564,747	-	1,702,838	-
NJ-American pumping costs	-	-	-	-	-
Prepaid insurance	-	-	-	-	-
Headquarters overhead	-	-	-	649,000	-
Capital assets reservoir	-	-	-	-	-
Capital improvement program (reservoir)	-	-	-	-	-
Purchase of investment securities	-	-	-	-	-
Principal on bonds	-	-	-	-	-
Interest on bonds	-	-	-	-	-
Total cash disbursements	-	4,586,283	1,025,459	1,018,013	-
Cash and investments - June 30, 2016	\$11,149	\$449,497	\$61,845	\$5,141,613	\$1,634,549
Summary of cash and investments:					
Cash (Manasquan)	\$11,149	\$449,497	\$61,845	-	-
Cash (Water Treatment Plant/TS)	-	-	-	-	-
Short-term investments	-	-	-	5,141,613	1,244,939
Short-term investments (WTP/TS)	-	-	-	-	-
Long-term investments	-	-	-	-	389,610
Restricted investments (current)	-	-	-	-	-
Restricted investments (long-term)	-	-	-	-	-
Total cash and investments	\$11,149	\$449,497	\$61,845	\$5,141,613	\$1,634,549

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

Self- Insurance Reserve	Renewal and Replacement Account	Water Reuse & Recycling	Source Water Protection	Depreciation Reserve	Pumping Reserve	Sediment Reserve	Subtotal
\$232,632	\$1,580,171	\$30,123	\$1,580,770	\$539,819	\$158,843	\$166,297	\$18,217,063
-	-	-	-	-	-	-	1,025,459
-	-	-	-	-	-	-	239,323
-	-	-	-	-	-	-	448,388
-	-	-	81,267	-	-	-	4,348,852
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	649,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	81,267	-	-	-	6,711,022
\$232,632	\$1,580,171	\$30,123	\$1,499,503	\$539,819	\$158,843	\$166,297	\$11,506,041
-	-	-	-	-	-	-	\$522,491
-	-	-	-	-	-	-	-
37,686	1,580,171	30,123	1,499,503	246,842	124,652	166,297	10,071,826
-	-	-	-	-	-	-	-
194,946	-	-	-	292,977	34,191	-	911,724
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$232,632	\$1,580,171	\$30,123	\$1,499,503	\$539,819	\$158,843	\$166,297	\$11,506,041

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

	Water Treatment Plant/Transmission System							NJFIT Debt Service
	Subtotal	Operating Account	Operating Fund	Residuals Reserve	Carbon Filter Reserve	Self- Insurance Reserve	Capital Improvement Reserve	
Total available cash and investments	\$18,217,063	\$1,135,236	\$1,303,935	\$9,490	\$98,457	\$253,259	\$928,772	\$328,121
Cash disbursements:								
Payroll	1,025,459	-	-	-	-	-	-	-
Fringe benefits	239,323	-	-	-	-	-	-	-
Employee deferred comp. and credit union	448,388	-	-	-	-	-	-	-
Operations and maintenance	4,348,852	962,802	-	-	-	-	-	-
NJ-American pumping costs	-	-	-	-	-	-	-	-
Prepaid insurance	-	-	-	-	-	-	-	-
Headquarters overhead	649,000	-	97,000	-	-	-	-	-
Capital assets reservoir	-	-	-	-	-	-	-	-
Capital improvement program (reservoir)	-	-	-	-	-	-	-	-
Purchase of investment securities	-	-	-	-	-	-	-	-
Principal on bonds	-	-	-	-	-	-	-	142,572
Interest on bonds	-	-	-	-	-	-	-	38,698
Total cash disbursements	6,711,022	962,802	97,000	-	-	-	-	181,270
Cash and investments - June 30, 2016	\$11,506,041	\$172,434	\$1,206,935	\$9,490	\$98,457	\$253,259	\$928,772	\$146,851
Summary of cash and investments:								
Cash (Manasquan)	\$522,491	-	-	-	-	-	-	-
Cash (Water Treatment Plant/TS)	-	172,434	-	-	-	-	-	-
Short-term investments	10,071,826	-	-	-	-	-	-	-
Short-term investments (WTP/TS)	-	-	1,206,935	9,490	98,457	253,259	928,772	-
Long-term investments	911,724	-	-	-	-	-	-	-
Restricted investments (current)	-	-	-	-	-	-	-	146,851
Restricted investments (long-term)	-	-	-	-	-	-	-	-
Total cash and investments	\$11,506,041	\$172,434	\$1,206,935	\$9,490	\$98,457	\$253,259	\$928,772	\$146,851

New Jersey Water Supply Authority
A Component Unit of the State of New Jersey

Schedule of Changes in Cash and Investments

Manasquan Water Supply System (continued)

Year Ended June 30, 2016

2005 Debt Service Account	2005 Debt Service Reserve	Debt Service Account	Debt Service Reserve	2016 Costs of Issuance	2016 Bonds Escrow	2016 Debt Service Account	2016 Debt Service Reserve	Rebate Fund	General Reserve Fund	Employment Benefit Funds	Totals
\$4,171,750	-	\$7,548	-	\$180,533	\$23,674,778	\$49,838	\$1,711,765	\$535,285	\$41,197	\$409,260	\$53,056,287
-	-	-	-	-	-	-	-	-	-	-	1,025,459
-	-	-	-	-	-	-	-	-	-	-	239,323
-	-	-	-	-	-	-	-	-	-	-	448,388
-	-	-	-	133,253	-	-	-	-	-	-	5,444,907
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	746,000
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
2,940,000	-	2,853	-	-	23,674,778	-	-	-	-	-	26,760,203
1,231,750	-	4,695	-	-	-	-	-	-	-	-	1,275,143
4,171,750	-	7,548	-	133,253	23,674,778	-	-	-	-	-	35,939,423
-	-	-	-	\$47,280	-	\$49,838	\$1,711,765	\$535,285	\$41,197	\$409,260	\$17,116,864
-	-	-	-	-	-	-	-	-	-	-	\$522,491
-	-	-	-	-	-	-	-	-	-	-	172,434
-	-	-	-	-	-	-	-	-	41,197	409,260	10,522,283
-	-	-	-	-	-	-	-	-	-	-	2,496,913
-	-	-	-	-	-	-	-	-	-	-	911,724
-	-	-	-	47,280	-	49,838	1,711,765	535,285	-	-	2,491,019
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	47,280	-	49,838	1,711,765	\$535,285	\$41,197	\$409,260	\$17,116,864



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

Board of Commissioners
New Jersey Water Supply Authority
Clinton, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the New Jersey Water Supply Authority (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 3, 2016.

Internal Control Over Financial Reporting

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

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


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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
October 3, 2016