THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2016 AND 2015

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
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FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

ROSTER OF OFFICIALS

Commissioners	Position
Joseph Scavuzzo	President
Patrick Brennan	Vice President
George Piperno	Secretary
G. Burton German, Jr.	Treasurer
Ronald Johnson	Assistant Secretary and Treasurer

Officers	
Michael A. Saraceni	Chief Operating Officer
Craig Campbell	Superintendent
Richard Spafford, PE	Engineer
Karl N. McConnell, Esquire	General Counsel

Consultants	
Remington and Vernick Engineers, Inc.	Engineer
Consulting Engineer Services, Inc.	Engineer
RWD Consultants LLC	Engineer
T&M Associates, Inc.	Engineer

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

PART I

FINANCIAL SECTION

REPORT OF AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2016 AND 2015

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Commissioners of
The Merchantville-Pennsauken Water Commission
Pennsauken, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Merchantville-Pennsauken Water Commission, in the County of Camden, State of New Jersey, a component unit of the Township of Pennsauken (Commission) as of and for the years ending December 31, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Commission'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.

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The Commissioners of
The Merchantville-Pennsauken Water Commission

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 Merchantville-Pennsauken Water Commission, in the County of Camden, State of New Jersey as of December 31, 2016 and 2015 and its changes in its financial position and its cash flows thereof for the years 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, schedule of the Commission's proportionate share of the net pension liability, schedule of the Commission's contributions and funding progress for the OPEB plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements.

The accompanying supplementary schedules, as listed in the table of contents, are the responsibility of management and were derived from and relate 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 supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Commissioners of
The Merchantville-Pennsauken Water Commission

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2017 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control over financial reporting and compliance.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
September 14, 2017

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

INDEPENDENT AUDITOR'S REPORT

The Commissioners of
The Merchantville-Pennsauken Water Commission
Pennsauken, 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, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey the financial statements of the business-type activities of the Merchantville-Pennsauken Water Commission, in the County of Camden, State of New Jersey, a component unit of the Township of Pennsauken (Commission), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 14, 2017.

Internal Control Over Financial Reporting

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

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The Commissioners of
The Merchantville-Pennsauken Water Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Merchantville-Pennsauken Water Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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 that are required to be reported under Government Auditing Standards or audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
September 14, 2017

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMEBER 31, 2016 AND 2015

The Merchantville-Pennsauken Water Commission was created under the provisions of Title 40 Chapter 62 of the Laws of New Jersey, as a public agency to acquire, construct, maintain, operate or improve works for the collection, treatment, or purification of water for the Borough of Merchantville and the Township of Pennsauken. The Commission also provides these services to certain sections of the Township of Cherry Hill and the City of Camden. This section of the Commission's annual financial report provides a discussion and analysis of the financial performance for the years ended December 31, 2016 and 2015. The entire annual financial report consists of five parts; Independent Auditor's Reports, management's discussion and analysis, the basic financial statements, required supplementary information and supplementary schedules.

FINANCIAL HIGHLIGHTS

- **Water Consumption Rates** – Water consumption rates were increased in 2016 to assist the Commission in meeting increasing cost for capital improvements and debt service requirements.

- **Total Assets** - Total assets as of December 31, 2016 were $34,881,462 After adding deferred outflows of $2,640,700 and deducting liabilities of $21,532,959, net position equals $15,989,203

- **Total Operating Revenues** – Operating revenues for the year ended December 31, 2016 totaling $10,077,441 were up from last year's ending amount of $9,113,841.

- **Net Non-Operating Revenues (Expenses)** - Non-operating revenues net of non-operating expenses for the year ended December 31, 2016 totaling $585,485 were up $262,495 from last year primarily due to a one-time settlement payment relating to litigation with a water tank contractor.

- **Total Operating Expenses** – Operating expenses, before depreciation, for the year ended December 31, 2016 totaling $8,272,841 were 4.9% greater than last year's amount of $7,880,647 primarily due to the increase in employee benefits relating to the accruals for net pension liability and and GASB 68.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The comparative statements of net position includes all of the Commission's assets and liabilities. As the Commission follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the comparative statements of revenues, expenses and changes in net position regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONT'D)

Net Position – the difference between the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is a measure of the Commission's financial health or position.

The comparative statements of revenues, expenses and changes in net position provides a breakdown of the various areas of revenues and expenses encountered during the current year.

The comparative statements of cash flows provides a breakdown of the various sources of cash flow, categorized into four areas: Cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

A summary of the Commission's significant accounting policies is described in the "Notes to the Financial Statements" which is included in the audit described above.

FINANCIAL ANALYSIS OF THE COMMISSION

The Commission's total net position was $15,989,203 on December 31, 2016. Total assets, deferred outflows of resources, total liabilities and total net position are detailed on the following page.

A significant portion of the Commission's net position represents its investment in capital assets (i.e. water lines, wells, treatment plants, buildings, improvements and equipment); less the related debt outstanding used to acquire those capital assets. Although the Commission's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities.

The remaining portion of the Commission's net position is a deficit in unrestricted net position. The deficit is a result of the Commission's implementation of GASB 68 and 71.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL ANALYSIS OF THE COMMISSION (CONT'D)

Comparative Statements of Net Position
As of December 31, 2016, 2015 and 2014

	2016	2015	2014 (Restated)
Assets			
Current Assets	$ 7,569,965	$ 6,553,169	$ 6,887,063
Restricted Current Assets	-	-	25,005
Capital Assets	27,311,497	27,621,575	28,053,524
Total Assets	34,881,462	34,174,744	34,965,592
Deferred Outflows of Resources			
Related to Pensions	2,640,700	1,204,566	560,178
Liabilities			
Current Liabilities	1,735,474	2,215,980	2,893,502
Long-Term Liabilities	19,797,485	17,392,649	16,132,792
Total Liabilities	21,532,959	19,608,629	19,026,294
Deferred Inflows of Resources			
Related to Pensions	-	96,954	295,383
Net Position:			
Net Investment in Capital Assets	21,339,968	20,489,058	19,480,435
Unrestricted	(5,350,765)	(4,815,331)	(3,276,342)
Total Net Position	$ 15,989,203	$ 15,673,727	$ 16,204,093

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL ANALYSIS OF THE COMMISSION (CONT'D)

Comparative Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016, 2015 and 2014

	2016	2015	2014 (Restated)
Operating Revenues:			
Service Charges	$ 9,902,941	$ 8,920,692	$ 8,476,479
Other Operating Revenue	174,500	193,149	217,506
Total Operating Revenues	10,077,441	9,113,841	8,693,985
Operating Expenses:			
Administration	2,906,654	2,784,001	2,483,353
Cost of Providing Service	5,366,187	5,096,646	5,082,251
Depreciation	2,074,609	2,086,550	1,988,641
Total Operating Expenses	10,347,450	9,967,197	9,554,245
Net Non-Operating Revenues (Expenses)	585,485	322,990	599,588
Change in Net Position	315,476	(530,366)	(260,672)
Net Position -- Jan. 1	15,673,727	16,204,093	16,464,765
Net Position -- Dec. 31	$ 15,989,203	$ 15,673,727	$ 16,204,093

OVERALL ANALYSIS

Overall, the Commission is in a sound financial position in part due to its longevity (established in 1926) and the fact that its infrastructure was constructed and renewed over an extended period of time with 10 separate bond issues dated from June 1926 to December 1964. The Commission's rate structure, while competitive in comparison to area water purveyors, has traditionally been established to provide for operating costs, debt service requirements and the provision for future capital needs. This approach to setting rates in combination with a manageable debt service history leaves the Commission in a sound financial position.

BUDGET VARIANCES

The Commissioners have historically taken a conservative approach in preparing the budget due to the uncertainty in anticipating certain expenses such as repair and maintenance requirements that can create material deviations in the cost of operations from year to year. Actual operating and non-operating expenses and debt service costs, excluding the actuarially determined accrual for long-term post-retirement benefit costs, were $8,062,450. The expenditures were $763,716 less than were budgeted. Actual total operating and non-operating revenues of $10,778,231 were $979,341 greater than the $9,798,890 budgeted.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During 2016, the Commission expended $1,764,531 for capital activities.

The proposed five-year Capital Program included in the Commission's 2017 budget totals $12,592,000. This five-year plan, in addition to the Commission's normal ongoing system renewals, contains certain major projects which are contingent upon the approval of the New Jersey Department of Environmental Protection Agency (NJDEP). Major line items making up a portion of the Capital Budget are:

1. Tank Improvements
2. Main Replacements
3. Meter Replacements
4. Plant Improvements

CONTACTING THE COMMISSION'S MANAGEMENT

This financial report is designed to provide Merchantville and Pennsauken residents, investors, customers and creditors, with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Chief Operating Officer, Merchantville-Pennsauken Water Commission, 6751 Westfield Avenue, Pennsauken, NJ 08110 or by phone at 856-663-0043.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,677,566	$ 2,213,709
Investments	1,503,170	1,493,304
Customer Accounts Receivable	2,129,850	1,620,584
Deposits, Prepaids and Other Receivables	54,516	54,369
Unbilled Revenue	1,093,000	1,060,000
Materials and Supplies Inventory	110,269	110,534
Accrued Interest Receivable	1,594	669
Total Current Assets	7,569,965	6,553,169
Capital Assets:		
Utility Plant and Equipment	60,344,893	58,580,362
Accumulated Depreciation and Amortization	33,033,396	30,958,787
Total Capital Assets	27,311,497	27,621,575
Total Assets	34,881,462	34,174,744
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	2,640,700	1,204,566

(Continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
LIABILITIES		
Current Liabilities:		
N.J.D.E.P. Loans Payable - Due Within One Year	$ 506,389	$ 481,506
Bond Anticipation Note	-	580,000
City of Camden Water Allocation - Due Within One Year	154,097	159,632
Accounts Payable	548,060	574,382
Accounts Payable Related to Pension	245,541	230,941
Customer Prepayments	65,465	67,510
Construction Contracts Payable	82,659	-
Accrued Wages	45,065	31,530
Accrued Interest	44,367	48,431
Pension Withholdings Payable	22,991	21,216
Escrow Deposits	20,840	20,832
Total Current Liabilities	1,735,474	2,215,980
Noncurrent Liabilities		
N.J.D.E.P. Loans Payable	4,739,643	5,268,539
City of Camden Water Allocation	488,741	642,840
Net Pension Liability	8,185,881	6,030,212
Accrued Liabilities - Related to Pension	122,771	115,475
Post Employment Benefits Obligation Other than Pension	6,260,449	5,335,583
Total Noncurrent Liabilities	19,797,485	17,392,649
Total Liabilities	21,532,959	19,608,629
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	-	96,954
NET POSITION		
Net Investment in Capital Assets	21,339,968	20,489,058
Unrestricted (Deficit)	(5,350,765)	(4,815,331)
Total Net Position	$ 15,989,203	$ 15,673,727

See the accompanying Notes to Financial Statements.

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating Revenues:		
Metered Sales to General Public	$ 8,675,725	$ 7,752,886
Private Fire Protection	1,134,591	1,083,893
Public Fire Protection	92,625	83,913
Late Charges	106,130	109,773
Tapping Fees	6,121	3,079
Miscellaneous Income	62,249	80,297
Total Operating Revenues	10,077,441	9,113,841
Operating Expenses:		
Administration:		
Salaries and Wages	843,670	784,898
Employee Benefits	1,193,772	907,128
Other Expenses	869,212	1,091,975
Cost of Providing Service:		
Salaries and Wages	1,530,624	1,496,521
Employee Benefits	2,165,795	1,729,569
Other Expenses	1,669,768	1,870,556
Depreciation and Amortization	2,074,609	2,086,550
Total Operating Expenses	10,347,450	9,967,197
Operating Loss	(270,009)	(853,356)
Non-Operating Revenues (Expenses):		
Investment Income	49,463	25,957
Interest on Debt	(115,305)	(134,303)
Tower Rentals	417,466	357,435
Connection and Developers' Fees	28,861	73,901
Legal Settlement Payment	205,000	-
Total Non-Operating Revenues (Expenses)	585,485	322,990
Change in Net Position	315,476	(530,366)
Net Position, Beginning of Year	15,673,727	16,204,093
Net Position, End of Year	$ 15,989,203	$ 15,673,727

See the accompanying Notes to Financial Statements

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Receipts From Customers	$ 9,047,147	$ 8,576,765
Other Operating Receipts	485,836	440,811
Payments to Suppliers	(2,565,037)	(2,839,830)
Payments and Benefits to Employees	(4,149,208)	(3,822,732)
Net Cash Provided by Operating Activities	2,818,738	2,355,014
Cash Flows from Non-Capital Financing Activities		
Tower Rentals	417,466	357,435
Connection and Developers' Fees	28,869	73,909
Legal Settlement Payment	205,000	-
Net Cash Flows Provided by Non-Capital Financing Activities	651,335	431,344
Cash Flows From Capital and Related Financing Activities:		
Additions to Capital Assets	(1,681,872)	(1,654,601)
N.J.D.E.P. Loan Proceeds	-	25,005
Principal Payments on Bond Anticipation Note	(580,000)	(800,000)
Principal Payments on N.J.D.E.P. Loans	(490,029)	(486,796)
Principal Payments on City of Camden Water Allocation	(159,634)	(165,014)
Interest Payments on N.J.D.E.P. Loans	(116,234)	(125,784)
Interest Payments on City of Camden Water Allocation	(5,206)	(11,697)
Interest Payments on Bond Anticipation Note	(11,913)	(14,568)
Net Cash Used In Capital and Related Financing Activities	(3,044,888)	(3,233,455)
Cash Flows From Investing Activities:		
Net Purchase of Investments	(9,866)	(6,983)
Investment Income	48,538	25,852
Net Cash Provided by Investing Activities	38,672	18,869
Net Increase (Decrease) in Cash and Cash Equivalents	463,857	(428,228)
Cash and Cash Equivalents, January 1	2,213,709	2,641,937
Cash and Cash Equivalents, December 31	$ 2,677,566	$ 2,213,709

(Continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Reconciliation of Operating Loss to		
Net Cash Provided by Operating Activities:		
Operating Loss	$ (270,009)	$ (853,356)
Adjustments to Reconcile Operating Loss To		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,074,609	2,086,550
(Increase) Decrease in Customer Accounts Receivable	(509,266)	73,179
Increase in Other Accounts Receivable	(147)	(1,996)
Increase in Unbilled Revenue	(33,000)	(165,000)
Increase in Materials and Supplies Inventory	265	6,571
Increase (Decrease) in Accounts Payable	(26,322)	116,130
Increase in Accounts Payable Related to Pension	14,600	12,587
Decrease in Customer Prepayments	(2,045)	(2,448)
Increase (Decrease) in Accrued Wages	13,535	5,221
Increase (Decrease) in Pension Withholdings Payable	1,775	(2,883)
Increase in Deferred Inflows of Resources Related to Pensions	(1,436,134)	(644,388)
Increase (Decrease) in Deferred Outflows of Resources Related to Pensions	(96,954)	(198,429)
Increase in Net Pension Liability	2,155,669	1,073,665
Increase in Accrued Liabilities - Related to Pension	7,296	-
Increase in Post Employment Benefits Obligation	924,866	849,611
	$ 2,818,738	$ 2,355,014

See the accompanying Notes to Financial Statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Merchantville-Pennsauken Water Commission (the Commission) have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Reporting Entity

The Merchantville-Pennsauken Water Commission was established in 1926 pursuant to the provisions of Title 40, Chapter 62 of the Laws of New Jersey and is co-owned by the Borough of Merchantville and Pennsauken Township. The Laws authorized the Municipalities through the agency of a water commission to acquire, construct, maintain, operate or improve works for the collection, treatment, or purification of water.

The Commission's service area goes beyond Merchantville and Pennsauken, supplying water to areas in Cherry Hill Township and Camden City, as well.

The Commission consists of five members who are appointed by resolution of the Borough of Merchantville and Pennsauken Township. The daily operations of the Commission are managed by the Chief Operating Officer.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by the GASB Statement No. 39*, Determining Whether Certain Organization are Component Units*, and GASB Statement No. 61*, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significant influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to be the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Commission has no component units and is a component unit of the Township of Pennsauken.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Commission is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues -- Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. Water charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Commission defers these revenues until the municipality issues a release for certificate of occupancy and determines that water distribution are being provided to the properties.

Non-exchange transactions, in which the Commission receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Commission must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are proved to the Commission on a reimbursement basis.

Expenses / Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

The Commission must adopt an annual budget in accordance with N.J.A.C. 5:31-2. N.J.A.C. 5:31-2 requires the governing body to introduce the annual Commission budget at least 60 days prior to the end of the current fyear and to adopt the budget not later than the beginning of the Commission's year. The governing body may amend the budget at any point during the year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal and capital outlays. Depreciation expense, bond premiums, and the annual required contribution for the Commission's Other Postemployment Benefits (OPEB) Plan are not included in budget appropriations.

The legal level of budgetary control is established at the detail shown on the Comparative Statements of Revenues, Expenses and Changes in Net Position (audit Exhibit B). All budget transfers and amendments to those accounts must be approved by resolution of the Commission as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended. The Commission did not adopt an amending budget resolution during the year.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey authorities. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or bonds or other obligations of the local unit or units within which the authority is located, bonds or other obligations approved by the Division of Investment in the Department of Treasury for investment by authorities, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies. The Commission has no investment policy that would further limit its investment choices.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the Governmental Units.

Additionally, the Commission has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Materials and Supplies Inventory

Materials and Supplies Inventory consists of pipes, mains, fittings and other supplies used in the renewal and repairs to the system and for new installations. Inventories are valued at cost on a first-in, first-out basis.

Account Receivable and Uncollectible Accounts

Management establishes reserves for uncollectible accounts based on reviews of aged receivables and other factors, such as bankruptcies, associated with the account.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

Capital Assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Commission. Assets purchased prior to January 1, 1992 are stated at estimated cost. Assets purchased since are stated at actual cost.

Expenditures, which enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the fixed asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized. Costs incurred during construction of an asset are recorded as construction in progress. In the year that the project is completed, these costs are transferred to Capital Assets - Completed. Interest costs incurred during construction are not capitalized into the cost of the asset.

Expenditures are capitalized when they meet the following requirements:

1) Cost of $2,000 or more
2) Useful life of more than one year
3) Asset is not affected by consumption

Depreciation

The costs of assets acquired through bond issue prior to 1979 are recovered over the lives of the bond issues at a rate consistent with the bonds' annual maturities. The cost of assets acquired with operating funds is recovered using the straight-line method over the following estimated useful lives of the assets:

	Years
Buildings	40
Services	20
Water Treatment and Pumping Equipment	20-30
Other Infrastructure	10-20
Meters and Equipment	5-10
Transportation Equipment	5
Office and Technological Equipment	5-7

Bond Discounts and Bond Premiums

Bond discounts / bond premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in a systematic and rational method, from the issue date to maturity as a component of interest expense. Bond discounts / bond premiums are presented as an adjustment of the face amount on the bonds.

Deferred Outflows of Resources

The Commission reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. The only deferred outflows of resources reported in this year's financial statements are a deferred outflow of resources for contributions made to the Commission's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the Commission's year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred Inflows of Resources

The Commission's comparative statements of net position report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the Commission's statements of net position for a deferred amount for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of five (5) years, including the current year.

Customer Prepayments

Customer Prepayments arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Commission eligible to realize the revenue.

Pensions

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

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments", the Commission has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

Restricted – Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." This component includes net position that may be allocated for specific purposes by the Commission.

Income Taxes

The Commission operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from service charges (i.e., metered sales, which include water distribution revenues) and other revenue sources. Non-operating revenues principally consist of tower rentals, connection and developers' fees and interest income earned on various interest-bearing accounts.

Operating expenses include expenses associated with the operation, maintenance and repair of the treatment and distribution systems and general administrative expenses. Non-operating expenses principally include expenses attributable to the Commission's interest on funded debt.

Accounting 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 may differ from those estimates.

Recently Issued and Adopted Accounting Pronouncements

For the year ended December 31, 2016, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this Statement resulted in additional disclosures, see note 4.

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*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this Statement had no impact on the Commission's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this Statement had no impact on the Commission's financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The adoption of this Statement had no impact on the Commission's financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The adoption of this Statement had no impact on the Commission's financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Recently Issued and Adopted Accounting Pronouncements (Cont'd)

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The adoption of this Statement had no impact on the Commission's financial statements.

Recently Issued Accounting Pronouncements

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement will become effective for the Commission in the year ending December 31, 2017. Management does not expect this Statement will have an impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the Commission in the year ending December 31, 2018. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Statement will become effective for the Commission in the year ending December 31, 2017. Management does not expect this Statement will have an impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for periods beginning after December 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

GASB Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement will become effective for the Commission in the year ending December 31, 2017. Management does not expect this Statement will have an impact on the financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.Agovernment that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement will become effective for the Commission in the year ending December 31, 2019. Management does not expect this Statement will have an impact on the financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Recently Issued Accounting Pronouncements (Cont'd)

GASB Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement will become effective for the Commission in the year ending December 31, 2019. Management does not expect this Statement will have an impact on the financial statements.

GASB Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The Statement will become effective for the Commission in the year ending December 31, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with finance related legal and contractual provisions

Management of the Commission is unaware of any material violations of finance related legal and contractual provisions.

Note 3: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits might not be recovered. Although the Commission does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first $250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Commission in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Commission relative to the happening of a future condition. As of December 31, 2016, the Commission's bank balances of $4,176,952, $20,840 were uninsured or uncollateralized. As of December 31, 2015, the Commission's bank balances of $3,647,721, $20,832 were uninsured or uncollateralized.

Note 4: INVESTMENTS

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Commission, and are held by either the counterparty or the counterparty's trust department or agent but not in the Commission's name. All of the Commission's $1,503,170 as of December 31, 2016 and $1,493,304 as of December 31, 2015 investments in Certificates of Deposit are in the name of the Commission.

Note 4: INVESTMENTS (CONT'D)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the rules and regulations promulgated by N.J.S.A. 40A:5-15.1, The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. As stated in Note 1, investments are purchased in accordance with N.J.S.A. 40A:5-15.1. Other than the rules and regulations promulgated by N.J.S.A. 40A:5-15.1, the Commission has no investment policy that would further limit its exposure to credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Other than the rules and regulations promulgated by N.J.S.A. 40A:5-15.1, the Commission's investment policy places no limit on the amount that the Commission may invest in any one issuer. All of the Commission's investments consist of certificates of deposit with maturities of more than three months at the time of purchase.

As of December 31, 2016, the Commission had eight certificates of deposit valued at $1,503,170 at 1% and maturing between January 20, 2017 and February 12, 2017. As of December 31, 2015, the Commission had eight certificates of deposit valued at $1,493,304 at .50% and maturing between January 26, 2016 and February 18, 2016.

Note 5: CUSTOMER ACCOUNTS RECEIVABLE

Customers of the Commission include residential and commercial accounts within the municipalities of Merchantville and Pennsauken and sections of Cherry Hill and Camden. In addition to the sale of water, the Commission bills commercial and municipal customers fixed fees for fire services and hydrants.

As of December 31, 2016 and 2015, the number of the Commission's accounts was as follows:

	2016	2015
Residential, Apartments, and Commercial Water Services	13,427	14,462
Senior Citizen Accounts	366	370
Fire Services	339	345
Fire Hydrants	242	266

Concentration of credit risk associated with customer accounts receivable is limited due to the large number of small customer balances and the Commission's policy of discontinuing service when warranted and filing utility liens when necessary.

Aged accounts receivable at December 31, 2016 and 2015 are as follows:

	2016	2015
Current (less than 30 days)	$ 1,732,447	$ 1,227,488
30 to 59 days	84,708	81,262
60 to 89 days	40,041	31,277
90 to 179 days	63,196	46,528
Over 180 days	192,328	208,247
	2,112,720	1,594,802
Accrued Interest on Delinquent Balances	147,130	155,782
	2,259,850	1,750,584
Less: Reserve for Uncollectible Accounts	130,000	130,000
	$ 2,129,850	$ 1,620,584

Note 6: CAPITAL ASSETS

During the year ended December 31, 2016, the following changes in capital assets occurred:

	Balance January 1, 2016	Additions (Deletions)	Balance December 31, 2016
Land and Land Rights	$ 175,857		$ 175,857
Intangible Plant	32,181		32,181
Source of Supply	3,850,187	$ 11,000	3,861,187
Pumping Plant	2,267,185		2,267,185
Water Treatment Plant	4,254,624		4,254,624
Transmission and Distribution Plant	40,927,242	1,659,343	42,586,585
General Plant	4,308,348	94,188	4,402,536
City of Camden Water Allocation Rights	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
	58,580,362	1,764,531	60,344,893
Less: Accumulated Depreciation	30,958,787	2,074,609	33,033,396
	$ 27,621,575	$ (310,078)	$ 27,311,497

During the year ended December 31, 2015, the following changes in capital assets occurred:

	Balance January 1, 2015	Additions (Deletions)	Balance December 31, 2015
Land and Land Rights	$ 175,857		$ 175,857
Intangible Plant	32,181		32,181
Source of Supply	3,792,462	$ 57,725	3,850,187
Pumping Plant	2,267,185		2,267,185
Water Treatment Plant	4,254,624		4,254,624
Transmission and Distribution Plant	39,343,445	1,583,797	40,927,242
General Plant	4,295,270	13,078	4,308,348
City of Camden Water Allocation Rights	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
	56,925,762	1,654,600	58,580,362
Less: Accumulated Depreciation	28,872,238	2,086,549	30,958,787
	$ 28,053,524	$ (431,949)	$ 27,621,575

Note 7: N.J.D.E.P. LOANS PAYABLE

New Jersey Environmental Infrastructure Trust Loans

2001 Series - On October 17, 2001, the Commission settled on the issuance of $4,000,000 in loans consisting of a $2,000,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a $2,000,000 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 4.00% to 5.50%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2003 Series - On November 5, 2003, the Commission settled on the issuance of $731,801 in loans consisting of a $375,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a $356,801 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 3.00% to 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2007 Series - On November 8, 2007, the Commission settled on the issuance of $1,285,507 in loans consisting of a $650,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a $635,507 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest ranging from 3.40% to 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2010 Series - On December 2, 2010, the Commission settled on the issuance of $1,285,507 in loans consisting of a $560,000 New Jersey Environmental Infrastructure Trust "Trust Loan" and a $579,000 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest at 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

2014A Series – On May 8, 2014, the Commission settled on the issuance of $2,571,000 in loans consisting of a $642,754 New Jersey Environmental Infrastructure Trust "Trust Loan" and a $1,928,250 New Jersey Environmental Infrastructure "Trust Fund Loan". The Trust Loan bears rates of interest at 5.00%. The Fund Loan is non-interest bearing. The loans are due in semi-annual installments on February 1 and August 1.

The "Trust Loan" portion of the borrowings is administered by The New Jersey Environmental Infrastructure Trust with Commerce Bank acting as Trustee. The "Fund Loan" portion is administered by the State of New Jersey.

As the Commission completes its projects, vouchers are submitted to the New Jersey Department of Environmental Protection. Requisitions are funded 50% from "Trust Loan" proceeds available in the Commission's construction account and 50% from "Fund Loan" proceeds.

Upon final completion of the Commission's projects as certified by the Commission's engineer, any monies remaining in the construction accounts will be immediately applied as credits against the remaining scheduled debt service payments until such remaining balance is exhausted. Any unspent monies from the non-interest bearing "Fund Loan" portion of borrowings will be applied to offset the scheduled debt service payments from the back end of the schedule, reducing debt service payments from the end of the schedule until such remaining balance is exhausted.

Note 7: N.J.D.E.P. LOANS PAYABLE (CONT'D)

New Jersey Environmental Infrastructure Trust Loans (Cont'd)

On July 20, 2006, the 2001 and 2003 series loans were certified complete. At that time $13,260 and $96,832 of the unexpended proceeds from the 2001 and 2003 series, respectively, were applied to the outstanding balance of the "Fund Loan", reducing original balance due from the end of the original payment schedule. On August 11, 2010, the 2007 series was certified complete and $12,525 was applied to the outstanding balance of the "Fund Loan". In addition, reciprocal amounts from the "Trust Loan", plus earnings credits were recorded as other assets Due from New Jersey Environmental Infrastructure Trust to be applied to immediately due debt service obligations on the "Trust Loan". As of December 31, 2016 and 2015, amounts "Due from New Jersey Environmental Infrastructure Trust" available for application against "Trust Loan" debt service for the 2003 and 2007 series and available in the 2012 construction account for the intended construction project was $- and $-, respectively.

On September 26, 2007, the New Jersey Environmental Infrastructure Trust issued Series 2007A refunding Bonds to refund the outstanding balance of the 2001 Series Loans. On August 18, 2010, the Trust issued Series 2010A refunding Bonds to refund the outstanding balance of the 2001 and 2003 Series Loans. The impact to the Commission was the recording of a net discount of $44,010 and $36,289, respectively on the issuances which is being amortized over the repayment period of the loans.

Combined adjusted repayment of the four loans as of December 31, 2016 is due as follows:

Year	Total	Principal	Interest
2017	$ 582,326	$ 489,752	$ 92,575
2018	591,706	510,811	80,895
2019	569,178	499,820	69,358
2020	560,378	502,574	57,803
2021	563,611	518,362	45,249
2022	323,599	283,905	39,694
2023	321,095	286,826	34,269
2024	300,046	271,302	28,744
2025	299,826	275,907	23,919
2026	293,720	274,626	19,094
2027	287,903	273,984	13,919
2028	219,239	208,520	10,719
2029	216,039	208,520	7,519
2030	217,589	213,521	4,069
2031	140,915	138,047	2,869
2032	144,509	143,047	1,463
2033	51,560	51,560	-
	$ 5,683,239	5,151,084	$ 532,155
Unamortized Premium		94,948	
		$ 5,246,032	

Note 7: N.J.D.E.P. LOANS PAYABLE (CONT'D)

New Jersey Environmental Infrastructure Trust Loans (Cont'd)

As described in Note 1, the Borough of Merchantville and the Township of Pennsauken created the Merchantville-Pennsauken Water Commission. Those municipalities act as guarantors of all Commission bonds and loans and include their proportionate share of Commission debt as liabilities on their respective annual debt statements. The computed Municipalities' proportionate share of debt is in accordance with their respective ownership of the Commission as follows:

Borough of Merchantville	11.58%
Township of Pennsauken	88.42%
	100.00%

Note 8: CITY OF CAMDEN WATER ALLOCATION LOAN PAYABLE

As more fully described in note 17, on May 19, 2006 the Commission entered into an agreement with the City of Camden (the City) for the purchase of water allocation rights for $2,522,512. The initial payment of $500,000 was payable in installments totaling $250,000 in 2006, $125,000 in 2007 and $125,000 in 2008.

The remaining balance is due in equal quarterly payments through May, 2021, with bi-annual adjustments adding three percent (3%) interest per annum at the end of the first two years and thereafter to each such period to the unpaid balance due. This adjustment shall be added to the principal and payments recalculated including the interest amount. The interest rate used shall be adjusted to add the percentage increase equal to the increases or decreases made in the prime rate in the intervening period but in no case shall the overall rate be less than 3% or greater than 7%.

Should the Commission be denied the use or access to the allocation of water, for any reason unrelated to the actions of either party, then a proportional reduction will be made to the initial agreed upon payments, not yet paid and no further payments will be required.

The estimated maturities on the loan as of December 31, 2016 are as follows:

Year	Total	Principal	Interest
2017	$ 163,507	$ 154,096	$ 9,411
2018	155,369	148,435	6,934
2019	147,229	142,615	4,614
2020	137,095	134,768	2,327
2021	63,304	62,924	380
	$ 666,504	$ 642,838	$ 23,666

Note 9: BOND ANTICIPATION NOTE

On October 29, 2009, the Commission settled on the issuance of $3,400,000 bond anticipation note in order to provide temporary financing for the initial costs of the Westfield Avenue office project as well as fund the costs of issuance. The note has been renewed each year since with varying principal pay downs.

On October 14, 2015, the bond anticipation note was re-issued with 1st Colonial National Bank and a new series of notes of the Commission was created (Series 2015). A principal amount of $580,000 was authorized to be issued and sold, bearing interest at the rate of 0.90%. The note was fully paid off during 2016.

As of December 31, 2015, the outstanding balance payable on the note was $580,000.

Note 10: RETIREMENT SYSTEMS

A substantial number of the Commission's employees participate in the Public Employees' Retirement System ("PERS"), a defined benefit pension plan, which is administered by the New Jersey Division of Pensions and Benefits ('the Division"). In addition, Commission employees may participate in the Defined Contribution Retirement Program ("DCRP"), which is a defined contribution pension plan. This plan is administered by Prudential Financial for the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295
http://www.state.nj.us/treasury/pensions

General Information about the Pension Plans

Plan Descriptions

Public Employees' Retirement System - The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A. The PERS's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the PERS is mandatory for substantially all full-time employees of the Commission, provided the employee is not required to be a member of another state-administered retirement system or other state pensions fund or local jurisdiction's pension fund. The PERS's Board of Trustees is primarily responsible for the administration of the PERS.

Defined Contribution Retirement Program - The Defined Contribution Retirement Program is a multiple-employer defined contribution pension fund established on July 1, 2007 under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et.seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) § 401(a) et seq., and is a "governmental plan" within the meaning of IRC § 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for a certain enrollment tier but who earn salary of at least $5,000.00 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010 who do not work the minimum number of hours per week required for certain enrollment tiers, but who earn salary of at least $5,000.00 annually.

Note 10: **RETIREMENT SYSTEMS (CONT'D)**

General Information about the Pension Plans (Cont'd)

Vesting and Benefit Provisions

Public Employees' Retirement System - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS.

The following represents the membership tiers for PERS:

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

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

Defined Contribution Retirement Program - Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

Contributions

Public Employees' Retirement System - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Commission's contribution amounts are based on an actuarially determined rate which included the normal cost and unfunded accrued liability.

Note 10: <u>RETIREMENT SYSTEMS (CONT'D)</u>

<u>Contributions (Cont'd)</u>

<u>Public Employees' Retirement System (Cont'd)</u>

The Commission's contractually required contribution rate for the years ended December 31, 2016 and 2015 was 12.64% and 12.25% of the annual Commission covered payroll. These amounts were actuarially determined as the amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2016, the Commission's contractually required contribution to the pension plan for the year ended December 31, 2016 is $245,541, and is payable April 1, 2017. Employee contributions to the plan during the year ended December 31, 2016 were $139,202.

Based on the most recent PERS measurement date of June 30, 2015, the Commission's contractually required contribution to the pension plan for the year ended December 31, 2015 was $230,950, which was paid on April 1, 2016. Employee contributions to the plan during the year ended December 31, 2015 were $131,669.

Based on the most recent PERS measurement date of June 30, 2014, the Commission's contractually required contribution to the pension plan for the year ended December 31, 2014 was $218,243, which was paid on April 1, 2015. Employee contributions to the plan during the year ended December 31, 2014 were $125,363.

Defined Contribution Retirement Program - The contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Commission's contribution amounts for each pay period, 3% of the employees' base salary, are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

For the years ended December 31, 2016 and 2015, there were no employees participating in DCRP.

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

Public Employees' Retirement System - At December 31, 2016 and 2015, the Commission's proportionate share of the PERS net pension liability was $8,185,881 and $6,030,212, respectively.

The net pension liability reported at December 31, 2016 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. For the June 30, 2016 measurement date, the Commission's proportion was 0.0276390081%, which was an increase of 0.0007759795% from its proportion measured as of June 30, 2015.

The net pension liability reported at December 31, 2015 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. For the June 30, 2015 measurement date, the Commission's proportion was 0.0268630286%, which was an increase of 0.0003896154% from its proportion measured as of June 30, 2014.

Note 10: RETIREMENT SYSTEMS (CONT'D)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

For the years ended December 31, 2016 and 2015, the Commission recognized pension expense of $875,402 and $461,789, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 and 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Measurement Date June 30, 2016		Measurement Date June 30, 2015	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between Expected and Actual Experience	$ 152,233		$ 143,860	
Changes of Assumptions	1,695,677		647,597	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	312,135			$ 96,954
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions	357,884		297,634	
Commission Contributions Subsequent to the Measurement Date	122,771		115,475	
	$ 2,640,700	$ -	$ 1,204,566	$ 96,954

The deferred outflows of resources related to pensions totaling $122,771 and $115,475 will be included as a reduction of the net pension liability in the years ended December 31, 2017 and 2016, respectively.

Note 10: RETIREMENT SYSTEMS (CONT'D)

Deferred Outflows of Resources and Deferred Inflows of Resources (cont'd)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2017	$	580,194
2018		580,194
2019		657,291
2020		533,821
2021		166,429
	$	2,517,929

Note 10: RETIREMENT SYSTEMS (CONT'D)

Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd)

The amortization of the other deferred outflow of resources and deferred inflows of resources related to pensions over the following number of years:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between Commission Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Note 10: RETIREMENT SYSTEMS (CONT'D)

Actuarial Assumptions

The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of July 1, 2015 and 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement dates of June 30, 2016 and 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	Measurement Date June 30, 2016	**Measurement Date June 30, 2015**
Inflation	3.08%	3.04%
Salary Increases:		
2012-2021		2.15% - 4.40% Based on Age
Through 2026	1.65% - 4.15% Based on Age	
Thereafter	2.65% - 5.15% Based on Age	3.15% - 5.40% Based on Age
Investment Rate of Return	7.65%	7.90%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience Study upon which Actuarial Assumptions were Based	July 1, 2011 - June 30, 2014	July 1, 2008 - June 30, 2011

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

Note 10: RETIREMENT SYSTEMS (CONT'D)

Actuarial Assumptions (Cont'd)

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016 and 7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 and 2015 are summarized in the table below.

	Measurement Date June 30, 2016		Measurement Date June 30, 2015	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**	**Target Allocation**	**Expected Real Rate of Return**
Cash	5.00%	0.87%	5.00%	1.04%
U.S. Treasuries	1.50%	1.74%	1.75%	1.64%
Investment Grade Credit	8.00%	1.79%	10.00%	1.79%
Mortgages	2.00%	1.67%	2.10%	1.62%
High Yield Bonds	2.00%	4.56%	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.44%	1.50%	3.25%
Broad U.S. Equities	26.00%	8.53%	27.25%	8.52%
Developed Foreign Equities	13.25%	6.83%	12.00%	6.88%
Emerging Market Equities	6.50%	9.95%	6.40%	10.00%
Private Equity	9.00%	12.40%	9.25%	12.41%
Hedge Funds / Absolute Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex U.S.	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%
	100.00%		100.00%	

Note 10: RETIREMENT SYSTEMS (CONT'D)

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 5.55% as of June 30, 2016 and 2015 measurement dates, respectively. The respective single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 for PERS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

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

The following presents the Commission's proportionate share of the net pension liability at December 31, 2016, calculated using a discount rate of 3.98%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	December 31, 2016		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Commission's Proportionate Share of the Net Pension Liability	$ 10,030,842	$ 8,185,881	$ 6,662,706

The following presents the Commission's proportionate share of the net pension liability at December 31, 2015, calculated using a discount rate of 4.90%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	December 31, 2015		
	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Commission's Proportionate Share of the Net Pension Liability	$ 7,494,815	$ 6,030,212	$ 4,802,299

Note 10: RETIREMENT SYSTEMS (CONT'D)

Pension Plan Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the respective fiduciary net position of the PERS and additions to/deductions from PERS' respective fiduciary net position have been determined on the same basis as they are reported by PERS. Accordingly, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For additional information about PERS, please refer to the plan's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions.

Note 11: POSTEMPLOYMENT BENEFITS

Plan Description

The Commission provides benefits to employees and their spouses which are in addition to those received through the State Pension Fund who have retired, and have 25 years (35 years for employees hired on or after May 1, 2008) of service with the Commission. The Commission provides medical, dental, vision and prescription coverage. These benefits are provided to all eligible retirees and their spouses at no cost to the retiree. For employees hired on or after May 1, 2008, benefits cease once Medicare age is attained.

As of December 31, 2016, there were 16 retirees with an average age of 74 and 9 covered spouses who qualified for and receiving post-employment benefits and 41 active employees with an average age of 50 and average accrued service of 13 years who are eligible but still actively employed.

Funding Policy

The contribution requirement of the Commission is established by the policy of the Commission. The required contribution is based on projected pay-as-you-go financing requirements. For the year ending December 31, 2016, the Commission contributed $290,418 to the plan for current premiums. Plan members are not required to make any contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Note 11: POSTEMPLOYMENT BENEFITS (CONT'D)

Annual OPEB Cost and Net OPEB Obligation (Cont'd)

The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the Merchantville-Pennsauken Water Commission Plan, and changes in the Commission's net OPEB obligation to the Commission Plan:

	2016	2015	2014
Normal Cost	$ 461,342	$ 415,623	$ 215,518
Amortization Payment	753,942	724,406	785,743
Interest on Net OPEB Obligation	584,700	584,700	566,400
Adjustment to ARC	(584,700)	(584,700)	(491,500)
Annual Required Contribution (Expense)	1,215,284	1,140,029	1,076,161
Contributions Made	(290,418)	(290,418)	(290,418)
Net OPEB Obligation - Beginning of Year	5,335,583	4,485,972	3,700,229
Net OPEB Obligation - End of Year	$ 6,260,449	$ 5,335,583	$ 4,485,972

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the Commission Plan was 0% funded. The actuarial accrued liability for benefits was $11,326,605, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $11,326,605. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2014, actuarial valuation, the unit credit cost method was used in establishing the annual required contribution and actuarial accrued liability for participants. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6% for both Pre-Medicare and Post-Medicare medical benefits. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2014, was twenty-three years.

Note 12: COMPENSATED ABSENCES

Commission employees are entitled to 10 to 30 vacation days per year depending on their length of service. A maximum of five unused vacation days may be carried over to the next year.

Commission employees are entitled to twelve sick days per year. Employees have the option of carrying over sick days; however, an employee cannot accumulate more than 24 sick days.

Upon separation of employment, unless the separation was a termination for cause, the Commission will purchase unused sick and vacation time excluding vacation time carried from the year prior to separation.

Management has determined that the balance of accrued sick leave was not material as of December 31, 2016 and 2015 and, accordingly, a liability has not been recorded.

Note 13: TRANSPORTATION EQUIPMENT LEASES

The Commission leases transportation equipment under agreements accounted for as operating leases. Rental and certain related maintenance expense charged to income was $59,613 in 2016 and $82,293 in 2015.

Future commitments on operating leases are as follows:

Year	Amount
2017	$19,796

Note 14: ANTENNA SITE LEASES

The Commission leases antenna sites atop its water tanks to several companies in the communications industry. As of December 31, 2016, the Commission had ten different lease agreements. Rental income from these leases was $417,466 and $357,435 in 2016 and 2015, respectively.

Future minimum rentals on the leases are as follows:

Year		Amount
2017	$	366,079
2018		338,804
2019		324,613
2020		286,478
2021		198,132

Note 15: COMMITMENTS AND CONTINGENCIES

Litigation

The Commission is subject to certain claims and legal proceedings that arise in the ordinary course of its operations. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Commission. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect in the financial conditions, results of operations or cash flows of the Merchantville-Pennsauken Water Commission.

Note 16: **RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered through a joint insurance pool as described below. Settled claims from these risks have not exceeded coverage for the past several years.

The Commission is a member of New Jersey Utility Authorities Joint Insurance Fund. The Fund provides the Commission with the following coverage:

Property and Physical Damage
Workers Compensation
Excess Liability
Boiler and Machinery
General and Automobile Liability
Public Officials Liability
Environmental Liability

Contributions to the Fund, including a reserve for contingencies, are payable in an annual premium and are based based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. The Commission's agreement with the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of $500,000 for each insured event.

The Fund publishes its own financial report for the year ended December 31, 2016, which can be obtained from:

New Jersey Utility Authorities Joint Insurance Fund
9 Campus Drive, Suite 16
Parsippany, NJ 07054

Note 17: WATER ALLOCATION RIGHTS

As described in note 8, on May 19, 2006 the Commission entered into an agreement with the City of Camden (the City) for the purchase of water allocation rights for $2,522,512. The agreement was approved by the New Jersey Department of Environmental Protection and contains the following provisions:

Purchase of Water Allocation Rights

The Commission agreed to purchase the City's water allocation rights to pump 1,200,000 gallons of water per day from the Potomac-Raritan-Magothy aquifer to service the Commission's franchise area for quantities in excess of its current allocation.

Should the Commission be denied the use or access to the allocation of water, for any reason unrelated to the actions of either party, then a proportional reduction will be made to the initial agreed upon payments, not yet paid and no further payments will be required and any payments already made shall be converted to payments for the purchase of bulk water already delivered and not yet paid for or for water to be delivered in the future. If for any reason another governmental entity, either executive or judicial, or legal action shall prohibit the sale of the allocation, monies already paid shall not be returned and monies not yet paid will not be due.

Bulk Water Sale

The City will deliver and the Commission will purchase bulk potable drinking water for a period of thirty (30) years with the Commission having the option for two additional ten year terms. The purchase agreement will begin as soon thereafter that the parties have created the necessary infrastructure and facilities to respectively deliver and accept finished water and or raw water for treatment.

The agreement provides for a minimum of fifty thousand gallons per day and a maximum of one million gallons per day. The initial cost of the treated water will be for $2.25 per thousand gallons and will be increased from time to time in accordance with factors outline in the agreement.

The water will be distributed through interconnections to be constructed by or on behalf of the Commission, including the obtainment of all land and or easements necessary, at mutually agreed upon locations, without cost or expense to the City.

Treatment of Water

It was agreed that at some point during the term of the agreement that the City may treat raw water for the Commission which is delivered to the Morris-Delair treatment plant. Delivery of the raw water to the City will be the responsibility of the Commission and the cost of treatment will be eighty-nine cents per thousand gallons subject to certain increases and decreases.

REQUIRED SUPPLEMENTARY

INFORMATION

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE OPEB PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2008	$ 0	$ 7,824,371	$ 7,824,371	0 %	$ 1,550,311	504.7%
12/31/2011	$ 0	$ 9,037,466	$ 9,037,466	0 %	$ 1,762,318	512.8%
12/31/2014	$ 0	$ 11,326,605	$ 11,326,605	0 %	$ 2,013,397	562.6%

RSI Exhibit 2

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO THE OPEB PLAN

Year Ended December 31	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2016	1,215,284	23.90%
2015	1,140,029	25.47%
2014	1,076,161	26.99%
2013	1,011,377	25.43%
2012	944,202	27.23%
2011	886,557	29.01%
2010	813,958	28.24%
2009	770,547	29.83%
2008	734,678	31.29%

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR FISCAL YEARS

	Measurement Date Ending June 30,			
	2016	**2015**	**2014**	**2013**
Commission's Proportion of the Net Pension Liability	0.0276390081%	0.0268630286%	0.0264734132%	0.0246842789%
Commission's Proportionate Share of the Net Pension Liability	$ 8,185,881	$ 6,030,212	$ 4,956,547	$ 4,717,656
Commission's Covered Employee Payroll	$ 1,873,084	$ 1,850,720	$ 1,841,584	$ 1,763,112
Commission's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	437.03%	325.83%	269.15%	267.58%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40.14%	47.93%	52.08%	48.72%

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

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)
LAST FOUR YEARS

	Year Ended December 31,			
	2016	**2015**	**2014**	**2013**
Contractually Required Contribution	$ 245,541	$ 230,950	$ 218,243	$ 185,991
Contributions in Relation to the Contractually Required Contribution	(245,541)	(230,950)	(218,243)	(185,991)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Commission's Covered Employee Payroll	$ 1,943,247	$ 1,885,183	$ 1,821,312	$ 1,833,363
Contributions as a Percentage of Commission's Covered Employee Payroll	12.64%	12.25%	11.98%	10.14%

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

Note 1: OTHER POSTEMPLOYMENT BENEFITS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2014
Actuarial Cost Method	Unit Credit Normal Cost Method
Amortization Method	Level Dollar - Open Over a 30 Year Funding Period
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions:	
Investment Rate of Return	5.0%
Rate of Salary Increases	N/A
Rate of Medical Inflation for Retirees Under Age 65	6.0%
Rate of Medical Inflation for Retirees Age 65 and Older	6.0%

For determining the GASB ARC, the rate of employer contributions to the Merchantville-Pennsauken Water Commission Plan is composed of the Normal Cost plus amortization of the Unfunded Actuarial Liability. The Normal Cost is a portion of the actuarial present value of plan benefits and expenses which is allocated to a valuation year by the actuarial cost method. The Actuarial Liability is that portion of the Present Value of Projected Benefits that will not be paid by Future Employer Normal Costs or active employee contributions. The difference between this liability and the funds accumulated as of the same date is the Unfunded Actuarial Liability.

Note 2: POSTEMPLOYMENT BENEFITS – PENSION

Public Employees' Retirement System (PERS)

Changes in Benefit Terms – None

Changes in Assumptions – For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65%, demographic assumptions were revised in accordance with the results of the July 1, 2011 - June 30, 2014 experience study and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale. Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal year 2026 and 2.65% and 5.15% (based on age) for each fiscal year thereafter. For 2015, the discount rate changed to 4.90%. In addition, the social security wage base was set at $118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at $265,000 for 2015, increasing 3.00% per annum, compounded annually. For 2014, the discount rate was 5.39%.

SUPPLEMENTARY SCHEDULES

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash, Cash Equivalents and Investments, January 1		$ 3,707,013
Cash Receipts:		
Collection of Customer Accounts Receivable	$ 9,399,148	
Tower Rentals	417,466	
Other Operating Receipts	68,370	
Connection and Developers' Fees	28,869	
Legal Settlement Payment	205,000	
Customer Prepayments	65,465	
Investment Income	48,538	
		10,232,856
		13,939,869
Cash Disbursements:		
Current Year Cost of Operations	6,087,117	
Liquidation of Prior Year Accounts Payable and Accrued Liabilities	627,128	
Interest Payments on City of Camden Water Allocation	5,206	
Interest Payments on Bond Anticipation Note	11,913	
Interest Payments on N.J.D.E.P. Loans	116,234	
Principal Payments on N.J.D.E.P. Loans	490,029	
Principal Payments on City of Camden Water Allocation	159,634	
Principal Payments on Bond Anticipation Note	580,000	
Additions to Capital Assets	1,681,872	
		9,759,133
Cash, Cash Equivalents and Investments, December 31		$ 4,180,736

Analysis of Balance:	
Cash and Cash Equivalents	$ 2,677,566
Investments	1,503,170
	$ 4,180,736

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Adopted and Final Budget	Actual	Variance-- Favorable (Unfavorable)
Revenues:			
Operating Revenues:			
Metered Sales to General Public	$ 7,999,360	$ 8,675,725	$ 676,365
Private Fire Protection	1,167,856	1,134,591	(33,265)
Public Fire Protection	90,627	92,625	1,998
Late Charges	114,000	106,130	(7,870)
Tapping Fees	1,600	6,121	4,521
Miscellaneous Income	18,800	62,249	43,449
Total Operating Revenues	9,392,243	10,077,441	685,198
Non-Operating Revenues:			
Investment Income	7,000	49,463	42,463
Tower Rentals	349,647	417,466	67,819
Connection and Developers' Fees	50,000	28,861	(21,139)
Legal Settlement Payment	-	205,000	205,000
Total Revenues	9,798,890	10,778,231	979,341
Operating Expenses:			
Administration:			
Salaries and Wages	821,600	843,670	(22,070)
Fringe Benefits	654,119	636,129	17,990
Other Expenses:			
Notices & Advertising	11,000	10,530	470
Office Expense	109,600	68,382	41,218
Operating Fees - DEP	48,000	43,795	4,205
I.T. Expense	49,000	33,449	15,551
Uniform Rental	8,000	9,328	(1,328)
Training and Development	17,000	15,690	1,310
Consumer Confidence Report	9,600	2,781	6,819
Employee and Community Relations	25,400	20,297	5,103
Professional / Outside Services	242,000	199,324	42,676
Insurance	166,000	117,609	48,391
Tower Rental Revenue Expense	349,647	306,666	42,981
Shared Services	100,000	-	100,000
Bad Debt Expense (Net Reserve Reduction)	17,500	-	17,500
Other	46,500	41,361	5,139
Total Administration Other Expenses	1,199,247	869,212	330,035
Total Administration	$ 2,674,966	$ 2,349,011	$ 325,955

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Adopted and Final Budget	Actual	Variance--Favorable (Unfavorable)
Cost of Providing Service:			
Salaries and Wages	$ 1,599,160	$ 1,530,624	$ 68,536
Fringe Benefits	1,186,731	1,154,095	32,636
Other Expenses:			
Chemicals and Supplies	87,000	96,216	(9,216)
CCMUA Charges	6,000	2,816	3,184
Electric & Gas Expense	840,000	630,227	209,773
Maintenance of Wells and Strippers	210,000	127,405	82,595
Utilities - Other	30,000	21,745	8,255
Maintenance on Mains and Services	250,000	221,572	28,428
Maintenance on Structures	133,500	176,434	(42,934)
Maintenance on Generators and Power Equipment	40,000	20,230	19,770
Maintenance on Control Panels	41,000	57,913	(16,913)
Maintenance on Pumping and Chemical Equipment	45,000	48,716	(3,716)
Purchase of Water	78,000	73,515	4,485
Lab Work	60,000	61,386	(1,386)
Meter Repair and Maintenance	8,000	16,065	(8,065)
Communications	31,000	30,182	818
Fuel & Gas	48,000	18,440	29,560
Safety Equipment	9,000	7,293	1,707
Vehicle Expense	71,000	59,613	11,387
Total Cost of Providing Service Other Expenses	1,987,500	1,669,768	317,732
Total Cost of Providing Service	4,773,391	4,354,487	418,904
Total Principal Payments on Debt in Lieu of Depreciation	1,229,663	1,229,663	
Total Operating Expenses	8,678,020	7,933,161	744,859
Non-Operating Expenses:			
Interest Payments on Debt	148,146	129,289	18,857
Total Non-Operating Expenses	148,146	129,289	18,857
Total Operating and Non-Operating Expenses	8,826,166	8,062,450	763,716
Excess of Revenues over Operating and Non-Operating Expenses	$ 972,724	$ 2,715,781	$ 1,743,057

(continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
NON-GAAP BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Reconciliation of Excess Revenues over Expenses to Operating Loss

Excess of Revenues Over Operating and Non-Operating Expenses	$ 2,715,781
Add:	
Principal Payments on Debt	1,229,663
Interest Payments on Debt	129,289
Deduct:	
PERS GASB 68 Accrual	(644,477)
Other Post Employment Benefits Accrual Included in Employee Benefits	(924,866)
Investment Income	(49,463)
Tower Rentals	(417,466)
Connection and Developers' Fees	(28,861)
Legal Settlement Payment	(205,000)
Depreciation and Amortization	(2,074,609)
Operating Loss (Exhibit B)	$ (270,009)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF N.J.D.E.P. LOANS PAYABLE

	Balance January 1, 2016	Premium Additions	Paid	Premium Amortization	Balance December 31, 2016
2001 Infrastructure Trust Loan	$ 1,345,076		$ 216,281		$ 1,128,795
2003 Infrastructure Trust Loan	215,376		37,667		177,709
2007 Infrastructure Trust Loan	848,716		62,561		786,155
2010 Infrastructure Trust Loan	937,105		50,473		886,632
2014 Infrastructure Trust Loan	2,294,840		123,047		2,171,793
Unamortized Premium on Bonds	108,932			$ 13,984	94,948
	$ 5,750,045	$ -	$ 490,029	$ 13,984	$ 5,246,032
Analysis of Balance:					
Current	$ 481,506				$ 506,389
Long-Term	5,268,539				4,739,643
	$ 5,750,045				$ 5,246,032

Schedule 4

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CUSTOMER ACCOUNTS RECEIVABLE

Balance January 1, 2016		$ 1,620,584
Increased by Customer Billings:		
Metered Sales Billings to General Public	$ 8,642,725	
Private Fire Protection	1,134,591	
Public Fire Protection	92,625	
Late Charges	106,130	
		9,976,071
		11,596,655
Decreased by:		
Collections	9,271,340	
Customer Prepayments Applied	65,465	
		9,336,805
Balance December 31, 2016		$ 2,129,850

Schedule 5

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF ACCRUED INTEREST INCOME RECEIVABLE

Balance January 1, 2016	$ 669
Interest Earned	49,463
	50,132
Interest Collected	48,538
Balance December 31, 2016	$ 1,594

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF CAPITAL ASSETS

Description	Balance January 1, 2016	Additions (Deletions)	Balance December 31, 2016
Land and Land Rights	$ 175,857		$ 175,857
Intangible Plant:			
Organization Costs	32,181		32,181
Source of Supply:			
Structures and Improvements	169,882		169,882
Wells and Springs	1,706,832		1,706,832
SCADA Program	440,706		440,706
Water Mapping - SCADA	272,457		272,457
Water Re-use Preservation Project	1,103,915		1,103,915
Supply Mains	156,395		156,395
Pumping Plant:			
Structures and Improvements	1,832,162		1,832,162
Electric Plumbing Equipment	157,614		157,614
Diesel Pumping Equipment	83,325		83,325
Other Pumping Equipment	194,084		194,084
Water Treatment Plant:			
Structures and Improvements	1,371,276		1,371,276
Water Treatment Equipment	2,883,348		2,883,348
Transmission and Distribution Plant:			
Structures and Improvements	396,212	$ 90,168	486,380
Camden Avenue Tank	1,573,125	439,067	2,012,192
Cherry Hill 1MG Tank	3,006,586		3,006,586
ASR Building - Browning Road	124,706		124,706
Manganese Filtration	2,108,896		2,108,896
National and Brown Lime Addition	399,738		399,738
Park Avenue Project	4,534,580		4,534,580
Park Avenue Lime Building	256,928		256,928
Service Wells and Motors	542,320		542,320
Filter Media	327,592		327,592
Rehab National Highway Well 2	43,235		43,235
Browning Road Well 1	167,410		167,410
Tank Painting	5,612,310	4,700	5,617,010
Carbon Filter Project	1,658,486	79,615	1,738,101
CC TV Park	52,572	32,791	85,363
Valve Replacement	142,235		142,235
Distribution Reservoirs and Standpipes	2,830,658		2,830,658
Garden State Project	28,423		28,423
Transmission and Distribution Mains	6,891,967	34,414	6,926,381
Water Main Replacement	3,825,657	514,072	4,339,729
Services	1,983,004		1,983,004
Meters	3,928,206	445,696	4,373,902
Hydrants	492,396	29,820	522,216
General Plant:			
Administration Office	3,743,474		3,743,474
Structures and Improvements	24,674	7,063	31,737
Office Furniture and Equipment	169,448		169,448
Software	84,487	17,125	101,612
Backhoe	73,430		73,430
Transportation Equipment	139,925	70,000	209,925
Tools Shop and Garage Equipment	43,368		43,368
Power Operated Equipment	29,542		29,542
City of Camden Water Allocation	2,557,608		2,557,608
Capitalized Interest	207,130		207,130
Total Capital Assets in Service	$ 58,580,362	$ 1,764,531	$ 60,344,893

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
STATEMENT OF ACCRUED INTEREST PAYABLE

Balance January 1, 2016		$ 48,431
Accrued Interest:		
N.J.D.E.P. Loans	$ 112,170	
Bond Anticipation Note	5,206	
City of Camden Water Allocation	11,913	
		129,289
		177,720
Less Interest Paid:		
N.J.D.E.P. Loans	116,234	
Bond Anticipation Note	5,206	
City of Camden Water Allocation	11,913	
		133,353
Balance December 31, 2016		$ 44,367

Reconciliation of Interest Expense:	
Accrued Interest	$ 129,289
Amortization of Bond Premium	(13,984)
Interest on Debt	$ 115,305

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS 2016 AND 2015

	2016	2015	Increase (Decrease)
Revenues:			
Operating Revenues:			
Metered Sales to General Public	$ 8,675,725	$ 7,752,886	$ 922,839
Private Fire Protection	1,134,591	1,083,893	50,698
Public Fire Protection	92,625	83,913	8,712
Late Charges	106,130	109,773	(3,643)
Tapping Fees	6,121	3,079	3,042
Miscellaneous Income	62,249	80,297	(18,048)
Total Operating Revenues	10,077,441	9,113,841	963,600
Non-Operating Revenues:			
Investment Income	49,463	25,957	23,506
Tower Rentals	417,466	357,435	60,031
Connection and Developers' Fees	28,861	73,901	(45,040)
Legal Settlement Payment	205,000	-	205,000
Total Revenues	10,778,231	9,571,134	1,207,097
Operating Expenses:			
Personal Services:			
Administrative Salaries	843,670	784,899	58,771
Seasonal Salaries	15,353	29,093	(13,740)
Water Treatment Salaries	466,764	435,608	31,156
Repair and Maintenance Salaries	540,598	531,143	9,455
Service Salaries	236,620	225,343	11,277
Plant Operators Salaries	271,289	275,334	(4,045)
Total Personal Services	2,374,294	2,281,420	92,874
Employee Benefits:			
Health Benefits	818,540	665,920	152,620
Prescription	393,958	320,084	73,874
Social Security Tax	168,904	164,106	4,798
Dental, Vision and Other Employee Benefits	103,242	101,913	1,329
Unemployment and Disability	8,894	7,677	1,217
Workers' Compensation Insurance	65,136	65,136	0
Public Employees' Retirement System	876,027	462,250	413,777
Post Employment Benefits Obligation Other than Pension	924,866	849,611	75,255
Total Employee Benefits	$ 3,359,567	$ 2,636,697	$ 722,870

(Continued)

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS 2016 AND 2015

	2016	2015	Increase (Decrease)
Administrative Expenses:			
Notices & Advertising	$ 10,530	$ 10,276	$ 254
Office Expense	68,382	78,282	(9,900)
Operating Fees - DEP	43,795	40,192	3,603
I.T. Expense	33,449	30,709	2,740
Uniform Rental	9,328	7,846	1,482
Training and Development	15,690	15,257	433
Consumer Confidence Report	2,781	9,254	(6,473)
Employee and Community Relations	20,297	14,408	5,889
Professional / Outside Services	199,324	176,624	22,700
Insurance	117,609	114,230	3,379
Tower Rental Revenue Expense	306,666	506,828	(200,162)
Bad Debt Expense (Net Reserve Reduction)	-	46,040	(46,040)
Other	41,361	42,028	(667)
Total Administrative Expenses	869,212	1,091,974	(222,762)
Operating and Maintenance Expenses:			
Chemicals and Supplies	96,216	73,407	22,809
CCMUA Charges	2,816	3,080	(264)
Electric & Gas Expense	651,972	754,419	(102,447)
Maintenance of Wells and Treatment Equipment	127,405	230,570	(103,165)
Maintenance on Mains and Services	221,572	303,515	(81,943)
Maintenance on Structures	176,434	143,652	32,782
Maintenance on Generators and Power Equipment	20,230	29,588	(9,358)
Maintenance on Control Panels	57,913	13,454	44,459
Maintenance on Pumping and Chemical Equipment	48,716	44,631	4,085
Purchase of Water	73,515	74,071	(556)
Lab Work	61,386	58,126	3,260
Meter Repair and Maintenance	16,065	3,035	13,030
Communications	30,182	28,556	1,626
Fuel & Gas	18,440	18,401	39
Safety Equipment	7,293	9,758	(2,465)
Vehicle Expense	59,613	82,293	(22,680)
Total Operating and Maintenance Expenses	1,669,768	1,870,556	(200,788)
Depreciation and Amortization Expense	2,074,609	2,086,550	(11,941)
Total Operating Expenses	10,347,450	9,967,197	380,253
Other Expenses:			
Interest on Long-term Debt	115,305	134,303	(18,998)
Total Expenses	10,462,755	10,101,500	361,255
Change in Net Position	$ 315,476	$ (530,366)	$ 845,842

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION

PART II

SCHEDULE OF FINDINGS AND RECOMENDATIONS

FOR THE YEAR ENDED

DECEMBER 31, 2016

THE MERCHANTVILLE-PENNSAUKEN WATER COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Schedule of Financial Statement Findings

None

Schedule of Prior Year Financial Statement Findings

This section identifies the status of prior year audit findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None

Appreciation

We express our appreciation for the courtesies extended and assistance provided to us during the course of our audit.

Respectfully submitted,
BOWMAN & COMPANY LLP

James J. Miles, Jr.
Certified Public Accountant