

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

To the Members of The
Eatontown Sewerage Authority
Eatontown, New Jersey

We have audited the accompanying financial statements of The Eatontown Sewerage Authority, (the "Authority"), a component unit of the Borough of Eatontown, New Jersey, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Eatontown Sewerage Authority as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows 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 and budgetary comparison information on pages 5 through 8 and 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 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 Authority's internal control over financial reporting and compliance.

Oliwa & Company

Freehold, New Jersey
December 28, 2015

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

To the Members of The
Eatontown Sewerage Authority
Eatontown, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of The Eatontown Sewerage Authority, (the "Authority"), a component unit of the Borough of Eatontown, New Jersey, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 28, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain other internal control matters that we have reported to the management of the Authority, in a separate letter dated December 28, 2015.

Purpose of this Report

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

Oliwa & Company

Freehold, New Jersey
December 28, 2015

Management's Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of two components:

- 1) proprietary fund financial statements
- 2) notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Proprietary fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets, liabilities and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is changing.

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (For example, goods and services received during the fiscal year for which payment has not been made by the end of the fiscal year). Similarly, revenues and expenses are not reported in this statement for some items that have resulted in cash flows for which the underlying event had not occurred by the end of the fiscal year.

The other required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?"

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights

	2014	2013	2014 Over (Under) 2013
<u>Assets</u>			
Current assets	\$3,382,673	\$3,126,751	\$255,922
Capital assets	9,774,653	9,957,848	(183,195)
<i>Total assets</i>	<u>\$13,157,326</u>	<u>\$13,084,599</u>	<u>\$72,727</u>
<u>Liabilities</u>			
Current liabilities	\$434,281	\$610,139	(\$175,858)
Long term liabilities	3,608,827	3,738,989	(130,162)
<i>Total liabilities</i>	<u>\$4,043,108</u>	<u>\$4,349,128</u>	<u>(\$306,020)</u>
<u>Net Position</u>			
Capital assets - net	\$6,561,965	\$6,345,991	\$215,974
Restricted	112,346	346,728	(234,382)
Unrestricted	2,439,907	2,042,752	397,155
<i>Total net assets</i>	<u>\$9,114,218</u>	<u>\$8,735,471</u>	<u>\$378,747</u>
<u>Revenues</u>			
Sewer service charges	\$3,340,040	\$3,300,933	\$39,107
Penalties and other	57,052	97,406	(40,354)
Connection fees	21,524	55,093	(33,569)
Interest	2,281	1,813	468
<i>Total revenues</i>	<u>\$3,420,897</u>	<u>\$3,455,245</u>	<u>(\$34,348)</u>
<u>Expenses</u>			
Operating-			
Regional sewerage charges	\$1,859,816	\$1,975,309	(\$115,493)
Salaries and wages	377,506	369,161	8,345
Depreciation	241,620	242,389	(769)
Insurance	139,509	134,763	4,746
Other operating	131,824	163,939	(32,115)
Post-employment healthcare	102,855	120,903	-
Professional services	82,217	78,480	3,737
Maintenance and repairs	40,734	66,589	(25,855)
Payroll taxes	28,171	28,053	118
	<u>3,004,252</u>	<u>3,179,586</u>	<u>(157,286)</u>
Non-operating			
Interest	37,898	44,883	(6,985)
Debt issuance costs	-	2,622	(2,622)
	<u>37,898</u>	<u>47,505</u>	<u>(9,607)</u>
<i>Total expenses</i>	<u>\$3,042,150</u>	<u>\$3,227,091</u>	<u>(\$166,893)</u>

Capital Assets

The following provides a summary analysis of capital assets at December 31, 2014 and 2013:

	2014	2013	2014 Over (Under) 2013
Capital assets	\$13,919,793	\$13,861,368	\$58,425
Less, accumulated depreciation	<u>(4,145,140)</u>	<u>(3,903,520)</u>	<u>(241,620)</u>
Net capital assets	<u>\$9,774,653</u>	<u>\$9,957,848</u>	<u>(\$183,195)</u>

Please refer to the notes to the financial statements for additional information relative to the Authority's capital assets.

Long-Term Debt

The following provides a summary analysis of long-term debt at December 31, 2014 and 2013:

	2014	2013	2014 (Under) Over 2013
Bonds payable	-	\$187,000	(\$187,000)
New Jersey Environmental Infrastructure Trust Fund loan payable	\$2,273,004	2,441,833	(168,829)
New Jersey Environmental Infrastructure Trust loan payable	<u>920,000</u>	<u>965,000</u>	<u>(45,000)</u>
Total long-term debt	<u>\$3,193,004</u>	<u>\$3,593,833</u>	<u>(\$400,829)</u>

Please refer to the notes to the financial statements for additional information relative to the Authority's long-term debt.

Financial Analysis

The Authority realized net income in 2014 and 2013 of \$378,747 and \$228,154, respectively. Although the Authority's 2014 gross revenues remained relatively stable from prior year levels, the Authority realized a higher net income in 2014 due to overall decreases in expenses from 2013 levels.

Major Decreases in Expenses

The largest expense decreases in 2014 were for regional sewerage charges (down \$115,493 from 2013), repairs and maintenance (down \$25,855 from 2013), and training, education and consultants (down \$24,666 from 2013).

Major Decreases in Revenues

The largest revenue decreases in 2014 were for connection fees (down \$33,569 from 2013) and penalties and other revenues (down \$40,354 from 2013).

Budgetary Highlights

The Authority budgeted \$275,000 in unrestricted net position to balance the 2014 budget. The actual result was an excess in revenues of \$220,260 as follows:

Unrestricted net position anticipated	(\$275,000)
Add:	
Expenses under budget	385,363
Revenues over budget	<u>109,897</u>
Excess in revenues	<u><u>\$220,260</u></u>

The excess in revenues is attributable to expenses realized under budgeted amounts and revenues realized over budgeted amounts.

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets:		
Unrestricted current assets-		
Cash and cash equivalents	\$3,022,326	\$2,563,350
Customer accounts receivable, net	175,594	141,022
Customer interest receivable, net	17,806	8,966
Total unrestricted current assets	3,215,726	2,713,338
Restricted current assets-		
Cash and cash equivalents	166,947	409,475
Due from New Jersey Environmental Infrastructure Trust	-	3,938
Total restricted current assets	166,947	413,413
Total current assets	3,382,673	3,126,751
Noncurrent assets-		
Construction in progress	114,802	104,304
Property, plant, and equipment, net	9,659,851	9,853,544
Total noncurrent assets	9,774,653	9,957,848
Total assets	\$13,157,326	\$13,084,599

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Liabilities:		
Current liabilities payable from unrestricted current assets-		
Accounts payable and accrued expenses	\$154,625	\$137,513
Prepaid revenue	11,224	8,258
Total current liabilities payable from unrestricted current assets	<u>165,849</u>	<u>145,771</u>
Current liabilities payable from restricted current assets-		
Revenue bonds payable, net of unamortized premium	-	187,790
Loans payable	213,831	213,831
Accrued interest payable	15,958	19,857
Developer deposits	38,643	42,890
Total current liabilities payable from restricted current assets	<u>268,432</u>	<u>464,368</u>
Total current liabilities	<u>434,281</u>	<u>610,139</u>
Noncurrent liabilities-		
Other post-employment benefits	609,970	524,815
Loans payable, net of unamortized premium	2,998,857	3,214,174
Total noncurrent liabilities	<u>3,608,827</u>	<u>3,738,989</u>
Total liabilities	<u>4,043,108</u>	<u>4,349,128</u>
Net Position:		
Net investment in capital assets	6,561,965	6,345,991
Restricted	112,346	346,728
Unrestricted	2,439,907	2,042,752
Total net position	<u>9,114,218</u>	<u>8,735,471</u>
Total liabilities and net position	<u>\$13,157,326</u>	<u>\$13,084,599</u>

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Charges for services	\$3,340,040	\$3,300,933
Other operating revenues	78,576	152,499
Total operating revenues	<u>3,418,616</u>	<u>3,453,432</u>
Operating expenses:		
Regional sewerage charges	1,859,816	1,975,309
Salaries and wages	377,506	369,161
Depreciation	241,620	242,389
Insurance	139,509	134,763
Post-employment healthcare	102,855	120,903
Professional services	82,217	78,480
Maintenance and repairs	40,734	66,589
Electricity	33,954	36,372
Pension	30,993	30,906
Payroll taxes	28,171	28,053
Office and telephone	20,129	19,587
Fuel and natural gas	15,660	15,425
Training, education and consultants	10,250	34,916
Other	9,906	2,212
Trustee and administrative fees and costs	6,162	19,708
Plant supplies	4,770	4,813
Total operating expenses	<u>3,004,252</u>	<u>3,179,586</u>
Operating income	<u>414,364</u>	<u>273,846</u>
Nonoperating revenues (expenses):		
Interest income	2,281	1,813
Interest expense	(37,898)	(44,883)
Amortization of deferred debt issuance costs	-	(2,622)
Net nonoperating expenses	<u>(35,617)</u>	<u>(45,692)</u>
Net income	378,747	228,154
Net position - beginning	<u>8,735,471</u>	<u>8,507,317</u>
Net position - ending	<u>\$9,114,218</u>	<u>\$8,735,471</u>

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$3,378,170	\$3,414,322
Cash payments for goods and services	(2,282,859)	(2,438,892)
Cash payments to employees	(377,506)	(369,161)
Net cash provided by operating activities	<u>717,805</u>	<u>606,269</u>
Cash flows from investing activities:		
Interest income	<u>2,281</u>	<u>1,813</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bond maturities	(187,000)	(189,000)
Principal paid on loan maturities	(213,829)	(208,831)
Interest paid on revenue bonds	(3,553)	(11,358)
Interest paid on loan	(40,522)	(42,550)
Loan proceeds	3,938	82,550
Developer deposits	(4,247)	(9,156)
Purchase of capital assets	(47,927)	(99,066)
Construction in progress payments	(10,498)	(74,686)
Net cash used by financing activities	<u>(503,638)</u>	<u>(552,097)</u>
Net increase in cash and cash equivalents	216,448	55,985
Cash and cash equivalents at beginning of year	<u>2,972,825</u>	<u>2,916,840</u>
Cash and cash equivalents at end of year	<u><u>\$3,189,273</u></u>	<u><u>\$2,972,825</u></u>
Reconciliation to statement of net position:		
Unrestricted	\$3,022,326	\$2,563,350
Restricted	166,947	409,475
	<u><u>\$3,189,273</u></u>	<u><u>\$2,972,825</u></u>

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating income	\$414,364	\$273,846
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	241,620	242,389
Changes in assets and liabilities:		
Increase in customer accounts receivable	(34,572)	(25,048)
(Increase) decrease in customer interest receivable	(8,840)	227
Increase (decrease) in prepaid revenue	2,966	(14,289)
Increase in accounts payable and accrued expenses	17,112	26,471
Increase in other post-employment benefits	85,155	102,673
Net cash provided by operating activities	<u>\$717,805</u>	<u>\$606,269</u>
Supplemental disclosure of cash flow information:		
Noncash capital and related financing activities:		
Amortization of bond and loan premiums	<u>\$2,278</u>	<u>\$4,648</u>

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

1. REPORTING ENTITY AND GENERAL

The Eatontown Sewerage Authority (the "Authority") is a public body corporate and politic of the State of New Jersey and was created by an ordinance of the Borough of Eatontown adopted February 9, 1955 pursuant to the Sewerage Authorities Law of the State of New Jersey. The Authority was created for the purpose of acquiring, constructing, maintaining, improving and operating facilities for collecting, and disposing of sewage or other wastes.

The Authority provides sanitary sewer service for the Borough of Eatontown and two small areas in the adjacent municipalities of Tinton Falls and Ocean Township. The Authority's sewage is conveyed to and discharged into the system of the Two Rivers Water Reclamation Authority which owns and operates a regional treatment plant facility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENTS

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB") applicable to proprietary funds of state and local governments.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows the Authority considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

BUDGET LAW AND ACCOUNTING

The Authority submits its annual operating and capital budget to the State of New Jersey, Department of Community Affairs, Division of Local Government Services for review and certification. The annual budget may be amended by resolution of the Authority. The budgetary basis of accounting is utilized to determine if the Authority has sufficient cash to operate and pay debt service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at cost. Depreciation of fixed assets is determined on a straight-line basis over various economic lives.

RESTRICTED ACCOUNTS

Certain proceeds of the Authority's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

NET POSITION PRESENTATION

The Authority's financial statements utilize a net position presentation. Net positions are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Net investment in capital assets, are capital assets, net of related debt of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.

Restricted net position result when creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation impose constraints placed on net position use.

Unrestricted net position represents net position of the Authority that does not meet the definition of the two preceding categories.

LONG-TERM OBLIGATIONS

Bonds and loans payable are reported at face value, net of applicable premiums. The current portion of bonds and loans payable represents principal payments to be made in the next year.

BOND AND LOAN PREMIUMS

Bond and loan premiums are presented as adjustments to the face amount of bonds and loans payable and are amortized into interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Authority recognizes revenue on the accrual basis as earned.

3. CASH AND CASH EQUIVALENTS

New Jersey Authorities 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 the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in the State of New Jersey.

Cash includes change funds, cash in banks, savings and money market accounts or highly liquid securities with a maturity date of three months or less at the time of purchase which may be withdrawn at any time without prior notice or penalty. Cash equivalents are defined as short-term, highly liquid securities that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with original maturities of three months or less meet this definition. The statement of cash flows includes all cash and cash equivalents.

GUDPA requires public depositories to maintain collateral for deposit of public funds that exceed insurance limits. GUDPA requires that the market value of the collateral must equal five percent of the average daily balance of public funds; or if the public funds deposited exceed seventy five percent of the capital funds of the depository, the depository must provide collateral having a market value equal to one hundred percent of the amount exceeding seventy five percent. All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority’s formal policy regarding custodial credit risk is to deposit all of its funds in public depositories protected from loss under the provisions of GUDPA. Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. As of December 31, 2014 and 2013, the Authority’s bank balances were exposed to custodial credit risk as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Uninsured and Collateralized with Securities Held by Pledging Financial Institutions	<u>\$2,034,229</u>	<u>\$1,793,818</u>

3. CASH AND CASH EQUIVALENTS (CONTINUED)

In addition, as of December 31, 2014 and 2013, the Authority had \$714,556 and \$714,144, respectively, on deposit in the New Jersey Cash Management Fund (the "Fund"). The operations of this Fund are governed by the provisions of the State Investment Council Regulations for the purpose of determining authorized investments for the Fund.

4. CAPITAL ASSETS

The Authority records assets based on historical costs and calculates depreciation on capital assets in accordance with GASB Statement No. 34. The Authority capitalizes all assets with a life expectancy of two years or more.

Capital asset activity of the Authority for 2014 and 2013 was as follows:

	Balance December 31, 2013	Additions	Transfers	Balance December 31, 2014
Construction in Progress	\$104,304	\$45,167	(\$34,669)	\$114,802
Property, plant, and equipment	13,757,064	13,258	34,669	13,804,991
	13,861,368	58,425	-	13,919,793
Less, accumulated depreciation	(3,903,520)	(241,620)	-	(4,145,140)
Capital assets, net	<u>\$9,957,848</u>	<u>(\$183,195)</u>	<u>-</u>	<u>\$9,774,653</u>

	Balance December 31, 2012	Additions	Transfers	Balance December 31, 2013
Construction in Progress	\$29,618	\$149,568	(\$74,882)	\$104,304
Property, plant, and equipment	13,657,998	24,184	74,882	13,757,064
	13,687,616	173,752	-	13,861,368
Less, accumulated depreciation	(3,661,131)	(242,389)	-	(3,903,520)
Capital assets, net	<u>\$10,026,485</u>	<u>(\$68,637)</u>	<u>-</u>	<u>\$9,957,848</u>

5. COMPONENT UNIT STATUS OF THE AUTHORITY

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Since the governing body of the Borough appoints the members of the Authority, and the Authority can provide a financial benefit to or burden on the Borough, the Borough is considered financially accountable for the Authority.

6. LONG-TERM DEBT

On March 10, 2010, the Authority entered into an agreement with the New Jersey Environmental Infrastructure Trust Financing Program to finance improvements to the Authority's collection system and pump stations. The Authority issued \$3,060,880 of Fund Loan Bonds at 0.00% interest and \$1,080,000 of Trust Loan Bonds at interest rates ranging from 3.00% to 5.00%.

At December 31, 2014 loans payable are summarized as follows:

Loans	Issued Amount	Interest Rate (%)	Matures	Amount Outstanding
New Jersey Environmental Infrastructure Trust Fund Loan	\$3,060,880	0.00	2015-2028	\$2,273,004
New Jersey Environmental Infrastructure Trust Loan	1,080,000	3.00-5.00	2015-2029	920,000
Add, unamortized premium				19,684
Total loans payable				3,212,688
Less, loans payable - current				(213,831)
Long-term loans payable				<u>\$2,998,857</u>

The following table summarizes debt service requirements for outstanding loans at December 31, 2014:

Year	Principal	Interest	Total
2015	\$213,831	\$38,300	\$252,131
2016	213,831	36,050	249,881
2017	218,831	33,800	252,631
2018	218,831	31,300	250,131
2019	223,831	28,800	252,631
2020-2024	1,149,153	109,200	1,258,353
2025-2029	954,696	44,700	999,396
	<u>\$3,193,004</u>	<u>\$322,150</u>	<u>\$3,515,154</u>

6. LONG-TERM DEBT (CONTINUED)

Changes in Outstanding Long-Term Debt

Long-Term Debt transactions for the year ended December 31, 2014 and 2013 are summarized as follows:

	Balance December 31, 2013	Reductions	Balance December 31, 2014	Amounts due within one year
Revenue bonds payable	\$187,000	\$187,000	-	-
New Jersey Environmental Infrastructure Trust Fund loan payable	2,441,833	168,829	\$2,273,004	\$168,831
New Jersey Environmental Infrastructure Trust loan payable	965,000	45,000	920,000	45,000
Unamortized premium	21,962	2,278	19,684	-
	<u>\$3,615,795</u>	<u>\$403,107</u>	<u>\$3,212,688</u>	<u>\$213,831</u>
	December 31, 2012	Reductions	December 31, 2013	Amounts due within one year
Revenue bonds payable	\$376,000	\$189,000	\$187,000	\$187,000
New Jersey Environmental Infrastructure Trust Fund loan payable	2,610,664	168,831	2,441,833	168,829
New Jersey Environmental Infrastructure Trust loan payable	1,005,000	40,000	965,000	45,000
Unamortized premium	26,610	4,648	21,962	-
	<u>\$4,018,274</u>	<u>\$402,479</u>	<u>\$3,615,795</u>	<u>\$400,829</u>

7. PENSION PLAN

Plan Description

Authority employees participate in the Public Employees' Retirement System ("PERS"), a statewide cost-sharing, multiple employer defined benefit plan administered by the Division of Pensions and Benefits in the Department of the Treasury, State of New Jersey. The plan provides retirement, death, disability and medical benefits to certain qualifying plan members and beneficiaries. PERS was established on January 1, 1955 under the provisions of N.J.S.A. 43:15A.

The Plan does not maintain separate records for each participating employer in the State of New Jersey and, therefore, the actuarial data for the Authority is not available. Financial reports for the system are available from the Division of Pensions and Benefits.

Funding Policy

Employee contributions were 6.78% of base wages through June 30, 2014. Effective July 1, 2014 employee contributions were 6.92% of base wages. The Division of Pensions and Benefits actuarially determines an employer's contribution on an annual basis. Contributions to the plan for the last three years were as follows:

PERS		
<u>Year</u>	<u>Authority</u>	<u>Employees</u>
2014	\$30,993	\$22,976
2013	30,906	23,404
2012	25,829	17,685

All contributions by the Authority were equal to the required contributions for each of the three years.

8. POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The Authority has an agent multiple-employer defined benefit healthcare plan with the Central Jersey Health Insurance Fund (the "Fund"). The Authority provides medical, prescription and dental benefits to retirees and their spouses that meet certain eligibility requirements.

Funding Policy

Funding of the annual other post-employment benefits (OPEB) cost is provided for in the Authority's annual operating budget.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 of thirty years. The following summarizes the Authority's annual OPEB cost for the year, the amount actually contributed to the Fund, and changes in the Authority's net OPEB obligation:

January 1, 2014 Net OPEB Obligation	\$524,815
Plus: Annual OPEB Cost	102,855
	<u>627,670</u>
Less: Authority contributions	(17,700)
	<u><u>\$609,970</u></u>
December 31, 2014 Net OPEB Obligation	

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the preceding two years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2014	\$102,855	17.21%	\$609,970
12/31/2013	120,903	15.08%	524,815
12/31/2012	120,903	14.36%	422,142

8. POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

Funding Status and Funding Progress

Actuarial accrued liability*	\$1,046,552
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	<u>\$1,046,552</u>
Funded ratio	0%

* represents accrued liability at December 31, 2014; In accordance with GASB Statement No. 45, the accrued liability is to be actuarially recalculated at least triennially.

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Fund (the Fund as understood by the employer and plan members) and include 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.

The actuarial valuation utilized the projected unit credit cost method. The 2008 actuarial assumptions included an initial annual medical cost trend rate of 10.5%, reduced by decrements to an ultimate rate of 5.0% in 2019. The initial trend rate for prescription benefits is 11.5%, reduced by decrements to an ultimate rate of 5.0% in 2021. The initial trend rate for dental benefits is 6.0%, reduced by decrements to an ultimate rate of 5.0% in 2010. The amortization cost for the unfunded actuarial accrued liability is on a straight line basis, for a period of thirty years.

9. SUBSEQUENT EVENTS

Management has reviewed and evaluated all events and transactions occurring after December 31, 2014 through the date the financial statements were issued, December 28, 2015, for possible disclosure and recognition in the accompanying financial statements and no such items have come to the attention of the Authority which would require disclosure or recognition.

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
SCHEDULE OF REVENUES AND EXPENDITURES
COMPARED TO BUDGET (BUDGETARY BASIS)
YEAR ENDED DECEMBER 31, 2014

	<u>ORIGINAL BUDGET</u>	<u>ACTUAL</u>
<u>Revenues</u>		
Sewer service charges	\$3,273,000	\$3,340,040
Penalties and other	17,000	55,311
Connection fees	10,000	21,524
Application fees	11,000	1,741
Interest income	-	2,281
Total revenues	<u>\$3,311,000</u>	<u>\$3,420,897</u>
 <u>Expenditures</u>		
<u>Administration</u>		
Salaries and wages	\$160,000	\$162,311
Legal	40,000	13,997
Payroll taxes	14,027	12,112
Pension	14,466	13,326
Accounting	6,000	2,325
Computer consultant	6,000	5,400
Auditing	20,000	17,693
Trustee and administrative fees	10,000	6,162
Employee training	3,000	4,450
Insurance - general	1,500	1,317
Insurance - health	59,178	49,410
Engineer	35,000	48,202
Office supplies and postage	10,000	8,921
Telephone	9,000	10,087
Advertising fees	2,000	882
Miscellaneous	6,200	7,537
Employee consultant	2,000	400
Post-employment healthcare	53,041	45,123
	<u>451,412</u>	<u>409,655</u>

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
SCHEDULE OF REVENUES AND EXPENDITURES
COMPARED TO BUDGET (BUDGETARY BASIS) - CONTINUED
YEAR ENDED DECEMBER 31, 2014

	<u>ORIGINAL BUDGET</u>	<u>ACTUAL</u>
<u>Expenditures (continued)</u>		
Cost of Providing Services		
Salaries and wages	\$205,000	\$215,195
Payroll taxes	17,973	16,059
Insurance - general	26,500	23,273
Insurance - health	75,822	65,509
Telephone	1,000	1,121
Electricity	40,000	33,954
Fuel	10,000	7,240
Natural gas	9,566	8,420
Plant supplies	8,500	4,770
Water	1,000	227
Miscellaneous	12,800	1,260
Repairs and maintenance	45,000	40,734
Regional sewerage charges	2,150,000	1,859,816
Post-employment healthcare	67,959	57,732
Pension	18,534	17,667
	<u>2,689,654</u>	<u>2,352,977</u>
 Total administration and cost of of providing services	 <u>3,141,066</u>	 <u>2,762,632</u>
 Principal payments on debt service in lieu of depreciation	 <u>400,831</u>	 <u>397,829</u>
 Interest payments on debt	 <u>44,103</u>	 <u>40,176</u>
 Total expenditures	 3,586,000	 3,200,637
 (Unrestricted net assets utilized)/ excess revenues	 <u>(275,000)</u>	 <u>220,260</u>
 Net Total Appropriations	 <u><u>\$3,311,000</u></u>	 <u><u>\$3,420,897</u></u>

THE EATONTOWN SEWERAGE AUTHORITY
 A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
 SCHEDULE OF REVENUES AND EXPENDITURES
 COMPARED TO BUDGET (BUDGETARY BASIS) - CONTINUED
 YEAR ENDED DECEMBER 31, 2014

Reconciliation to Statement of Revenues, Expenses, and Changes in Net Position

Excess in Revenues	\$220,260
Add back:	
Principal payments on debt service in lieu of depreciation	397,829
Amortization of bond and loan premiums	2,278
Deduct:	
Depreciation	(241,620)
Change in net position	<u>\$378,747</u>
Change in nets assets per Statement of Revenues, Expenses and Changes in Net Position	<u>\$378,747</u>

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2014

None