

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, 2015 AND 2014

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YEARS ENDED DECEMBER 31, 2015 AND 2014**

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Oliwa & Company

Certified Public Accountants

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, 2015 and 2014, 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 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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

Emphasis of Matter

As discussed in Note 8 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, Accounting for Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

Opinion

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, 2015 and 2014, 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 27 through 29 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 30, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 30, 2016

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, 2015, 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 30, 2016.

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 30, 2016.

Purpose of this Report

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

Oliwa & Company

Freehold, New Jersey
December 30, 2016

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

<u>Assets</u>	2015	2014	2015 Over (Under) 2014
Current assets	\$4,638,486	\$3,382,673	\$1,255,813
Capital assets	9,729,926	9,774,653	(44,727)
Deferred outflows of resources	306,685	194,171	112,514
<i>Total assets and deferred outflows of resources</i>	<u><u>\$14,675,097</u></u>	<u><u>\$13,351,497</u></u>	<u><u>\$1,323,600</u></u>
<u>Liabilities</u>			
Current liabilities	\$1,443,426	\$473,228	\$970,198
Long term liabilities	4,592,337	4,493,358	98,979
Deferred inflows of resources	17,659	52,713	(35,054)
<i>Total liabilities and deferred inflows of resources</i>	<u><u>\$6,053,422</u></u>	<u><u>\$5,019,299</u></u>	<u><u>\$1,034,123</u></u>
<u>Net Position</u>			
Capital assets - net	\$6,732,556	\$6,561,965	\$170,591
Restricted	112,364	112,346	18
Unrestricted	1,776,755	1,657,887	118,868
<i>Total net assets</i>	<u><u>\$8,621,675</u></u>	<u><u>\$8,332,198</u></u>	<u><u>\$289,477</u></u>
<u>Revenues</u>			
Sewer service charges	\$3,347,766	\$3,340,040	\$7,726
Penalties and other	62,693	57,052	5,641
Connection fees	33,745	21,524	12,221
Interest	2,166	2,281	(115)
<i>Total revenues</i>	<u><u>\$3,446,370</u></u>	<u><u>\$3,420,897</u></u>	<u><u>\$25,473</u></u>
<u>Expenses</u>			
Operating-			
Regional sewerage charges	\$1,864,853	\$1,859,816	\$5,037
Salaries and wages	383,995	377,506	6,489
Depreciation	243,236	241,620	1,616
Insurance	145,266	139,509	5,757
Pension	108,300	76,056	32,244
Professional services	105,515	82,217	23,298
Post-employment healthcare	102,855	102,855	-
Other operating	94,684	100,831	(6,147)
Maintenance and repairs	44,123	40,734	3,389
Payroll taxes	28,191	28,171	20
	<u>3,121,018</u>	<u>3,049,315</u>	<u>71,703</u>
Non-operating			
Interest	35,875	37,898	(2,023)
<i>Total expenses</i>	<u><u>\$3,156,893</u></u>	<u><u>\$3,087,213</u></u>	<u><u>\$69,680</u></u>

Capital Assets

The following provides a summary analysis of capital assets at December 31, 2015 and 2014:

	2015	2014	2015 Over (Under) 2014
Capital assets	\$14,118,302	\$13,919,793	\$198,509
Less, accumulated depreciation	(4,388,376)	(4,145,140)	(243,236)
Net capital assets	<u>\$9,729,926</u>	<u>\$9,774,653</u>	<u>(\$44,727)</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, 2015 and 2014:

	2015	2014	2015 (Under) Over 2014
New Jersey Environmental Infrastructure Trust Fund loan payable	\$2,104,173	\$2,273,004	(\$168,831)
New Jersey Environmental Infrastructure Trust loan payable	875,000	920,000	(45,000)
Total long-term debt	<u>\$2,979,173</u>	<u>\$3,193,004</u>	<u>(\$213,831)</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 2015 and 2014 of \$289,477 and \$333,684, respectively. Although the Authority's 2015 gross revenues remained relatively stable from prior year levels, the Authority realized a lower net income in 2015 due to overall increases in expenses from 2014 levels.

Major Increase in Expenses

The largest expense increase in 2015 were for professional services (up \$23,298 from 2014).

Budgetary Highlights

The Authority budgeted \$35,000 in unrestricted net position to balance the 2015 budget. The actual result was an excess in revenues of \$317,394 as follows:

Unrestricted net position anticipated	(\$35,000)
Add:	
Expenses under budget	270,584
Revenues over budget	<u>81,810</u>
Excess in revenues	<u><u>\$317,394</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, 2015 AND 2014

	2015	(as restated) 2014
Assets:		
Unrestricted current assets-		
Cash and cash equivalents	\$4,161,388	\$3,022,326
Customer accounts receivable, net	220,450	175,594
Customer interest receivable, net	16,653	17,806
Total unrestricted current assets	<u>4,398,491</u>	<u>3,215,726</u>
Restricted current assets-		
Cash and cash equivalents	<u>239,995</u>	<u>166,947</u>
Total current assets	<u>4,638,486</u>	<u>3,382,673</u>
Noncurrent assets-		
Construction in progress	184,223	114,802
Property, plant, and equipment, net	<u>9,545,703</u>	<u>9,659,851</u>
Total noncurrent assets	<u>9,729,926</u>	<u>9,774,653</u>
Total assets	<u>14,368,412</u>	<u>13,157,326</u>
Deferred outflows of resources-		
Pension deferrals	<u>306,685</u>	<u>194,171</u>
Total assets and deferred outflows of resources	<u>\$14,675,097</u>	<u>\$13,351,497</u>

See accompanying notes to financial statements

THE EATONTOWN SEWERAGE AUTHORITY
A COMPONENT UNIT OF THE BOROUGH OF EATONTOWN
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>(as restated) 2014</u>
Liabilities:		
Current liabilities payable from unrestricted current assets-		
Accounts payable and accrued expenses	\$1,089,437	\$193,572
Prepaid revenue	<u>12,527</u>	<u>11,224</u>
Total current liabilities payable from unrestricted current assets	<u>1,101,964</u>	<u>204,796</u>
Current liabilities payable from restricted current assets-		
Loans payable	213,831	213,831
Accrued interest payable	15,021	15,958
Developer deposits	<u>112,610</u>	<u>38,643</u>
Total current liabilities payable from restricted current assets	<u>341,462</u>	<u>268,432</u>
Total current liabilities	<u>1,443,426</u>	<u>473,228</u>
Noncurrent liabilities-		
Other post-employment benefits	710,461	609,970
Net pension liability	1,098,337	884,531
Loans payable, net of unamortized premium	<u>2,783,539</u>	<u>2,998,857</u>
Total noncurrent liabilities	<u>4,592,337</u>	<u>4,493,358</u>
Total liabilities	<u>6,035,763</u>	<u>4,966,586</u>
Deferred inflows of resources-		
Pension deferrals	<u>17,659</u>	<u>52,713</u>
Net Position:		
Net investment in capital assets	6,732,556	6,561,965
Restricted	112,364	112,346
Unrestricted	<u>1,776,755</u>	<u>1,657,887</u>
Total net position	<u>8,621,675</u>	<u>8,332,198</u>
Total liabilities, deferred inflow of resources and net position	<u><u>\$14,675,097</u></u>	<u><u>\$13,351,497</u></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, 2015 AND 2014

	2015	(as restated) 2014
Operating revenues:		
Charges for services	\$3,347,766	\$3,340,040
Other operating revenues	96,438	78,576
Total operating revenues	<u>3,444,204</u>	<u>3,418,616</u>
Operating expenses:		
Regional sewerage charges	1,864,853	1,859,816
Salaries and wages	383,995	377,506
Depreciation	243,236	241,620
Insurance	145,266	139,509
Pension	108,300	76,056
Professional services	105,515	82,217
Post-employment healthcare	102,855	102,855
Maintenance and repairs	44,123	40,734
Electricity	32,251	33,954
Payroll taxes	28,191	28,171
Office and telephone	24,341	20,129
Fuel and natural gas	13,856	15,660
Training, education and consultants	9,133	10,250
Other	6,836	9,906
Trustee and administrative fees and costs	5,240	6,162
Plant supplies	3,027	4,770
Total operating expenses	<u>3,121,018</u>	<u>3,049,315</u>
Operating income	<u>323,186</u>	<u>369,301</u>
Nonoperating revenues (expenses):		
Interest income	2,166	2,281
Interest expense	(35,875)	(37,898)
Net nonoperating expenses	<u>(33,709)</u>	<u>(35,617)</u>
Net income	289,477	333,684
Net position - beginning (as restated)	8,332,198	7,998,514
Net position - ending	<u><u>\$8,621,675</u></u>	<u><u>\$8,332,198</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, 2015 AND 2014

	2015	(as restated) 2014
Cash flows from operating activities:		
Cash received from customers	\$3,401,804	\$3,378,170
Cash payments for goods and services	(1,431,193)	(2,282,859)
Cash payments to employees	(383,995)	(377,506)
Net cash provided by operating activities	<u>1,586,616</u>	<u>717,805</u>
Cash flows from investing activities:		
Interest income	<u>2,166</u>	<u>2,281</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bond maturities	-	(187,000)
Principal paid on loan maturities	(213,831)	(213,829)
Interest paid on revenue bonds	-	(3,553)
Interest paid on loan	(38,300)	(40,522)
Loan proceeds	-	3,938
Developer deposits	73,967	(4,247)
Purchase of capital assets	(129,087)	(47,927)
Construction in progress payments	(69,421)	(10,498)
Net cash used by financing activities	<u>(376,672)</u>	<u>(503,638)</u>
Net increase in cash and cash equivalents	1,212,110	216,448
Cash and cash equivalents at beginning of year	<u>3,189,273</u>	<u>2,972,825</u>
Cash and cash equivalents at end of year	<u><u>\$4,401,383</u></u>	<u><u>\$3,189,273</u></u>
Reconciliation to statement of net position:		
Unrestricted	\$4,161,388	\$3,022,326
Restricted	239,995	166,947
	<u><u>\$4,401,383</u></u>	<u><u>\$3,189,273</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, 2015 AND 2014

	2015	(as restated) 2014
Operating income	\$323,186	\$369,301
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	243,236	241,620
Changes in assets and liabilities:		
Increase in customer accounts receivable	(44,856)	(34,572)
Decrease (increase) in customer interest receivable	1,153	(8,840)
Increase in prepaid revenue	1,303	2,966
Increase in accounts payable and accrued expenses	895,865	56,059
Increase in net pension liability	213,806	147,574
Increase in other post-employment benefits	100,491	85,155
Increase in deferred outflows - pension deferrals	(112,514)	(194,171)
(Decrease) increase in deferred inflows - pension deferrals	(35,054)	52,713
Net cash provided by operating activities	<u>\$1,586,616</u>	<u>\$717,805</u>
Supplemental disclosure of cash flow information:		
Noncash capital and related financing activities:		
Amortization of bond and loan premiums	<u>\$1,488</u>	<u>\$2,278</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, 2015 AND 2014

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.

REVENUE RECOGNITION

The Authority recognizes revenue on the accrual basis as earned.

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.

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.

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") a supplemental insurance program set forth by the New Jersey Legislature to protect deposits of Authority's. The program is administered by the Commissioner of the New Jersey Department of Banking and Insurance.

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, 2015 and 2014, the Authority's bank balances were exposed to custodial credit risk as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
GUDPA Insured and Collateralized with Securities Held by Pledging Financial Institutions	<u>\$3,115,396</u>	<u>\$2,034,229</u>

3. CASH AND CASH EQUIVALENTS (CONTINUED)

In addition, as of December 31, 2015 and 2014, the Authority had \$715,285 and \$714,556, 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 2015 and 2014 was as follows:

	Balance December 31, 2014	Additions	Transfers	Balance December 31, 2015
Construction in Progress	\$114,802	\$183,874	(\$114,453)	\$184,223
Property, plant, and equipment	13,804,991	14,635	114,453	13,934,079
	13,919,793	198,509	-	14,118,302
Less, accumulated depreciation	(4,145,140)	(243,236)	-	(4,388,376)
Capital assets, net	<u>\$9,774,653</u>	<u>(\$44,727)</u>	<u>-</u>	<u>\$9,729,926</u>
	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>

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, 2015 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	2016-2028	\$2,104,173
New Jersey Environmental Infrastructure Trust Loan	1,080,000	3.00-5.00	2016-2029	875,000
Add, unamortized premium				18,197
Total loans payable				2,997,370
Less, loans payable - current				(213,831)
Long-term loans payable				<u>\$2,783,539</u>

The following table summarizes debt service requirements for outstanding loans at December 31, 2015:

Year	Principal	Interest	Total
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	223,831	26,600	250,431
2021-2025	1,164,153	97,050	1,261,203
2026-2029	715,865	30,250	746,115
	<u>\$2,979,173</u>	<u>\$283,850</u>	<u>\$3,263,023</u>

6. LONG-TERM DEBT (CONTINUED)

Changes in Outstanding Long-Term Debt

Long-Term Debt transactions for the year ended December 31, 2015 and 2014 are summarized as follows:

	Balance December 31, 2014	Reductions	Balance December 31, 2015	Amounts due within one year
New Jersey Environmental Infrastructure Trust Fund loan payable	\$2,273,004	\$168,831	\$2,104,173	\$168,831
New Jersey Environmental Infrastructure Trust loan payable	920,000	45,000	875,000	45,000
Unamortized premium	19,685	1,488	18,197	-
	<u>\$3,212,689</u>	<u>\$215,319</u>	<u>\$2,997,370</u>	<u>\$213,831</u>
	December 31, 2013	Reductions	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	21,963	2,278	19,685	-
	<u>\$3,615,796</u>	<u>\$403,107</u>	<u>\$3,212,689</u>	<u>\$213,831</u>

7. PENSION PLAN

Description of System

The Authority contributes to the Public Employees' Retirement System ("PERS"), a cost-sharing multiple employer defined benefit pension plans administered by the Division of Pensions and Benefits in the Department of the Treasury, State of New Jersey. The plan provides retirement, death, disability benefits and medical benefits to certain qualifying members and beneficiaries. PERS was established on January 1, 1955 under the provisions of N.J.S.A. 43:15A. PERS issues publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits.

Funding Policy

PERS employee contributions were 6.92% of base wages through June 30, 2015. Effective July 1, 2015 PERS employee contributions were 7.06% of base wages. The Division of Pensions actuarially determines employer's contributions annually.

Public Employees Retirement System (PERS)

At June 30, 2015, the State reported a net pension liability of \$1,098,337 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0048928049 percent, which was an increase of 0.0001684379 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015 and 2014, the State recognized an actuarially determined pension expense of \$108,300 and \$76,056, respectively, for the Authority's proportionate share of the total pension expense. The Authority's actual pension contribution by the Authority for December 31, 2015 and 2014 were \$38,947 and \$30,993, respectively.

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

At December 31, 2015 and 2014, the State reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2015		2014	
	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>
Difference between expected and actual experience		\$26,202		
Changes of assumptions		117,953		\$27,814
Net difference between projected and actual earnings on pension plan investments	\$17,659		\$52,713	
Changes in proportion and differences between Authority contributions and proportionate share of contributions		162,530		166,357
	<u>\$17,659</u>	<u>\$306,685</u>	<u>\$52,713</u>	<u>\$194,171</u>

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$57,398
2017	57,398
2018	57,398
2019	70,576
2020	46,256
	<u>\$289,026</u>

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. These actuarial valuations used the following actuarial assumptions:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Inflation Rate	3.04%	3.01%
Salary Increases (based on age)		
2012-2021	2.15% - 4.40%	2.15% - 4.40%
Thereafter (based on age)	2.15% - 4.40%	3.15% - 5.40%
Investment Rate of Return	7.90%	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees

The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	0.80%
Core Bond			1.00%	2.49%
Intermediate Term Bonds			11.20%	2.26%
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad U.S. Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Markets	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds/Absolute Returns	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
U.S. Treasuries	1.75%	1.64%		
Investment Grade Credit	10.00%	1.79%		
Global Debt ex US	3.50%	-0.40%		
REIT	4.25%	5.12%		
	<u>100.00%</u>		<u>100.00%</u>	

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2015 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (3.90%) or 1 percentage point higher (5.90%) than the current rate:

	1% Decrease <u>3.90%</u>	At Current Discount Rate <u>4.90%</u>	1% Increase <u>5.90%</u>
Authority's proportionate share of the pension liability	\$1,365,098	\$1,098,337	\$874,686

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

8. RESTATEMENT

The Authority implemented GASB 68 as required for the year ending December 31, 2015. The effect of implementing GASB 68 on the financial statements of December 31, 2014 was to recognize the Authority's proportionate share of the PERS net pension liability, deferred outflows of resources and deferred inflows of resources with a corresponding decrease in unrestricted net position in the amount of \$736,957 at January 1, 2014 and \$782,020 at December 31, 2014.

9. 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, 2015 Net OPEB Obligation	\$609,970
Plus: Annual OPEB Cost	<u>102,855</u>
	712,825
Less: Authority contributions	<u>(2,364)</u>
December 31, 2015 Net OPEB Obligation	<u><u>\$710,461</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 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>
12/31/2015	\$102,855	2.30%	\$710,461
12/31/2014	102,855	17.21%	609,970
12/31/2013	120,903	15.08%	524,815

9. 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.

10. SUBSEQUENT EVENTS

Management has reviewed and evaluated all events and transactions occurring from December 31, 2015 through the date the financial statements were issued, December 30, 2016, 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, 2015

	<u>ORIGINAL BUDGET</u>	<u>ACTUAL</u>
<u>Revenues</u>		
Sewer service charges	\$3,310,560	\$3,347,766
Penalties and other	25,000	56,001
Connection fees	15,000	33,745
Application fees	14,000	6,692
Interest income	-	2,166
Total revenues	<u>\$3,364,560</u>	<u>\$3,446,370</u>
 <u>Expenditures</u>		
Administration		
Salaries and wages	\$167,300	\$164,529
Legal	40,000	70,624
Payroll taxes	14,667	12,079
Pension	14,829	37,905
Accounting	6,000	2,981
Computer consultant	8,000	7,916
Auditing	20,000	15,341
Trustee and administrative fees	5,240	5,240
Employee training	10,000	1,217
Insurance - general	1,500	1,318
Insurance - health	82,912	67,173
Engineer	35,000	16,569
Office supplies and postage	10,000	11,735
Telephone	11,700	11,345
Advertising fees	1,500	646
Miscellaneous	1,674	1,340
Employee consultant	2,000	-
Post-employment healthcare	54,374	45,123
	<u>486,696</u>	<u>473,081</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, 2015

	ORIGINAL BUDGET	ACTUAL
<u>Expenditures (continued)</u>		
Cost of Providing Services		
Salaries and wages	\$205,000	\$219,466
Payroll taxes	17,333	16,112
Insurance - general	26,500	23,286
Insurance - health	57,088	53,489
Telephone	1,300	1,261
Electricity	38,000	32,251
Fuel	10,000	5,623
Natural gas	12,000	8,233
Plant supplies	8,500	3,027
Water	1,200	923
Miscellaneous	4,015	3,927
Repairs and maintenance	45,000	44,123
Regional sewerage charges	2,150,000	1,864,853
Post-employment healthcare	66,626	57,732
Pension	18,171	70,395
	<u>2,660,733</u>	<u>2,404,701</u>
 Total administration and cost of of providing services	 <u>3,147,429</u>	 <u>2,877,782</u>
 Principal payments on debt service in lieu of depreciation	 <u>213,831</u>	 <u>213,831</u>
 Interest payments on debt	 <u>38,300</u>	 <u>37,363</u>
 Total expenditures	 3,399,560	 3,128,976
 (Unrestricted net assets utilized)/ excess revenues	 <u>(35,000)</u>	 <u>317,394</u>
 Net Total Appropriations	 <u><u>\$3,364,560</u></u>	 <u><u>\$3,446,370</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, 2015

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

Excess in Revenues	\$317,394
Add back:	
Principal payments on debt service in lieu of depreciation	213,831
Amortization of bond and loan premiums	1,488
Deduct:	
Depreciation	(243,236)
Change in net position	<u>\$289,477</u>
Change in nets assets per Statement of Revenues, Expenses and Changes in Net Position	<u>\$289,477</u>

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

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2015

None