

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, 2016 AND 2015

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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, 2016 and 2015, 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.

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, 2016 and 2015, 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 29, 2017 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 29, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 29, 2017.

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 29, 2017.

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 29, 2017

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

	2016	2015	2016 Over (Under) 2015
<u>Assets</u>			
Current assets	\$4,592,822	\$4,638,486	(\$45,664)
Capital assets	10,113,155	9,729,926	383,229
Deferred outflows of resources	539,986	306,685	233,301
<i>Total assets and deferred outflows of resources</i>	<u>\$15,245,963</u>	<u>\$14,675,097</u>	<u>\$570,866</u>
<u>Liabilities</u>			
Current liabilities	\$449,417	\$1,366,949	(\$917,532)
Long term liabilities	4,948,508	4,668,814	279,694
Deferred inflows of resources	-	17,659	(17,659)
<i>Total liabilities and deferred inflows of resources</i>	<u>\$5,397,925</u>	<u>\$6,053,422</u>	<u>(\$655,497)</u>
<u>Net Position</u>			
Capital assets - net	\$7,331,104	\$6,732,556	\$598,548
Restricted	113,535	112,364	1,171
Unrestricted	2,403,399	1,776,755	626,644
<i>Total net assets</i>	<u>\$9,848,038</u>	<u>\$8,621,675</u>	<u>\$1,226,363</u>
<u>Revenues</u>			
Sewer service charges	\$3,344,434	\$3,347,766	(\$3,332)
Penalties and other	42,237	62,693	(20,456)
Connection fees	32,193	33,745	(1,552)
Interest	8,021	2,166	5,855
<i>Total revenues</i>	<u>\$3,426,885</u>	<u>\$3,446,370</u>	<u>(\$19,485)</u>
<u>Expenses</u>			
Operating-			
Regional sewerage charges	\$850,428	\$1,864,853	(\$1,014,425)
Salaries and wages	410,183	383,995	26,188
Depreciation	249,126	243,236	5,890
Pension	183,109	108,300	74,809
Insurance	137,967	145,266	(7,299)
Post-employment healthcare	102,855	102,855	-
Other operating	85,793	94,684	(8,891)
Professional services	61,790	105,515	(43,725)
Maintenance and repairs	56,198	44,123	12,075
Payroll taxes	29,464	28,191	1,273
	<u>2,166,913</u>	<u>3,121,018</u>	<u>(954,105)</u>
Non-operating			
Interest	33,609	35,875	(2,266)
<i>Total expenses</i>	<u>\$2,200,522</u>	<u>\$3,156,893</u>	<u>(\$956,371)</u>

Capital Assets

The following provides a summary analysis of capital assets at December 31, 2016 and 2015:

	2016	2015	2016 Over (Under) 2015
Capital assets	\$14,750,657	\$14,118,302	\$632,355
Less, accumulated depreciation	(4,637,502)	(4,388,376)	(249,126)
Net capital assets	<u>\$10,113,155</u>	<u>\$9,729,926</u>	<u>\$383,229</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, 2016 and 2015:

	2016	2015	2016 (Under) Over 2015
New Jersey Environmental Infrastructure Trust Fund loan payable	\$1,935,342	\$2,104,173	(\$168,831)
New Jersey Environmental Infrastructure Trust loan payable	830,000	875,000	(45,000)
Total long-term debt	<u>\$2,765,342</u>	<u>\$2,979,173</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 2016 and 2015 of \$1,226,363 and \$289,477, respectively. Although the Authority's 2016 gross revenues remained relatively stable from prior year levels, the Authority realized a higher net income in 2016 due to overall decreases in expenses from 2015 levels.

Major Decreases in Expenses

The largest expense decreases in 2016 were for regional sewerage charges (down \$1,014,425 from 2015) and professional fees (down \$43,725 from 2015).

Budgetary Highlights

The Authority budgeted \$65,000 in unrestricted net position to balance the 2016 budget. The actual result was an excess in revenues of \$1,260,170 as follows:

Unrestricted net position anticipated	(\$65,000)
Add:	
Expenses under budget	1,274,445
Revenues over budget	<u>50,725</u>
Excess in revenues	<u><u>\$1,260,170</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Unrestricted current assets-		
Cash and cash equivalents	\$4,218,279	\$4,161,388
Customer accounts receivable, net	134,091	220,450
Customer interest receivable, net	<u>9,031</u>	<u>16,653</u>
Total unrestricted current assets	<u>4,361,401</u>	<u>4,398,491</u>
Restricted current assets-		
Cash and cash equivalents	<u>231,421</u>	<u>239,995</u>
Total current assets	<u>4,592,822</u>	<u>4,638,486</u>
Noncurrent assets-		
Construction in progress	245,032	184,223
Property, plant, and equipment, net	<u>9,868,123</u>	<u>9,545,703</u>
Total noncurrent assets	<u>10,113,155</u>	<u>9,729,926</u>
Total assets	<u>14,705,977</u>	<u>14,368,412</u>
Deferred outflows of resources-		
Pension deferrals	<u>539,986</u>	<u>306,685</u>
Total assets and deferred outflows of resources	<u>\$15,245,963</u>	<u>\$14,675,097</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Liabilities:		
Current liabilities payable from unrestricted current assets-		
Accounts payable and accrued expenses	\$99,685	\$1,012,960
Prepaid revenue	<u>13,015</u>	<u>12,527</u>
Total current liabilities payable from unrestricted current assets	<u>112,700</u>	<u>1,025,487</u>
Current liabilities payable from restricted current assets-		
Loans payable	218,831	213,831
Accrued interest payable	14,083	15,021
Developer deposits	<u>103,803</u>	<u>112,610</u>
Total current liabilities payable from restricted current assets	<u>336,717</u>	<u>341,462</u>
Total current liabilities	<u>449,417</u>	<u>1,366,949</u>
Noncurrent liabilities-		
Compensated Absences	86,755	76,477
Other post-employment benefits	810,952	710,461
Net pension liability	1,487,581	1,098,337
Loans payable, net of unamortized premium	<u>2,563,220</u>	<u>2,783,539</u>
Total noncurrent liabilities	<u>4,948,508</u>	<u>4,668,814</u>
Total liabilities	<u>5,397,925</u>	<u>6,035,763</u>
Deferred inflows of resources-		
Pension deferrals	<u></u>	<u>17,659</u>
Net Position:		
Net investment in capital assets	7,331,104	6,732,556
Restricted	113,535	112,364
Unrestricted	<u>2,403,399</u>	<u>1,776,755</u>
Total net position	<u>9,848,038</u>	<u>8,621,675</u>
Total liabilities, deferred inflow of resources and net position	<u><u>\$15,245,963</u></u>	<u><u>\$14,675,097</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Charges for services	\$3,344,434	\$3,347,766
Other operating revenues	74,430	96,438
Total operating revenues	<u>3,418,864</u>	<u>3,444,204</u>
Operating expenses:		
Regional sewerage charges	850,428	1,864,853
Salaries and wages	410,183	383,995
Depreciation	249,126	243,236
Pension	182,905	108,300
Insurance	137,967	145,266
Post-employment healthcare	102,855	102,855
Professional services	61,790	105,515
Maintenance and repairs	56,198	44,123
Payroll taxes	29,464	28,191
Electricity	29,025	32,251
Office and telephone	20,980	24,341
Fuel and natural gas	11,101	13,856
Other	7,171	6,836
Training, education and consultants	6,677	9,133
Plant supplies	5,803	3,027
Trustee and administrative fees and costs	5,240	5,240
Total operating expenses	<u>2,166,913</u>	<u>3,121,018</u>
Operating income	<u>1,251,951</u>	<u>323,186</u>
Nonoperating revenues (expenses):		
Interest income	8,021	2,166
Interest expense	<u>(33,609)</u>	<u>(35,875)</u>
Net nonoperating expenses	<u>(25,588)</u>	<u>(33,709)</u>
Net income	1,226,363	289,477
Net position - beginning	<u>8,621,675</u>	<u>8,332,198</u>
Net position - ending	<u><u>\$9,848,038</u></u>	<u><u>\$8,621,675</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$3,513,333	\$3,401,804
Cash payments for goods and services	(2,181,373)	(1,431,193)
Cash payments to employees	<u>(400,636)</u>	<u>(383,995)</u>
Net cash provided by operating activities	<u>931,324</u>	<u>1,586,616</u>
Cash flows from investing activities:		
Interest income	<u>8,021</u>	<u>2,166</u>
Cash flows from capital and related financing activities:		
Principal paid on loan maturities	(213,831)	(213,831)
Interest paid on loan	(36,035)	(38,300)
Developer deposits	(8,807)	73,967
Purchase of capital assets	(114,555)	(129,087)
Construction in progress payments	<u>(517,800)</u>	<u>(69,421)</u>
Net cash used by financing activities	<u>(891,028)</u>	<u>(376,672)</u>
Net increase in cash and cash equivalents	48,317	1,212,110
Cash and cash equivalents at beginning of year	<u>4,401,383</u>	<u>3,189,273</u>
Cash and cash equivalents at end of year	<u><u>\$4,449,700</u></u>	<u><u>\$4,401,383</u></u>
Reconciliation to statement of net position:		
Unrestricted	\$4,218,279	\$4,161,388
Restricted	<u>231,421</u>	<u>239,995</u>
	<u><u>\$4,449,700</u></u>	<u><u>\$4,401,383</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating income	\$1,251,951	\$323,186
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	249,126	243,236
Changes in assets and liabilities:		
Decrease (increase) in customer accounts receivable	86,359	(44,856)
Decrease in customer interest receivable	7,622	1,153
Increase in prepaid revenue	488	1,303
(Decrease) increase in accounts payable and accrued expenses	(913,275)	887,831
Increase in net pension liability	389,244	213,806
Increase in other post-employment benefits	100,491	100,491
Increase in compensated absences	10,278	8,034
Increase in deferred outflows - pension deferrals	(233,301)	(112,514)
Decrease in deferred inflows - pension deferrals	(17,659)	(35,054)
Net cash provided by operating activities	<u>\$931,324</u>	<u>\$1,586,616</u>
 Supplemental disclosure of cash flow information:		
Noncash capital and related financing activities:		
Amortization of bond and loan premiums	<u>\$1,488</u>	<u>\$1,488</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, 2016 AND 2015

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to future periods. The Authority reported deferred outflows of resources related to pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to future periods. The Authority reported deferred inflows of resources related to pensions.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current year financial statements presentation.

3. 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 2016 and 2015 was as follows:

	Balance December 31, 2015	Additions	Transfers	Balance December 31, 2016
Construction in Progress	\$184,223	\$517,800	(\$456,992)	\$245,031
Property, plant, and equipment	13,934,079	114,555	456,992	14,505,626
	14,118,302	632,355	-	14,750,657
Less, accumulated depreciation	(4,388,376)	(249,126)	-	(4,637,502)
Capital assets, net	<u>\$9,729,926</u>	<u>\$383,229</u>	<u>-</u>	<u>\$10,113,155</u>
	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>

4. 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, 2016 and 2015, the Authority's bank balances were exposed to custodial credit risk as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
GUDPA Insured and Collateralized with Securities Held by Pledging Financial Institutions	<u>\$3,235,339</u>	<u>\$3,115,396</u>

In addition, as of December 31, 2016 and 2015, the Authority had \$718,185 and \$715,285, 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.

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, 2016 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	2017-2028	\$1,935,342
New Jersey Environmental Infrastructure Trust Loan	1,080,000	3.00-5.00	2017-2029	830,000
Add, unamortized premium				16,709
Total loans payable				2,782,051
Less, loans payable - current				(218,831)
Long-term loans payable				<u>\$2,563,220</u>

The following table summarizes debt service requirements for outstanding loans at December 31, 2016:

Year	Principal	Interest	Total
2017	\$218,831	\$21,224	\$240,055
2018	218,831	30,180	249,011
2019	223,831	27,680	251,511
2020	223,831	25,600	249,431
2021	228,831	23,520	252,351
2022-2026	1,174,150	82,240	1,256,390
2027-2029	477,037	17,680	494,717
	<u>\$2,765,342</u>	<u>\$228,124</u>	<u>\$2,993,466</u>

6. LONG-TERM DEBT (CONTINUED)

Changes in Outstanding Long-Term Debt

Long-Term Debt transactions for the year ended December 31, 2016 and 2015 are summarized as follows:

	Balance December 31, 2015	Reductions	Balance December 31, 2016	Amounts due within one year
New Jersey Environmental Infrastructure Trust Fund loan payable	\$2,104,173	\$168,831	\$1,935,342	\$168,831
New Jersey Environmental Infrastructure Trust loan payable	875,000	45,000	830,000	50,000
Unamortized premium	18,197	1,488	16,709	-
	<u>\$2,997,370</u>	<u>\$215,319</u>	<u>\$2,782,051</u>	<u>\$218,831</u>
	December 31, 2014	Reductions	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>

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.

Defined Contribution Retirement Program

The Defined Contribution Retirement Program ("DCRP") is a cost-sharing multiple employer defined contribution pension fund which was established in 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. DCRP provides eligible members with a tax sheltered, defined contribution retirement benefit, along with life insurance and disability coverage.

Employee contributions to DCRP are five and one-half percent (5.50%) of base wages. Member contributions are matched by a three percent (3.00%) employer contribution.

Funding Policy

PERS employee contributions were 7.06% of base wages through June 30, 2016. Effective July 1, 2016 PERS employee contributions were 7.20% of base wages. The Division of Pensions actuarially determines employer's contributions annually.

Public Employees Retirement System (PERS)

At June 30, 2016, the State reported a net pension liability of \$1,487,581 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. 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, 2016, the Authority's proportion was 0.0050227057 percent, which was an increase of 0.0001299008 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016 and 2015, the State recognized an actuarially determined pension expense of \$182,905 and \$108,300, respectively, for the Authority's proportionate share of the total pension expense. The Authority's actual pension contribution by the Authority for December 31, 2016 and 2015 were \$42,065 and \$38,947, respectively.

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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

	2016		2015	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience		\$27,665		\$26,202
Changes of assumptions		308,147		117,953
Net difference between projected and actual earnings on pension plan investments		56,723	\$17,659	
Changes in proportion and differences between Authority contributions and proportionate share of contributions		147,451		162,530
	<u>-</u>	<u>\$539,986</u>	<u>\$17,659</u>	<u>\$306,685</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>
2017	\$111,589
2018	111,589
2019	131,948
2020	138,768
2021	46,092
	<u>\$539,986</u>

7. PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Inflation Rate	3.08%	3.04%
Salary Increases (based on age)		
Through 2026	1.65% - 4.15%	2.15% - 4.40%
Thereafter	2.65% - 5.15%	2.15% - 4.40%
Investment Rate of Return	7.65%	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, 2011 to June 30, 2014. 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, 2016 and 2015 are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2016</u>		<u>June 30, 2015</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%	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 Returns	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 US	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	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 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the 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, 2016 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 (2.98%) or 1 percentage point higher (4.98%) than the current rate:

	1% Decrease <u>2.98%</u>	At Current Discount Rate <u>3.98%</u>	1% Increase <u>4.98%</u>
Authority's proportionate share of the pension liability	\$1,822,857	\$1,487,581	\$1,210,782

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. COMPENSATED ABSENCES

The Authority permits its employees to accumulate unused sick pay, which may be taken as time off or paid at a later date at an agreed upon rate. The unused sick pay accumulates indefinitely and after fifteen years of service employees will be paid for one-half of their total accumulated unused sick pay, not to exceed 100 days and not to exceed the maximum allowed by the State at the time the employee resigns or retires. The estimated current costs of such unpaid sick pay at December 31, 2016 and 2015 were \$86,755 and \$76,477 respectively.

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, 2016 Net OPEB Obligation	\$710,461
Plus: Annual OPEB Cost	<u>102,855</u>
	813,316
Less: Authority contributions	<u>(2,364)</u>
December 31, 2016 Net OPEB Obligation	<u><u>\$810,952</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 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>
12/31/2016	\$102,855	2.30%	\$810,952
12/31/2015	102,855	9.19%	710,461
12/31/2014	102,855	17.21%	609,970

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, 2016 through the date the financial statements were issued, December 29, 2017, 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, 2016

	ORIGINAL BUDGET	ACTUAL
<u>Revenues</u>		
Sewer service charges	\$3,310,560	\$3,344,434
Connection fees	33,000	32,193
Penalties and other	26,600	38,097
Application fees	6,000	4,140
Interest income	-	8,021
Total revenues	<u>\$3,376,160</u>	<u>\$3,426,885</u>
<u>Expenditures</u>		
<u>Administration</u>		
Salaries and wages	\$174,746	\$179,022
Legal	40,000	14,703
Payroll taxes	15,320	12,859
Pension	18,407	79,917
Accounting	6,000	2,625
Computer consultant	5,400	5,400
Auditing	20,000	15,386
Trustee and administrative fees	5,240	5,240
Employee training	12,000	1,277
Insurance - general	1,500	1,342
Insurance - health	64,423	49,285
Engineer	35,000	29,076
Office supplies and postage	12,000	7,812
Telephone	13,500	11,851
Advertising fees	1,500	467
Miscellaneous	1,674	1,672
Employee consultant	2,000	-
Post-employment healthcare	55,680	44,890
	<u>484,390</u>	<u>462,824</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, 2016

	ORIGINAL BUDGET	ACTUAL
<u>Expenditures (continued)</u>		
Cost of Providing Services		
Salaries and wages	\$205,000	\$231,161
Payroll taxes	16,680	16,605
Insurance - general	26,500	23,700
Insurance - health	75,577	63,640
Telephone	1,500	1,317
Electricity	38,000	29,025
Fuel	10,000	4,095
Natural gas	10,000	7,006
Plant supplies	6,500	5,803
Water	1,200	929
Miscellaneous	4,019	4,103
Repairs and maintenance	75,000	56,198
Regional sewerage charges	2,150,000	850,428
Post-employment healthcare	65,320	57,965
Pension	21,593	102,988
	<u>2,706,889</u>	<u>1,454,963</u>
 Total administration and cost of of providing services	 <u>3,191,279</u>	 <u>1,917,787</u>
 Principal payments on debt service in lieu of depreciation	 <u>213,831</u>	 <u>213,831</u>
 Interest payments on debt	 <u>36,050</u>	 <u>35,097</u>
 Total expenditures	 3,441,160	 2,166,715
 (Unrestricted net assets utilized)/ excess revenues	 <u>(65,000)</u>	 <u>1,260,170</u>
 Net Total Appropriations	 <u><u>\$3,376,160</u></u>	 <u><u>\$3,426,885</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, 2016

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

Excess in Revenues	\$1,260,170
Add back:	
Principal payments on debt service in lieu of depreciation	213,831
Amortization of bond and loan premiums	1,488
Deduct:	
Depreciation	<u>(249,126)</u>
Change in net position	<u><u>\$1,226,363</u></u>
Change in nets assets per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$1,226,363</u></u>

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

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2016

None