

**PENNS GROVE  
SEWERAGE AUTHORITY**

**REPORT OF AUDIT**

**WITH  
SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEARS ENDED  
MAY 31, 2017 and 2016**

**PENNS GROVE SEWERAGE AUTHORITY**  
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PENNS GROVE SEWERAGE AUTHORITY  
Roster of Officials

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The following officials were in office during the period under audit:

<u>Members</u>	<u>Position</u>
Paul J. Morris	Chairman
Armondo Verdecchio	Vice Chairman
Joseph Venello	Secretary
Clifford Poindexter	Treasurer
Carl Washington	Financial Secretary

<u>Other Officials</u>	<u>Position</u>
Marie Danks	Office Manger
William Boden, III	Superintendent of Operations
Adam Telsey	Solicitor
Sickels & Associates, Inc.	Engineer

**PENNS GROVE SEWERAGE AUTHORITY**

**PART I**

**FINANCIAL SECTION**

**FOR THE FISCAL YEARS ENDED MAY 31, 2017 and 2016**

## **INDEPENDENT AUDITOR'S REPORT**

The Chairman and Members of  
The Penns Grove Sewerage Authority  
Penns Grove, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Penns Grove Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Borough of Penns Grove (Authority), as of and for the fiscal years ended May 31, 2017 and 2016 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; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Penns Grove Sewerage Authority, in the County of Salem, State of New Jersey as of May 31, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Authority's proportionate share of the net pension liability, schedule of the Authority's contributions and schedule of funding progress for the OPEB plan as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The accompanying supplementary schedules as listed in the table of contents schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2018 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.

Respectfully submitted,



BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

Woodbury, New Jersey  
April 6, 2018

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

**INDEPENDENT AUDITOR'S REPORT**

The Chairman and Members of  
The Penns Grove Sewerage Authority  
Penns Grove, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Penns Grove Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Borough of Penns Grove, (Authority), as of and for the fiscal year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 6, 2018.

**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 opinion 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 Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *Schedule of Findings and Recommendations*, we did identify one deficiency in internal control that we consider to be a material weakness as finding no. 2017-001.

**Compliance and Other Matters**

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

**The Authority's Response to Findings**

The Authority's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Recommendations*. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Respectfully submitted,



BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants

Woodbury, New Jersey  
April 6, 2018



**Penns Grove Sewerage Authority  
Management's Discussion and Analysis  
For the Fiscal Years Ended May 31, 2017 and 2016  
(Unaudited)**

**FINANCIAL HIGHLIGHTS**

Management believes the financial position of the Penns Grove Sewerage Authority (the "Authority") is stable. According to its bond covenants, the Authority is required to deposit all revenues received in the Revenue Fund and subsequently transfer funds to the Bond Service Fund and General Fund. The Bond Service Fund pays maturing interest and principal on the Sewer Revenue Bonds. The General Fund is to receive all excess funds of the Authority. The Authority can use the remaining excess funds for any lawful purpose. Key financial highlights for the Authority's fiscal year 2017 were:

- Operating revenues for fiscal 2017 were \$1,251,155.86, which represents a decrease of \$5,514.26 from fiscal year 2016.
- Operating expenses for fiscal year 2017 were \$1,342,357.62, which represents an increase of \$128,168.08 from fiscal year 2016.
- Operating loss for fiscal year 2017 was \$91,201.76 as compared to operating income of \$42,480.58 in fiscal year 2016, a decrease of \$133,682.34.
- There were no capital contributions for fiscal years 2017 and 2016.
- There was a decrease in net position of \$173,396.18 in the current fiscal year in comparison to an increase in net position of \$557,008.57 in fiscal year 2016. In fiscal year 2016, the Authority had a one-time positive adjustment to the OPEB unfunded liability in the amount of \$601,772.65.
- At year-end, total assets were \$3,903,918.12. After deducting liabilities of \$3,209,435.76 and adjusting for deferred outflows of resources of \$408,407.00, the resulting net position is equal to \$1,102,889.36.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information that includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information.

The basic financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statements of net position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. As the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statements of revenues, expenses and changes in net position regardless of when cash is received or paid. Net position - the difference between the Authority's assets, liabilities and deferred inflow and outflow of resources - is a measure of the Authority's financial health or position.

The statements of revenues, expenses and changes in net position provides a breakdown of the various areas of revenues and expenses encountered during the current fiscal year. The statements of cash flows provides a breakdown of the various sources of cash flow, categorized into three areas: Cash flows from operating activities, capital and related financing activities and investing activities.

# FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net position was \$1,102,889.36 as of May 31, 2017. Total assets, total liabilities, deferred outflows and inflows of resources and total net position for the last three years is detailed below.

## Penns Grove Sewerage Authority Statements of Net Position As of May 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current Assets			
Unrestricted	\$ 1,694,460.82	\$ 1,725,507.75	\$ 1,699,741.90
Noncurrent Assets			
Capital Assets	<u>2,209,457.30</u>	<u>2,397,706.49</u>	<u>2,549,549.56</u>
Total Assets	<u>3,903,918.12</u>	<u>4,123,214.24</u>	<u>4,249,291.46</u>
Deferred Outflows of Resources			
Related to Pensions	<u>408,407.00</u>	<u>186,347.00</u>	<u>68,033.75</u>
Liabilities:			
Current Liabilities			
Unrestricted	179,170.13	173,955.59	156,846.18
Long-Term Liabilities	<u>3,030,265.63</u>	<u>2,844,221.11</u>	<u>3,395,996.06</u>
Total Liabilities	<u>3,209,435.76</u>	<u>3,018,176.70</u>	<u>3,552,842.24</u>
Deferred Inflows of Resources			
Related to Pensions	<u>-</u>	<u>15,099.00</u>	<u>45,206.00</u>
Net Position			
Net Investment in Capital Assets	436,698.87	495,462.92	522,511.08
Restricted:			
Renewals & Replacements	2,594.11	2,594.11	2,594.11
Unemployment Compensation Claims	12,568.45	12,549.65	12,530.81
Unrestricted	<u>651,027.93</u>	<u>765,678.86</u>	<u>181,640.97</u>
Total Net Position	<u>\$ 1,102,889.36</u>	<u>\$ 1,276,285.54</u>	<u>\$ 719,276.97</u>

The Authority generated an operating loss of \$91,201.76 for the current year. Combined with net non-operating revenues (expenses) of \$82,194.42, the Authority's decrease in net position for the current fiscal year was \$173,396.18. Major components of this activity are detailed in the following table.

Penns Grove Sewerage Authority  
Statements Revenue, Expenses and Changes in Net Position  
For the Fiscal Years Ended May 31, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
User Fees	\$ 1,164,458.89	\$ 1,176,724.83	\$ 1,180,381.08
Delinquent Charges	85,366.29	76,092.79	68,725.85
Miscellaneous	<u>1,330.68</u>	<u>3,852.50</u>	<u>213.53</u>
	1,251,155.86	1,256,670.12	1,249,320.46
Operating Expenses	<u>1,342,357.62</u>	<u>1,214,189.54</u>	<u>1,271,019.51</u>
Operating Income (Loss)	(91,201.76)	42,480.58	(21,699.05)
Non-operating Revenues (Expenses):			
Investment Income	1,801.40	1,898.93	1,921.45
Interest on Debt	<u>(83,995.82)</u>	<u>(89,143.59)</u>	<u>(93,877.29)</u>
Total Non-operating Revenues (Expenses)	<u>(82,194.42)</u>	<u>(87,244.66)</u>	<u>(91,955.84)</u>
Change in Net Position Before Special Items	(173,396.18)	(44,764.08)	(113,654.89)
Special Items:			
Adjustment of OPEB Unfunded Liability	<u>                    </u>	<u>601,772.65</u>	<u>                    </u>
Total Special Items	<u>                    </u>	<u>601,772.65</u>	<u>                    </u>
Change in Net Position	(173,396.18)	557,008.57	(113,654.89)
Net Position - June 1	<u>1,276,285.54</u>	<u>719,276.97</u>	<u>832,931.86</u>
Net Position - May 31	<u><u>\$ 1,102,889.36</u></u>	<u><u>\$ 1,276,285.54</u></u>	<u><u>\$ 719,276.97</u></u>

## **OVERALL ANALYSIS**

The Authority's overall financial position is stable. The Authority revenues remain level with no significant change in the quantity or overall mix of residential, commercial, public and industrial customer billing base.

The Authority's financial position decreased by \$173,396.18 in the current fiscal year to Net Position of \$1,102,889.36. Total Unrestricted Assets are \$1,694,460.82. Capital Assets, net of accumulated depreciation, are \$2,209,457.30. Current Liabilities are \$179,170.13 and Long Term Liabilities are \$3,030,265.63 for Total Liabilities of \$3,209,435.76.

## **BUDGET VARIANCES**

The budget for fiscal year 2017 was approved on April 21, 2016 and adopted on May 19, 2016. Following, is a narrative addressing the more significant budget line items, and how those budget line items compare to actual operating results for the current fiscal year.

User fees revenue had an unfavorable budget variance of \$23,341.11, delinquent charges had a favorable variance of \$49,866.29 and miscellaneous revenues had a favorable variance of \$1,330.68.

Interest on investments revenue realized was \$1,782.60.

Operating expenditures, principal payments on debt and non-operating expenditures had a favorable combined budget variance in the amount of \$63,370.62.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

During the current fiscal year, the Authority spent \$15,519.00 to acquire capital assets.

As of May 31, 2017, there are three Revenue Bonds outstanding in the sum of \$1,737,313.53 and an intergovernmental loan outstanding for \$25,000.00. The intergovernmental loan is payable to the Borough of Penns Grove.

The Authority has not experienced any change in its credit rating, nor does it anticipate any. Although the Authority does not operate under any debt limitations, it is required to receive approval by resolution of the Borough Council prior to issuing any new debt.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Borough of Penns Grove's citizens and our customers, clients, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have questions about this report or need additional financial information, contact the Office Manager, Penns Grove Sewerage Authority, Mill Street and Beach Avenue, Penns Grove, NJ 08069.

## **BASIC FINANCIAL STATEMENTS**

## PENNS GROVE SEWERAGE AUTHORITY

## Statements of Net Position

As of May 31, 2017 and 2016

	2017	2016
<b><u>ASSETS</u></b>		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 1,031,371.62	\$ 1,135,835.01
Sewer Service Charges Receivable		
(net of allowance for doubtful accounts		
\$12,264.51 for 2017 and 2016)	513,773.03	474,652.03
Accrued Penalties and Interest Receivable	127,269.28	93,413.14
Prepaid Expenses	22,046.89	21,607.57
Total Unrestricted Assets	1,694,460.82	1,725,507.75
Total Current Assets	1,694,460.82	1,725,507.75
Capital Assets:		
Completed (Net of Accumulated Depreciation)	2,209,457.30	2,397,706.49
Total Assets	3,903,918.12	4,123,214.24
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Related to Pensions	408,407.00	186,347.00

(Continued)

**PENNS GROVE SEWERAGE AUTHORITY**  
**Statements of Net Position**  
**As of May 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 38,745.24	\$ 30,683.29
Payroll Taxes Payable	2,158.49	4,222.48
Bonds Payable - Current Portion	104,401.76	99,485.14
Intergovernmental Loan Payable - Current Portion	25,000.00	30,000.00
Interest Payable	8,864.64	9,564.68
	<u>179,170.13</u>	<u>173,955.59</u>
Total Current Liabilities Payable from Unrestricted Assets		
Long-term Liabilities:		
Compensated Absences Payable	21,530.00	34,463.58
Net OPEB Obligation (GASB 45)	73,695.86	75,359.00
Net Pension Liability	1,267,283.00	939,115.00
Accrued Liability - Related to Pension	34,845.00	32,970.00
Bonds Payable	1,632,911.77	1,737,313.53
Intergovernmental Loan Payable	-	25,000.00
	<u>3,030,265.63</u>	<u>2,844,221.11</u>
Total Long-term Liabilities		
Total Liabilities	<u>3,209,435.76</u>	<u>3,018,176.70</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Related to Pensions	-	15,099.00
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	436,698.87	495,462.92
Restricted:		
Renewal & Replacement	2,594.11	2,594.11
Unemployment Compensation Claims	12,568.45	12,549.65
Unrestricted	651,027.93	765,678.86
Total Net Position	<u>\$ 1,102,889.36</u>	<u>\$ 1,276,285.54</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**PENNS GROVE SEWERAGE AUTHORITY**  
**Statements of Revenue, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended May 31, 2017 and 2016**

	2017	2016
Operating Revenues:		
User Fees	\$ 1,164,458.89	\$ 1,176,724.83
Delinquent Charges	85,366.29	76,092.79
Miscellaneous	1,330.68	3,852.50
Total Operating Revenues	<u>1,251,155.86</u>	<u>1,256,670.12</u>
Operating Expenses:		
Administrative and General:		
Salaries and Wages	66,617.36	61,120.86
Fringe Benefits	170,365.78	102,356.07
Other Expenses	115,577.84	112,625.32
Cost of Providing Services:		
Salaries and Wages	313,487.49	335,411.79
Fringe Benefits	135,154.64	112,389.64
Other Expenses	337,386.32	289,408.79
Depreciation	203,768.19	200,877.07
Total Operating Expenses	<u>1,342,357.62</u>	<u>1,214,189.54</u>
Operating Income (Loss)	<u>(91,201.76)</u>	<u>42,480.58</u>
Non-Operating Revenues (Expenses):		
Investment Income	1,801.40	1,898.93
Interest on Debt	(83,995.82)	(89,143.59)
Total Non-Operating Revenues (Expenses)	<u>(82,194.42)</u>	<u>(87,244.66)</u>
Change in Net Position before Special Item	(173,396.18)	(44,764.08)
Special Item:		
Adjustment to OPEB Unfunded Liability (Note 4)	<u>-</u>	<u>601,772.65</u>
Change in Net Position	(173,396.18)	557,008.57
Net Position June 1	<u>1,276,285.54</u>	<u>719,276.97</u>
Net Position May 31	<u>\$ 1,102,889.36</u>	<u>\$ 1,276,285.54</u>

The accompanying Notes to Financial Statements are an integral part of this statement.



**PENNS GROVE SEWERAGE AUTHORITY**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended May 31, 2017 and 2016**

	2017	2016
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 1,125,337.89	\$ 1,131,744.42
Payments to Suppliers	(752,525.09)	(592,164.11)
Payments to Employees	(302,218.42)	(375,425.68)
Other Operating Receipts	52,840.83	59,638.54
Net Cash Provided by Operating Activities	<u>123,435.21</u>	<u>223,793.17</u>
Cash Flows from Capital and Related Financing Activities:		
Bond Principal Repayments	(99,485.14)	(94,802.90)
Interest on Debt	(84,695.86)	(89,693.10)
Intergovernmental Loan Payable	(30,000.00)	(30,000.00)
Acquisition of Capital Assets	(15,519.00)	(49,034.00)
Net Cash Used for Capital and Related Financing Activities	<u>(229,700.00)</u>	<u>(263,530.00)</u>
Cash Flows from Investing Activities:		
Interest on Investments	<u>1,801.40</u>	<u>1,898.93</u>
Net Cash Provided by Investing Activities	<u>1,801.40</u>	<u>1,898.93</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(104,463.39)	(37,837.90)
Cash and Cash Equivalents - June 1	<u>1,135,835.01</u>	<u>1,173,672.91</u>
Cash and Cash Equivalents - May 31	<u>\$ 1,031,371.62</u>	<u>\$ 1,135,835.01</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (91,201.76)	\$ 42,480.58
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	203,768.19	200,877.07
GASB 68	92,884.00	32,143.00
Net OPEB Obligation (GASB 45) Accrual	(1,663.14)	3,598.00
Change in Sewer Service Charges Receivable	(39,121.00)	(44,980.41)
Change in Penalties Interest Receivable	(33,856.14)	(20,306.75)
Change in Accounts Payable	8,061.95	19,334.30
Change in Payroll Taxes Payable	(2,063.99)	(6,357.62)
Change in Accrued Liabilities	(12,933.58)	(4,678.41)
Change in Prepaid Expenses	(439.32)	1,683.41
Net Cash Provided by Operating Activities	<u>\$ 123,435.21</u>	<u>\$ 223,793.17</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**PENNS GROVE SEWERAGE AUTHORITY**  
Notes to Financial Statements  
For the Fiscal Years Ended May 31, 2017 and 2016

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**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

The Penns Grove Sewerage Authority is a public body corporate and politic of the State of New Jersey and was originally created as a sewerage authority by an ordinance adopted on May 31, 1950 by the governing body of the Borough of Penns Grove (the "Borough"), pursuant to the Sewerage Authority Law, Chapter 138 of the Laws of 1946, as amended. On July 16, 1987, the Authority adopted a Bond Resolution, with Supplemental Resolutions adopted on August 20, 1987, May 19, 1988, August 25, 1988, and November 1, 1988, authorizing the issuance of \$3,000,000.00 Sewer Revenue Bonds for new construction and improvements to the wastewater collection system. On October 20, 2011, the Authority adopted a Supplemental Bond Resolution authorizing and approving \$250,000.00 in additional Revenue Bonds. All Bond Resolutions are in effect as of May 31, 2017.

The Authority was created for the purpose of constructing, maintaining and operating wastewater collection and treatment facilities within the municipal boundaries of the Borough of Penns Grove.

The Authority consists of five members, who are appointed by Borough resolution for five-year terms. The office manager and superintendent manage the daily operations of the Authority.

**Component Unit**

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

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

Based upon the application of these criteria, the Authority has no component units and is a component unit of the Borough of Penns Grove.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Basis of Presentation**

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

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

**Basis of Accounting**

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

**Revenues -- Exchange and Non-Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. Sewer service charges are recognized as revenue when services are provided. Connection fees are recognized when fees are received.

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

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

**Budgets and Budgetary Accounting**

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

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

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Budgets and Budgetary Accounting (Cont'd)**

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At fiscal year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

**Cash, Cash Equivalents and Investments**

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

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or bonds or other obligations of school district of which the local unit is a part or within which the school district is located, bonds or other obligations approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

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

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

**Inventories**

Inventory consists principally of chemicals for the treatment of sewerage and sludge and is valued at cost. The Authority has determined that the inventories are immaterial and are not recorded in the financial statements.

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

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the applicable fiscal year end.

**Capital Assets**

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased prior to December 1, 1991 are stated at estimated cost. Assets purchased since are stated at actual cost. Donated capital assets are recorded at their fair market value as of the date received.

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

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$5,000.00 or more
- 2) Useful life of more than one year
- 3) Asset is not affected by consumption

**Depreciation**

Depreciation is provided using the straight-line method over the following estimated useful life of the assets:

	<u>Years</u>
Buildings	20-40
Fixed Equipment	5-10
Major Moveable Equipment	5-10
Vehicles	3-10

Depreciation is taken starting the month after the asset is placed into service.

**Deferred Outflows of Resources**

The Authority reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position. The only deferred outflow of resources reported in this fiscal year's financial statements is a deferred outflow of resources for contributions made to the Authority's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the Authority's fiscal year.

**Deferred Inflows of Resources**

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

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

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Authority and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

**Unearned Revenue**

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

**Pensions**

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

**Net Position**

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

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

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

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

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

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

**Operating and Non-Operating Revenues and Expenses**

Operating revenues include all revenues derived from sewer collection facilities (i.e., sewer rents and connection fees) and other revenue sources. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts.

Operating expenses include expenses associated with the operation, maintenance and repair of the sewer collection facility and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt.

**Accounting Estimates**

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

**Impact of Recently Issued Accounting Policies****Recently Issued and Adopted Accounting Pronouncements**

For the fiscal year ended May 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this Statement had no impact on the Authority's financial statements.

Also, the Authority adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this Statement had no impact on the Authority's financial statements.

Additionally, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption of this Statement had no impact on the Authority's financial statements.

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Recently Issued and Adopted Accounting Pronouncements (Cont'd)**

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

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

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

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

Next, the Authority adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption of this Statement had no impact on the Authority's financial statements.

Lastly, the Authority adopted GASB Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this Statement had no impact on the Authority's financial statements.

**Recently Issued Accounting Pronouncements**

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the Authority in the fiscal year ending May 31, 2019. Management has not yet determined the impact of this Statement on the financial statements.



**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Recently Issued Accounting Pronouncements (Cont'd)**

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement will become effective for the Authority in the fiscal year ending May 31, 2019. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement will become effective for the Authority in the fiscal year ending May 31, 2020. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement will become effective for the Authority in the fiscal year ending May 31, 2021. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement will become effective for the Authority in the fiscal year ending May 31, 2019. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending May 31, 2019. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement will become effective for the Authority in the fiscal year ending May 31, 2022. Management has not yet determined the impact of this Statement on the financial statements.

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Compliance with Finance Related Legal and Contractual Provisions**

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

**Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)****General Bond Resolution**

The Authority is subject to the provisions and restrictions of the General Bond Resolution adopted November 1, 1988 and as amended. A summary of the activities of each account created by the Bond Resolution is covered below.

**Revenue Fund** - All revenue received by the Authority is deposited in the Revenue Fund and subsequently used for authorized operating expenses, transfers to the Revolving Fund and in each month after the deposit of revenues into the Revenue Fund, to the extent money is available, transfer funds to the various accounts as described below.

**Bond Service Fund** - This account is maintained to pay maturing interest and principal on the Sewer Revenue Bonds. Transfers, to the extent (if any) needed to increase the amount in the Bond Service Fund to pay principal and interest on the Bonds when due and payable.

**Renewal and Replacement Account** - These funds are maintained for reasonable and necessary expenses with respect to the system for major repairs, renewals, replacements or maintenance items of a type not recurring annually.

**General Fund** - All excess funds of the Authority are recorded in the General Fund. If the Authority is not in default in the payment of bond principal or interest and all fund requirements are satisfied, the Authority may use the excess funds for any lawful purpose.

**Note 3: DETAIL NOTES - ASSETS****Cash and Cash Equivalents**

**Custodial Credit Risk Related to Deposits** - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below.

As of May 31, 2017 and 2016, the Authority's bank balances were exposed to custodial credit risk as follows:

	<u>May 31,</u>	
	<u>2017</u>	<u>2016</u>
Insured by F.D.I.C.	\$ 250,000.00	\$ 250,000.00
Insured and collateralized with securities held by pledging financial institutions	790,990.34	893,647.45
	<u>\$ 1,040,990.34</u>	<u>\$ 1,143,647.45</u>

**Note 3: DETAIL NOTES – ASSETS (CONT'D)****Service Fees**

The following is a three-year comparison of service charge billings and collections for all types of accounts maintained by the Authority:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Billings</u>	<u>Total Collections</u>	<u>Percentage of Collections</u>
2017	\$ 486,916.54	\$ 1,164,458.89	\$ 1,125,337.89	68.15%
2016	441,936.13	1,176,724.83	1,131,744.42	69.92%
2015	542,297.32	1,192,861.08	1,159,697.20	66.84%

**Capital Assets**

During the fiscal year ended May 31, 2017, the following changes in Capital Assets occurred:

	<u>Balance June 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance May 31, 2017</u>
Land	\$ 9,000.00			\$ 9,000.00
Building/Infrastructure	4,953,273.61			4,953,273.61
Fixed Equipment	1,304,892.02	\$ 15,519.00		1,320,411.02
Movable Equipment	59,690.24			59,690.24
Vehicles	255,203.46			255,203.46
	6,582,059.33	15,519.00	-	6,597,578.33
Depreciation	4,184,352.83	203,768.19	-	4,388,121.02
	<u>\$ 2,397,706.50</u>	<u>\$ (188,249.19)</u>	<u>\$ -</u>	<u>\$ 2,209,457.31</u>

During the fiscal year ended May 31, 2016, the following changes in Capital Assets occurred:

	<u>Balance June 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance May 31, 2016</u>
Land	\$ 9,000.00			\$ 9,000.00
Building/Infrastructure	4,945,773.61	\$ 7,500.00		4,953,273.61
Fixed Equipment	1,304,892.02			1,304,892.02
Movable Equipment	49,950.24	9,740.00		59,690.24
Vehicles	252,288.14	31,794.00	\$ 28,878.68	255,203.46
	6,561,904.01	49,034.00	28,878.68	6,582,059.33
Depreciation	4,012,354.44	200,877.07	28,878.68	4,184,352.83
	<u>\$ 2,549,549.57</u>	<u>\$ (151,843.07)</u>	<u>\$ -</u>	<u>\$ 2,397,706.50</u>

**Note 4: DETAIL NOTES – LIABILITIES****Long-term Liabilities**

During the fiscal year ended May 31, 2017, the following changes occurred in long-term obligations:

	Balance June 1, 2016	Additions	Reductions	Balance May 31, 2017	Due Within One Year
Bonds and Loans Payable:					
Bonds Payable	\$ 1,836,798.67		\$ (99,485.14)	\$ 1,737,313.53	\$ 104,401.76
Intergovernmental Loan	55,000.00		(30,000.00)	25,000.00	25,000.00
Total Bonds and Loans Payable	1,891,798.67	-	(129,485.14)	1,762,313.53	129,401.76
Other Liabilities:					
Net Pension Liability	939,115.00	\$ 519,558.00	(191,390.00)	1,267,283.00	
Net OPEB Obligation	75,359.00		(1,663.14)	73,695.86	
Other Liabilities -					
Related to Pension	32,970.00	1,875.00		34,845.00	
Compensated Absences	34,463.58		(12,933.58)	21,530.00	
Total Other Liabilities	1,081,907.58	521,433.00	(205,986.72)	1,397,353.86	-
Total Long Term Liabilities	\$ 2,973,706.25	\$ 521,433.00	\$ (335,471.86)	\$ 3,159,667.39	\$ 129,401.76

During the fiscal year ended May 31, 2016, the following changes occurred in long-term obligations:

	Balance June 1, 2015	Additions	Reductions	Balance May 31, 2016	Due Within One Year
Bonds and Loans Payable:					
Bonds Payable	\$ 1,931,601.57		\$ (94,802.90)	\$ 1,836,798.67	\$ 99,485.14
Intergovernmental Loan	85,000.00		(30,000.00)	55,000.00	30,000.00
Total Bonds and Loans Payable	2,016,601.57	-	(124,802.90)	1,891,798.67	129,485.14
Other Liabilities:					
Net Pension Liability	758,552.00	\$ 266,693.00	(86,130.00)	939,115.00	
Net OPEB Obligation	673,533.65	3,598.00	(601,772.65)	75,359.00	
Other Liabilities -					
Related to Pension	32,969.75	0.25		32,970.00	
Compensated Absences	39,141.99		(4,678.41)	34,463.58	8,853.98
Total Other Liabilities	1,504,197.39	270,291.25	(692,581.06)	1,081,907.58	8,853.98
Total Long Term Liabilities	\$ 3,520,798.96	\$ 270,291.25	\$ (817,383.96)	\$ 2,973,706.25	\$ 138,339.12

**Revenue Bonds Payable**

The Revenue Bonds Series 1988 and 2011 are direct obligations of the Authority. The Bonds are secured by a pledge on the Revenues derived by the Authority from the operation of its wastewater collection facilities. The Bonds are further secured by the Limited Service Agreement between the Authority and the Borough of Penns Grove (See Note 6).

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Revenue Bonds Payable (Cont'd)**

The following schedule reflects the Debt Requirements until 2052.

<u>Fiscal Year</u> <u>Ending May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 104,401.76	\$ 79,294.24	\$ 183,696.00
2019	109,564.57	74,131.43	183,696.00
2020	114,985.98	68,710.02	183,696.00
2021	120,679.02	63,016.98	183,696.00
2022	126,657.37	57,038.63	183,696.00
2023 to 2027	733,996.10	184,483.90	918,480.00
2028 to 2032	274,628.31	31,274.99	305,903.30
2033 to 2037	32,022.87	15,557.13	47,580.00
2038 to 2042	35,813.41	11,766.59	47,580.00
2043 to 2047	40,052.62	7,527.38	47,580.00
2048 to 2052	44,511.52	3,068.48	47,580.00
	<u>1,737,313.53</u>	<u>\$ 595,869.77</u>	<u>\$ 2,333,183.30</u>
Less: Current Maturities	<u>104,401.76</u>		
Long-term Portion	<u>\$ 1,632,911.77</u>		

**Compensated Absences**

Authority employees may accumulate and carry forward sick leave at the end of the fiscal year. To be eligible to receive payment for accumulated sick time at retirement, the plant superintendent and office manager are required to have accumulated a minimum of 50 days, all other employees must accumulate a minimum of 100 days. The maximum payment to any employee for accumulated sick time is \$10,000.00.

Employees are entitled to accumulate and carry forward vacation time earned in a calendar year to the following year. Vacation days not used by May 31 of the subsequent year will be forfeited unless otherwise approved by the Authority. The accrued liability for accumulated sick leave and vacation time at May 31, 2017 and 2016 is estimated at \$21,530.00 and \$34,463.58.

**Net Pension Liability**

For details on the net pension liability, see the Pension Plans section below. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

**Pension Plans**

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

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

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Plan Descriptions**

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

**Defined Contribution Retirement Program** - The Defined Contribution Retirement Program is a multiple-employer defined contribution pension fund established on July 1, 2007 under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) § 401(a) et seq., and is a "governmental plan" within the meaning of IRC § 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in Teachers' Pension and Annuity Fund (TPAF) or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in State Police Retirement System (SPRS) or Police and Firemen's Retirement System (PFRS) after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in TPAF or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in TPAF or PERS after May 21, 2010 who do not work the minimum number of hours per week required for tiers 4 or 5 enrollment, but who earn salary of at least \$5,000.00 annually.

**Vesting and Benefit Provisions**

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

The following represents the membership tiers for PERS:

<b><u>Tier</u></b>	<b><u>Definition</u></b>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 21, 2010
4	Members who were eligible to enroll after May 21, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

**Note 4: DETAIL NOTES -- LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Vesting and Benefit Provisions (Cont'd)**

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

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

**Contributions**

**Public Employees' Retirement System** - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over seven years beginning in July 2012. The member contribution rate was 7.20% in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Authority's contribution amounts are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The Authority's contractually required contribution rates for the fiscal years ended May 31, 2017 and 2016 were 13.17% and 12.97% of the Authority's covered payroll. These amount were actuarially determined as the amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the fiscal year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2016, the Authority's contractually required contribution to the pension plan for the fiscal year ended May 31, 2017 was \$38,013.00, and was paid on April 1, 2017. Based on the PERS measurement date of June 30, 2015, the Authority's contractually required contribution to the pension plan for the fiscal year ended May 31, 2016 was \$35,967.00, which was paid on April 1, 2016. Employee contributions to the Plan during the fiscal years ended May 31, 2017 and 2016 were \$22,560.03 and \$19,580.63, respectively.

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Contributions (Cont'd)**

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

For the fiscal year ended May 31, 2017 and 2016, there were no employees participating in DCRP.

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

The following information relates only to the Public Employees' Retirement System ("PERS"), which is a cost-sharing multiple-employer defined benefit pension plan.

At May 31, 2017, the Authority reported a liability of \$1,267,283.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. The 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. For the June 30, 2016 measurement date, the Authority's proportion was .0042788846%, which was an increase of .0000953706% from its proportion measured as of June 30, 2015.

At May 31, 2016, the Authority reported a liability of \$939,115.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The 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. For the June 30, 2015 measurement date, the Authority's proportion was .0041835140%, which was an increase of .0001320118% from its proportion measured as of June 30, 2014.

For the fiscal years ended May 31, 2017 and 2016, the Authority recognized pension expense of \$130,895.00 and \$68,624.00, respectively. These amounts were based on the plan's June 30, 2016 and 2015 measurement dates, respectively.



Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

## Pension Plans (Cont'd)

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

## Deferred Outflows of Resources and Deferred Inflows of Resources

At May 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>May 31, 2017</u>		<u>May 31, 2016</u>	
	Measurement Date June 30, 2016		Measurement Date June 30, 2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 23,568.00		\$ 22,404.00	
Changes of Assumptions	262,513.00		100,853.00	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	48,323.00			\$ 15,099.00
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	39,158.00		30,120.00	
Authority Contributions Subsequent to the Measurement Date	34,845.00		32,970.00	
	<u>\$ 408,407.00</u>	<u>\$ -</u>	<u>\$ 186,347.00</u>	<u>\$ 15,099.00</u>

The deferred outflows of resources related to pensions totaling \$34,845.00 and \$32,970.00 will be included as a reduction of the net pension liability in the fiscal years ended May 31, 2018 and 2017, respectively.

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Pension Plans (Cont'd)****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)****Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd)**

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

<b>Fiscal Year Ending <u>May 31,</u></b>	
2018	\$ 85,193.00
2019	85,193.00
2020	97,129.00
2021	80,786.00
2022	<u>25,261.00</u>
	<u>\$ 373,562.00</u>

The Authority will amortize the other deferred outflows of resources and deferred inflows of resources related to PERS over the following number of years:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
<b>Differences between Expected and Actual Experience</b>		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
<b>Changes of Assumptions</b>		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
<b>Net Difference between Projected and Actual Earnings on Pension Plan Investments</b>		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
<b>Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions</b>		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

## Pension Plans (Cont'd)

Actuarial Assumptions

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

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

For the June 30, 2016 measurement date, pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

For the June 30, 2015 measurement date, 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.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

## Pension Plans (Cont'd)

Actuarial Assumptions (Cont'd)

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

<u>Asset Class</u>	<u>Measurement Date</u> <u>June 30, 2016</u>		<u>Measurement Date</u> <u>June 30, 2015</u>	
	<u>Target</u> <u>Allocation</u>	<u>Long-Term</u> <u>Expected Real</u> <u>Rate of Return</u>	<u>Target</u> <u>Allocation</u>	<u>Long-Term</u> <u>Expected Real</u> <u>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 Return	12.50%	4.68%	12.00%	4.72%
Real Estate (Property)	2.00%	6.91%	2.00%	6.83%
Commodities	0.50%	5.45%	1.00%	5.32%
Global Debt ex U.S.	5.00%	-0.25%	3.50%	-0.40%
REIT	5.25%	5.63%	4.25%	5.12%
	<u>100.00%</u>		<u>100.00%</u>	

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

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)

## Pension Plans (Cont'd)

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

The following presents the Authority's proportionate share of the net pension liability at May 31, 2017, the plans measurement date, calculated using a discount rate of 3.98%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's Proportionate Share of the Net Pension Liability	\$ 1,552,907.00	\$ 1,267,283.00	\$ 1,031,475.00

The following presents the Authority's proportionate share of the net pension liability at May 31, 2016, the plans measurement date, calculated using a discount rate of 4.90%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Authority's Proportionate Share of the Net Pension Liability	\$ 1,167,205.00	\$ 939,115.00	\$ 747,886.00

Pension Plan Fiduciary Net Position

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

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Post-Employment Benefits - State Health Benefits Program**

**Plan Description** - The Authority contributes to the State Health Benefits Program ("SHBP"), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. On March 19, 2015, the Authority authorized participation in the SHBP's post-retirement benefit program effective May 1, 2015. The Authority provides postemployment health care benefits, at its cost, to all Authority retirees who at the date of retirement have not less than twenty-five (25) years of service credit in a State locally administered retirement system and have served at least twenty-five (25) years as an employee of the Authority. Benefits provided include health insurance coverage for retirees, spouses and their dependents during the retired employees' life and to the surviving spouse.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at [www.state.nj.us/treasury/pensions/](http://www.state.nj.us/treasury/pensions/).

**Funding Policy** - Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority funds these benefits on a pay-as-you-go basis.

The Authority's contributions to SHBP for the fiscal year ended May 31, 2017 and 2016 were \$37,044.13 and \$5,596.88, respectively, which equaled the required contributions for each fiscal year. There were two retired participants eligible at May 31, 2017.

**Post-employment Benefits – Other Than State Health Benefits Program**

**Plan Description** - In addition to the State Health Benefits plan described above, the Authority provides medical benefits to one retired employee spouse. The Authority provides supplementary medical insurance benefits to Medicare, the primary insurance. The plan is administered by the Authority; therefore, premium payments are made directly to the insurance carriers.

**Funding Policy** - The contribution requirements of plan members and the Authority are established and may be amended by the Authority's Board. Plan members receiving benefits are not required to contribute to the cost of the medical benefits provided by this plan.

**Retirees** - The Authority's contributions to the plan for the fiscal years ended May 31, 2017, 2016 and 2015 were \$5,000.00, \$5,000.00, and \$11,576.00, respectively.

**Future Retirees** - In accordance with Statement No. 45 of the Governmental Accounting Standards Board, the Authority is required to expense the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of 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 not to exceed thirty (30) years. The ARC includes the costs of both current and future retirees. The current ARC was determined to be \$8,598.00 at an unfunded discount rate of 5.0%.

**Note 4: DETAIL NOTES -- LIABILITIES (CONT'D)****Post-employment Benefits – Other Than State Health Benefits Program (Cont'd)**

**Annual OPEB Cost** - For fiscal year 2017, the Authority's annual OPEB cost (expense) of \$3,336.86 for the plan was equal to the ARC plus certain adjustments because the Authority's actual contributions in prior years differed from the ARC.

The Authority's annual required contribution (ARC), the interest on the net OPEB obligation, the adjustment to the ARC, the increase or decrease in the net OPEB obligation, the net OPEB obligation, and the percentage of annual OPEB cost contributed to the plan for fiscal years 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 8,598.00	\$ 8,598.00	\$ 160,970.00
Interest on the Net OPEB Obligation	3,767.95		26,524.04
Adjustment to the ARC	(9,029.09)		(40,960.39)
Annual OPEB Cost	3,336.86	8,598.00	146,533.65
Pay-as-You Go Cost (Existing Retirees)	(5,000.00)	(5,000.00)	(11,576.00)
Cancellation of OPEB Unfunded Liability*		(601,772.65)	
Increase (Decrease) in the Net OPEB Obligation	(1,663.14)	(598,174.65)	134,957.65
Net OPEB Obligation, June 1	75,359.00	673,533.65	538,576.00
Net OPEB Obligation, May 31	\$ 73,695.86	\$ 75,359.00	\$ 673,533.65
Percentage of Annual OPEB Cost Contributed	58.15%	58.15%	7.19%

**Funded Status and Funding Progress** - The funded status of the plan as of May 31, 2017 was as follows:

Actuarial Accrued Liability (AAL)	\$ 71,761.00
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 71,761.00
Funded Ratio (Actuarial Value of Plan Assets / AAL)	-
Covered Payroll (Active Plan Members)	\$ -
UAAL as a Percentage of Covered Payroll	0.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Note 4: DETAIL NOTES – LIABILITIES (CONT'D)****Post-employment Benefits – Other Than State Health Benefits Program (Cont'd)**

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

In the May 31, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. Under this method, an actuarial accrued liability is determined as the actuarial present value of the portion of projected benefits which is allocated to service before the current plan year. In addition, a normal cost is determined as the actuarial present value of the portion of projected benefits which is allocated to service in the current plan year for each active participant under the assumed retirement age. The UAAL is being amortized (straight-line) for thirty (30) years on an open basis. The actuarial assumptions included the following:

- *Mortality.* The mortality table employed in the valuation is the 1994 sex distinct Group Annuity Mortality Table.
- *Turnover.* In accordance with The U.S. Office of Personnel Management regarding the experience of the employee group covered by the Federal Employees Retirement System.
- *Assumed Retirement Age.* At first eligibility after completing 20 years of service, but no earlier than age 55; additionally, it was assumed that participants who are not eligible at age 65 will not become eligible.
- *Annual Discount Rate.* Future costs have been discounted at the rate of 5.0% compounded annually for GASB 45 purposes.

**Note 5: DETAIL NOTES – NET POSITION****Net Position Appropriated**

As of May 31, 2017, the Authority had an unrestricted net position balance of \$651,027.93; however, \$120,000.00 has been appropriated and included as support in the operating budget for the fiscal year ending May 31, 2018.

**Note 6: INTERGOVERNMENTAL AGREEMENTS****Borough of Penns Grove Agreement**

A Service Agreement was entered into on November 22, 1962 between the Authority and the Borough of Penns Grove. Under the agreement, the Borough agrees to pay any shortfall the Authority may encounter in making payments for either operating expenses and/or debt service requirements. The Borough shall be entitled to recover from the Authority the amount of any payments in the next ensuing or any subsequent fiscal year.

The Authority has entered into an Interlocal Services Agreement with the Borough of Penns Grove in 2008 to provide additional funding for upgrades to the wastewater treatment facilities. Under the agreement, the Borough will provide a \$300,000.00 loan to the Authority for costs in excess of the grant funds available. The Authority completed the project in fiscal year 2009. The Authority will repay principal and interest on the loan over a ten year period. The Intergovernmental Loan Payable as of May 31, 2017 and May 31, 2016 is \$25,000.00 and \$55,000.00, respectively. Annual interest expense will be charged based on the Borough's Bond Anticipation Note interest rate in effect during the applicable fiscal year. The Authority plans to make the final \$25,000.00 principal payment in fiscal year 2018.



**Note 7: RISK MANAGEMENT**

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

Property and Physical Damage  
Worker's Compensation  
General Liability  
Excess Liability  
Boiler and Machinery  
Automobile Liability  
Fidelity Bonds  
Environmental Liability

Contributions to the Fund, including a reserve for contingencies are payable in an annual premium and is based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. The Authority's agreement with the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of \$500,000.00 for each insured event.

The Fund publishes its own financial report for the year ended June 30, 2017, which can be obtained from:

New Jersey Utility Authority Joint Insurance Fund  
9 Campus Drive, Suite 216  
Parsippany, New Jersey, 07054-4412

**Note 8: CONTINGENCIES**

Litigation - The Authority is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the Authority, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PENNS GROVE SEWERAGE AUTHORITY**  
 Required Supplementary Information  
 Schedule of Funding Progress for the OPEB Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
05/31/16	- \$	71,761 \$	71,761	0%	-	-
05/31/13	-	1,260,943	1,260,943	0%	\$ 279,494	451.15%
05/31/10	-	887,963	887,963	0%	265,321	334.67%

## SCHEDULE RSI-2

Required Supplementary Information  
 Schedule of Employer Contributions

Fiscal Year Ended May 31,	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2017	\$ 8,598.00	58.15%
2016	8,598.00	58.15%
2015	146,533.65	7.90%
2014	146,057.00	7.93%
2013	132,608.00	3.72%
2012	112,891.00	10.25%
2011	103,354.00	11.20%
2010	94,907.00	12.20%

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**PENNS GROVE SEWERAGE AUTHORITY**  
 Required Supplementary Information  
 Schedule of the Authority's Proportionate Share of the Net Pension Liability  
 Public Employees' Retirement System (PERS)  
 Last Four Fiscal Years

	Measurement Date Ending June 30,			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.0042788846%	0.0041835140%	0.0040515022%	0.0039820588%
Authority's Proportionate Share of the Net Pension Liability	\$ 1,267,283.00	\$ 939,115.00	\$ 758,552.00	\$ 761,051.00
Authority's Covered Payroll (Plan Measurement Period)	\$ 301,268.00	\$ 294,360.00	\$ 288,580.00	\$ 274,692.00
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	420.65%	319.04%	262.86%	277.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40.14%	47.93%	52.08%	48.72%

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

**PENNS GROVE SEWERAGE AUTHORITY**  
 Required Supplementary Information  
 Schedule of the Authority's Contributions  
 Public Employees' Retirement System (PERS)  
 Last Four Fiscal Years

	Fiscal Year Ended May 31,			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Contractually Required Contribution	\$ 38,013.00	\$ 35,967.00	\$ 33,400.00	\$ 30,004.00
Authority's Contribution in Relation to the Contractually Contractually Required Contribution	(38,013.00)	(35,967.00)	(33,400.00)	(30,004.00)
Authority's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Authority's Covered Payroll (Fiscal Year)	\$ 288,691.00	\$ 277,346.00	\$ 294,360.00	\$ 289,282.00
Authority's Contributions as a Percentage of its Covered Payroll	13.17%	12.97%	11.35%	10.37%

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

**PENNS GROVE SEWERAGE AUTHORITY**  
Notes to Required Supplementary Information  
For the Fiscal Year Ended May 31, 2017

**Note 1: OTHER POSTEMPLOYMENT BENEFITS**

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

Valuation Date	May 31, 2016
Actuarial Cost Method	Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Periods	28 Years
Asset Valuation Method	Market Value
Actuarial Assumptions	5.0%
Investment Rate of Return	7% (pre-Medicare) and 5% (post-Medicare)
Rate of Medical Inflation	2% (included in annual health care costs)
Administration Expenses	

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

**Note 2: POSTEMPLOYMENT BENEFITS - PENSION**

**Public Employees' Retirement System (PERS)**

Changes in Benefit Terms - None

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

## **SUPPLEMENTARY SCHEDULES**

## PENNS GROVE SEWERAGE AUTHORITY

Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared To Budget-Non-GAAP (Budgetary) Basis  
For the Fiscal Year Ended May 31, 2017

	Adopted / Amended Budget	2016-2017 Actual	Variance Favorable (Unfavorable)	2015-2016 Actual
Budget Revenues:				
Operating Revenues:				
User Fees	\$ 1,187,800.00	\$ 1,164,458.89	\$ (23,341.11)	\$ 1,176,724.83
Delinquent Charges	35,500.00	85,366.29	49,866.29	76,092.79
Miscellaneous		1,330.68	1,330.68	3,852.50
Total Operating Revenues	1,223,300.00	1,251,155.86	27,855.86	1,256,670.12
Non-Operating Revenues:				
Interest on Investments	-	1,782.60	1,782.60	1,880.09
Total Budget Revenues	1,223,300.00	1,252,938.46	29,638.46	1,258,550.21
Operating Appropriations:				
Administration:				
Salaries and Wages:				
Authority Members	5,000.00	5,000.00		5,000.00
Office Staff	60,500.00	52,254.23	8,245.77	46,292.16
Extra Help	12,500.00	9,363.13	3,136.87	9,828.70
Total Salaries and Wages	78,000.00	66,617.36	11,382.64	61,120.86
Fringe Benefits:				
PERS	37,500.00	38,013.00	(513.00)	35,967.00
Payroll Tax Expense	6,000.00	5,792.07	207.93	7,260.52
Health Insurance	63,000.00	33,676.72	29,323.28	26,985.55
Total Fringe Benefits	106,500.00	77,481.78	29,018.22	70,213.07
Other Expenses:				
Engineering	10,000.00	3,656.38	6,343.62	575.88
Audit	24,000.00	27,450.00	(3,450.00)	24,000.00
Accounting Services	4,500.00	2,975.00	1,525.00	4,260.00
Solicitor	2,400.00	2,400.00		2,400.00
Insurance	37,000.00	35,893.34	1,106.66	35,648.12
Office Supplies	5,500.00	5,057.44	442.56	5,505.37
Telephone	8,500.00	7,487.32	1,012.68	8,129.15
Office Equipment	4,000.00	5,200.50	(1,200.50)	
Water Company Fees		41.45	(41.45)	
State Permit Tax	10,000.00	11,091.63	(1,091.63)	16,477.37
Miscellaneous	15,000.00	14,324.78	675.22	15,629.43
Dues and Subscriptions	200.00		200.00	
Total Other Expenses	121,100.00	115,577.84	5,522.16	112,625.32
Total Administration	305,600.00	259,676.98	45,923.02	243,959.25

(Continued)



**PENNS GROVE SEWERAGE AUTHORITY**  
Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared To Budget--Non-GAAP (Budgetary) Basis  
For the Fiscal Year Ended May 31, 2017

	Adopted / Amended Budget	2016-2017 Actual	Variance Favorable (Unfavorable)	2015-2016 Actual
<b>Operating Appropriations (Continued)</b>				
Cost of Providing Services:				
Salaries and Wages:				
Labor	\$ 265,000.00	\$ 284,788.75	\$ (19,788.75)	\$ 296,008.45
Part Time	12,000.00	11,340.48	659.52	11,339.36
Longevity	9,600.00	8,500.94	1,099.06	10,401.14
Licenses	2,500.00	2,000.00	500.00	3,000.00
Overtime	45,000.00	6,857.32	38,142.68	4,662.84
Sick Time Payout				10,000.00
Total Salaries and Wages	334,100.00	313,487.49	20,612.51	335,411.79
Fringe Benefits:				
Payroll Tax Expense	25,600.00	24,692.49	907.51	13,308.53
Health Insurance	100,000.00	112,125.28	(12,125.28)	95,483.11
Total Fringe Benefits	125,600.00	136,817.78	(11,217.78)	108,791.64
Other Expenses:				
Utilities	140,000.00	155,470.52	(15,470.52)	137,469.18
Water Rents	1,000.00	589.80	410.20	868.64
Operating Training	1,500.00	1,646.00	(146.00)	805.00
Treatment Materials	30,000.00	24,423.40	5,576.60	31,195.35
Vehicle Expense	5,000.00	2,919.58	2,080.42	2,894.71
Repairs, Maintenance	92,000.00	69,936.93	22,063.07	58,920.20
Equipment	10,000.00	18,008.97	(8,008.97)	10,385.01
Sludge Disposal	35,000.00	35,791.99	(791.99)	35,730.68
Laboratory Analysis	38,500.00	28,503.03	9,996.97	23,669.91
Travel Expense		28.05	(28.05)	4,710.11
Miscellaneous	12,500.00	20,147.86	(7,647.86)	
Total Other Expenses	365,500.00	357,466.13	8,033.87	306,648.79
Total Cost of Providing Services	825,200.00	807,771.40	17,428.60	750,852.22
Principal Payments on Debt Service in Lieu of Depreciation	129,490.00	129,485.14	4.86	124,802.90
Non-Operating Appropriations:				
Debt Service - Interest	84,710.00	84,695.86	14.14	89,693.10
Total Non-Operating Appropriations	84,710.00	84,695.86	14.14	89,693.10
Total Budget Appropriations	1,345,000.00	1,281,629.38	63,370.62	1,209,307.47

(Continued)

**PENNS GROVE SEWERAGE AUTHORITY**  
Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and  
Non-Operating Appropriations Compared To Budget--Non-GAAP (Budgetary) Basis  
For the Fiscal Year Ended May 31, 2017

	Adopted / Amended Budget	2016-2017 Actual	Variance Favorable (Unfavorable)	2015-2016 Actual
Unrestricted Net Position to Balance Budget	\$ 121,700.00	\$ -	\$ 121,700.00	\$ -
Total Appropriations and Unrestricted Net Position	<u>1,223,300.00</u>	<u>1,281,629.38</u>	<u>(58,329.38)</u>	<u>1,209,307.47</u>
Excess Budget Revenues Over Budget Appropriations	<u>\$ -</u>	<u>\$ (28,690.92)</u>	<u>\$ (28,690.92)</u>	<u>\$ 49,242.74</u>

Reconciliation to Operating Loss

Excess Budget Appropriations Over  
Budget Revenues

\$ (28,690.92)

Add:

Principal Payments

\$ 129,485.14

Interest on Debt

84,695.86

Major Repairs and Replacements

15,519.00

Encumbrances Payable

4,560.81

234,260.81

205,569.89

Less:

Investment Income

1,782.60

Net OPEB Obligation (GASB 45) Accrual

(1,663.14)

Net Pension Expense

92,884.00

Depreciation

203,768.19

296,771.65

Operating Loss (Exhibit B)

\$ (91,201.76)

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**PENNS GROVE SEWERAGE AUTHORITY**  
**Schedule of Revenue Bonds Payable**  
**For the Fiscal Year Ended May 31, 2017**

Purpose	Date of Issue	Original Issue	Maturities of Bonds		Interest Rate	Balance June 1, 2016	Paid	Balance May 31, 2017
			Outstanding Dates	May 31, 2017 Amounts				
1988 Series A Bonds	11/01/88	\$ 2,500,000.00	2018	\$ 83,354.75				
			2019	87,574.59				
			2020	92,008.06				
			2021	96,665.96				
			2022	101,559.68				
			2023	106,701.14				
			2024	112,102.88				
			2025	117,778.09				
			2026	123,740.60				
			2027	130,004.98				
			2028	136,586.47				
			2029	68,409.08	5.00%	\$ 1,335,824.54	\$ 79,338.26	\$ 1,256,486.28
1988 Series B Bonds	11/01/88	500,000.00	2018	16,670.95				
			2019	17,514.91				
			2020	18,401.60				
			2021	19,333.19				
			2022	20,311.93				
			2023	21,340.22				
			2024	22,420.57				
			2025	23,555.61				
			2026	24,748.11				
			2027	26,000.98				
			2028	27,317.29				
			2029	13,681.94	5.00%	267,164.95	15,867.65	251,297.30
USDA Series 2011 Bonds	12/06/11	250,000.00	2018	4,376.06				
			2019	4,475.07				
			2020	4,576.32				
			2021	4,679.87				
			2022	4,785.76				
			2023	4,894.05				

(Continued)

**PENNS GROVE SEWERAGE AUTHORITY**  
Schedule of Revenue Bonds Payable  
For the Fiscal Year Ended May 31, 2017

Purpose	Date of Issue	Original Issue	Maturities of Bonds		Interest Rate	Balance June 1, 2016	Paid	Balance May 31, 2017
			Outstanding May 31, 2017	Amounts				
			Dates					
USDA Series 2011 Bonds	12/06/11	\$ 250,000.00	2024	\$ 5,004.78				
			2025	5,118.02				
			2026	5,233.82				
			2027	5,352.25				
			2028	5,473.35				
			2029	5,597.19				
			2030	5,723.84				
			2031	5,853.35				
			2032	5,985.80				
			2033	6,121.23				
			2034	6,259.73				
			2035	6,401.37				
			2036	6,546.21				
			2037	6,694.33				
			2038	6,845.79				
			2039	7,000.70				
			2040	7,159.10				
			2041	7,321.09				
			2042	7,486.73				
			2043	7,656.13				
			2044	7,829.36				
			2045	8,006.52				
			2046	8,187.68				
			2047	8,372.93				
			2048	8,562.39				
			2049	8,756.12				
			2050	8,954.24				
			2051	9,156.84				
			2052	9,081.93				
					2.25%	\$ 233,809.18	\$ 4,279.23	\$ 229,529.95
						\$ 1,836,798.67	\$ 99,485.14	\$ 1,737,313.53

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

**PENNS GROVE SEWERAGE AUTHORITY**  
Schedule of Findings and Recommendations  
For the Fiscal Year Ended May 31, 2017

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***Schedule of Financial Statement Findings***

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

**Finding No. 2017-001**

**Criteria or Specific Requirement**

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Additionally, for each accounting function, the transaction authorization, custody of the assets, and the recording of the transactions should not be performed by the same individual.

**Condition**

The Authority's internal control system lacks certain controls with respect to separation of duties and its system does not consistently produce information and classifications to bring the accounting records into alignment with generally accepted accounting principles. The Authority does not have a system in place that would enable management to prepare its own financial statements and complete disclosures in accordance with generally accepted accounting principles.

**Context**

The lack of certain controls within the Authority's internal control system was noted in performing the annual review of the internal control system and from prior experience with the Authority.

**Effect**

A lack of internal controls in the areas described above could result in the following: misappropriation of assets, misstated financial statements, inaccurate financial documentation, and improper use of funds or modification of data which could go undetected by employees in the normal course of performing their assigned duties.

**Cause**

There is a severely limited number of staff members to perform all accounting functions. There is one full-time employee, the Office Manager, and one part-time staff member to perform all of the accounting functions. The ability to produce financial statements and disclosures that incorporate the increasingly rigorous accounting requirements is beyond her expertise and training.

**Recommendation**

That duties be divided among various Authority personnel so that one employee cannot conceal errors and irregularities in the normal course of his or her duties. Ideally, Authority personnel should have the ability to prepare financial statements and complete disclosures in accordance with generally accepted accounting principles.

**View of the Responsible Official**

Cost benefit considerations prohibit increasing staff size or expertise. We would also like to comment on the fact that the situation regarding preparation of the financial statements is not new. The auditors have always prepared the financial statements due to the inability of the Authority to prepare them. Now their new auditing standards require that they comment on that fact. While we do not prepare the financial statements ourselves, we carefully review the drafts prepared by the auditors including the related footnote disclosures.

**PENNS GROVE SEWERAGE AUTHORITY**  
Summary Schedule of Prior Year Audit Findings  
And Recommendations as Prepared by Management

---

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

**FINANCIAL STATEMENT FINDINGS**

**Finding No. 2016-1**

**Condition**

The computerized general ledger cash and consumer accounts receivable balances as of May 31, 2016 did not agree to the reconciled bank balances and the receivable balance per the subsidiary ledger.

**Current Status**

The condition has been resolved.

**Finding No. 2016-2**

**Condition**

Approximately 18 individual customer accounts were not adjusted when the properties were foreclosed on by the Borough of Penns Grove. At the time of foreclosure, the accounts should have been made inactive and the receivable balances written off. Adjustments of \$12,480.00 to service charges and \$17,363.62 to penalties and interest were made to properly reflect current year revenue. Adjustments of \$122,500.52 to service charges receivable and \$53,248.33 to penalties and interest receivables were made to properly reflect year end balances.

**Current Status**

The condition has been resolved.

**Finding No. 2016-3**

**Condition**

The Authority's internal control system lacks certain controls with respect to separation of duties and its system does not consistently produce information and classifications to bring the accounting records into alignment with generally accepted accounting principles. The Authority does not have a system in place that would enable management to prepare its own financial statements and complete disclosures in accordance with generally accepted accounting principles.

**Current Status**

The condition remains unresolved.

**Planned Corrective Action**

The responsible officials agree with the finding. However, officials also believe that the cost benefit considerations prohibit increasing staff size to achieve proper separation of duties and implementation of an internal control structure.

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**APPRECIATION**

We express my appreciation for the assistance and courtesies rendered by the Authority officials during the course of the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bowman & Company LLP", written in a cursive style.

BOWMAN & COMPANY LLP  
Certified Public Accountants  
& Consultants