PENNS GROVE SEWERAGE AUTHORITY

REPORT OF AUDIT

WITH SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEARS ENDING MAY 31, 2014 and 2013

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PENNS GROVE SEWERAGE AUTHORITY

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PENNS GROVE SEWERAGE AUTHORITY
Roster of Officials

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

Members	**Position**
Paul J. Morris	Chairman
Alfred Cafolla	Vice Chairman
Joseph Venello	Secretary
Clifford Poindexter	Treasurer
Carl Washington	Financial Secretary

Other Officials	**Position**
Carol Ann Boden	Office Manger
William Boden, Jr.	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, 2014 AND 2013

INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of
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 ending May 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the fiscal year ended May 31, 2014, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): *Statement 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62* and *Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 opinions 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 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, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
May 6, 2015

BOWMAN & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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
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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 6, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be material weaknesses: 2014-001 and 2014-002.

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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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies as defined above.

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 findings 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

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
May 6, 2015

Management's Discussion and Analysis
(MD&A)

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 2014 were:

- Operating revenues for fiscal 2014 were $1,303,732.57, which represents an increase of $35,987.78 from fiscal year 2013.
- Operating expenses for fiscal year 2014 were $1,267,774.97 which represents an increase of $68,324.63 from fiscal year 2013.
- Operating Income for fiscal year 2014 was $35,957.60 as compared to operating income of $68,294.45 in fiscal year 2013.
- There were Capital contributions of $20,536.43 for fiscal year 2014. There were no capital contributions in fiscal year 2013.
- There was a decrease in net position of $42,503.60 in the current fiscal year in comparison to a decrease of net position of $28,301.92 in fiscal year 2013.
- At year-end, total assets were $4,494,135.58, which exceeded liabilities of $2,750,708.71. The resultant net position at year-end was $1,743,426.87 as compared to $1,785,930.47 for fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which 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 comparative statement of net position includes all of the Authority's assets, liabilities and deferred inflow of resources. As the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statement 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 of resources - are a measure of the Authority's financial health or position.

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net position was $1,743,426.87 on May 31, 2014. Total assets, total liabilities, deferred inflows of resources and total net position are detailed below.

Penns Grove Sewerage Authority
Net Position
As of May 31, 2014, 2013 and 2012

	2014	2013	2012
Assets:			
Current Assets			
Unrestricted	$ 1,769,722.48	$ 1,685,306.66	$ 1,489,118.99
Restricted			113,560.00
Noncurrent Assets			
Capital Assets	2,724,413.10	2,851,648.68	3,013,083.75
Total Assets	4,494,135.58	4,536,955.34	4,615,762.74
Liabilities:			
Current Liabilities			
Unrestricted	158,032.65	153,459.46	153,432.29
Restricted			61,289.34
Long-Term Liabilities	2,592,676.06	2,577,028.98	2,566,272.29
Total Liabilities	2,750,708.71	2,730,488.44	2,780,993.92
Deferred Inflows of Resources			
Unearned Grant Revenue	-	20,536.43	20,536.43
Net Position			
Net Investment in Capital Assets	578,547.41	588,161.22	637,543.47
Restricted:			
Renewals & Replacements	2,594.11	50,337.57	50,337.57
Unemployment Compensation Claims	12,512.04	12,435.02	12,435.02
Unrestricted	1,149,773.31	1,134,996.66	1,113,916.33
Total Net Position	$ 1,743,426.87	$ 1,785,930.47	$ 1,814,232.39

The Authority generated operating income of $35,957.60 for the current year. Combined with net non-operating expenses of $98,997.63 and capital contributions of $20,536.43, the Authority's decrease in net position for the current year was $42,503.60. Major components of this activity are detailed in the following table.

Penns Grove Sewerage Authority
Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended May 31, 2014, 2013 and 2012

	2014	2013	2012
Operating Revenues			
User Fees	$ 1,197,612.36	$ 1,195,109.04	$ 1,203,924.19
Connection Fees	750.00	1,500.00	
Delinquent Charges	77,222.21	63,697.76	54,886.04
Miscellaneous	28,148.00	7,437.99	7,327.61
Total Operating Revenues	1,303,732.57	1,267,744.79	1,266,137.84
Operating Expenses	1,267,774.97	1,199,450.34	1,220,387.23
Operating Income	35,957.60	68,294.45	45,750.61
Non-Operating Revenues (Expenses)			
Investment Income	1,853.65	2,294.25	2,485.41
Interest on Debt	(100,851.28)	(100,635.62)	(104,548.06)
PY Payable Cancelled		1,745.00	
Bond Issue Costs			(17,500.00)
Total Non-Operating Revenues (Expenses)	(98,997.63)	(96,596.37)	(119,562.65)
Net Loss Before Capital Contributions	(63,040.03)	(28,301.92)	(73,812.04)
Capital Contributions	20,536.43		582,773.32
Change in Net Position	(42,503.60)	(28,301.92)	508,961.28
Net Position - June 1	1,785,930.47	1,814,232.39	1,305,271.11
Net Position - May 31	$ 1,743,426.87	$ 1,785,930.47	$ 1,814,232.39

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 has decreased by $42,503.60 in the current year to net position of $1,743,426.87. Unrestricted Assets are $1,769,722.48. Capital Assets net of depreciation is $2,724,413.10. Current Liabilities are $158,032.65, and Long Term Liabilities are $2,592,676.06.

BUDGET VARIANCES

The budget for fiscal year 2014 was approved in April 2013 and adopted on April 18, 2013. 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 year.

Service charge revenue was above the amount anticipated by $1,112.36. Delinquent charges had a favorable variance of $52,222.21 and miscellaneous revenues had a favorable variance of $28,148.00.

Interest on investment revenue realized was $1,853.65.

Operating expenditures, principal payments on debt and non-operating expenditures had a favorable combined budget variance in the amount of $104,366.07.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During the current year, the Authority spent $71,006.46 to acquire capital assets. The Pole Barn Project is expected to be completed in 2014-15. The Authority also purchased a new Muffin Monster in 2014 at a cost of $15,246.00.

As of May 31, 2014, there are three Revenue Bonds outstanding in the sum of $2,021,945.39 and an intergovernmental loan outstanding for $115,000.00. 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 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, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Unrestricted Assets:		
Cash and Cash Equivalents	$ 1,132,386.08	$ 1,083,502.04
Sewer Service Charges Receivable (net of allowance for doubtful accounts $23,289.06 for 2014 and $23,695.56 for 2013)	519,008.26	503,458.60
Accrued Penalties and Interest Receivable	96,268.77	76,760.42
Prepaid Expenses	22,059.37	21,585.60
Total Unrestricted Assets	1,769,722.48	1,685,306.66
Total Current Assets	1,769,722.48	1,685,306.66
Capital Assets:		
Completed (Net of Accumulated Depreciation)	2,668,652.64	2,851,648.68
Construction in Progress	55,760.46	
Total Capital Assets	2,724,413.10	2,851,648.68
Total Assets	$ 4,494,135.58	$ 4,536,955.34

(Continued)

PENNS GROVE SEWERAGE AUTHORITY
Statements of Net Position
As of May 31, 2014 and 2013

	2014	2013
LIABILITIES		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	$ 13,824.87	$ 13,565.35
Payroll Taxes Payable	13,204.88	14,900.31
Bonds Payable - Current Portion	90,343.82	86,097.17
Intergovernmental Loan Payable - Current Portion	30,000.00	30,000.00
Interest Payable	10,659.08	8,896.63
Total Current Liabilities Payable from Unrestricted Assets	158,032.65	153,459.46
Long-term Liabilities:		
Compensated Absences Payable	37,498.49	35,988.59
Net OPEB Obligation (GASB 45)	538,576.00	404,095.00
Bonds Payable	1,931,601.57	2,021,945.39
Intergovernmental Loan Payable	85,000.00	115,000.00
Total Long-term Liabilities	2,592,676.06	2,577,028.98
Total Liabilities	2,750,708.71	2,730,488.44
DEFERRED INFLOW OF RESOURCES		
Unearned Grant Revenue	-	20,536.43
Total Deferred Inflow of Resources	-	20,536.43
NET POSITION		
Net Investment in Capital Assets	578,547.41	588,161.22
Restricted:		
Renewal & Replacement	2,594.11	50,337.57
Unemployment Compensation Claims	12,512.04	12,435.02
Unrestricted	1,149,773.31	1,134,996.66
Total Net Position	$ 1,743,426.87	$ 1,785,930.47

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

PENNS GROVE SEWERAGE AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended May 31, 2014 and 2013

	2014	2013
Operating Revenues:		
User Fees	$ 1,197,612.36	$ 1,195,109.04
Connection Fees	750.00	1,500.00
Delinquent Charges	77,222.21	63,697.76
Miscellaneous	28,148.00	7,437.99
Total Operating Revenues	1,303,732.57	1,267,744.79
Operating Expenses:		
Administrative and General:		
Salaries and Wages	59,261.25	56,228.66
Fringe Benefits	66,551.53	61,686.30
Other Expenses	95,045.37	107,688.76
Cost of Providing Services:		
Salaries and Wages	307,583.24	294,413.04
Fringe Benefits	117,569.41	108,787.89
Other Expenses	289,041.13	268,580.62
Net OPEB Obligation (GASB 45) Accrual	134,481.00	127,671.00
Depreciation	198,242.04	174,394.07
Total Operating Expenses	1,267,774.97	1,199,450.34
Operating Income	35,957.60	68,294.45
Non-Operating Revenues (Expenses):		
Investment Income	1,853.65	2,294.25
Interest on Debt	(100,851.28)	(100,635.62)
PY Payable Cancelled	-	1,745.00
Total Non-Operating Expenses	(98,997.63)	(96,596.37)
Net Loss Before Capital Contributions	(63,040.03)	(28,301.92)
Capital Contributions	20,536.43	-
Change in Net Position	(42,503.60)	(28,301.92)
Net Position June 1	1,785,930.47	1,814,232.39
Net Position May 31	$ 1,743,426.87	$ 1,785,930.47

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

PENNS GROVE SEWERAGE AUTHORITY
Comparative Statements of Cash Flows
For the Fiscal Years Ended May 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Receipts from Customers	$ 1,182,812.70	$ 1,021,639.28
Payments to Suppliers	(568,421.69)	(555,223.19)
Payments to Employees	(367,030.02)	(343,623.44)
Other Operating Receipts	85,861.86	34,280.74
Net Cash Provided by Operating Activities	333,222.85	157,073.39
Cash Flows from Capital and Related Financing Activities:		
Grant Receivables	-	113,560.00
Bond Principal Repayments	(86,097.17)	(82,052.82)
Interest on Debt	(99,088.83)	(103,483.18)
Intergovernmental Loan Payable	(30,000.00)	(30,000.00)
Acquisition of Capital Assets	(71,006.46)	(74,248.34)
Net Cash Used for Capital and Related Financing Activities	(286,192.46)	(176,224.34)
Cash Flows from Investing Activities:		
Interest on Investments	1,853.65	2,294.25
Net Cash Provided by Investing Activities	1,853.65	2,294.25
Net Increase (Decrease) in Cash and Cash Equivalents	48,884.04	(16,856.70)
Cash and Cash Equivalents - June 1	1,083,502.04	1,100,358.74
Cash and Cash Equivalents - May 31	$ 1,132,386.08	$ 1,083,502.04
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 35,957.60	$ 68,294.45
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	198,242.04	174,394.07
Net OPEB Obligation (GASB 45) Accrual	134,481.00	127,671.00
Change in Sewer Service Charges Receivable	(15,549.66)	(174,969.76)
Change in Penalties Interest Receivable	(19,508.35)	(36,855.01)
Change in Accounts Payable	259.52	(7,260.02)
Change in Payroll Taxes Payable	(1,695.43)	7,835.40
Change in Accrued Liabilities	1,509.90	(817.14)
Change in Prepaid Expenses	(473.77)	(1,219.60)
Net Cash Provided by Operating Activities	$ 333,222.85	$ 157,073.39

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Penns Grove Sewerage Authority (the "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, 2014.

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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to 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.

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.

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

Basis of Presentation (Cont'd)

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 / Expenditures - 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 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 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 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 year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

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

Cash, Cash Equivalents and Investments

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

New Jersey governments 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. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

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. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. 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.

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.

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.

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 fixed asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized. Costs incurred during construction of an asset are recorded as construction in progress. In the year that the project is completed, these costs are transferred to Capital Assets - Completed. Interest costs incurred during construction are not capitalized into the cost of the asset.

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

Capital Assets (Cont'd)

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:

	Years
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 Revenue

Deferred revenue arises when resources associated with revenue transactions are received or reported as a receivable before the period when resources are required to be used or when use is first permitted in which enabling legislation includes time requirements.

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 are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

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:

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

Net Position (Cont'd)

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 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.

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 facility charges (i.e., sewerage usage revenues) 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 operations and general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt and major non-recurring repairs.

Use of 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.

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

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

During the fiscal year ended May 31, 2014, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB)

In March 2012, the GASB issued Statement 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62.* GASBS 66 is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASBS 66, however, does not have a material impact on the Authority's financial statements.

In April 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* GASBS 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement is effective for periods beginning after June 15, 2013. The adoption of GASBS 70, however, does not have any impact on the Authority's financial statements.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25.* GASBS 67 is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2013. The Authority does not administer any state or local pension plans; therefore, the adoption of GASBS 67 will not have any impact on the Authority's financial statements.

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

Recently Issued Accounting Pronouncements (Cont'd)

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.* GASBS 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements and expects the impact to be material.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASBS 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements although no impact is expected.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASBS 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the Authority's financial statements and expects the impact to be material when considered in conjunction with the adoption of Statement No. 68.

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.

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.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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 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, 2014 and 2013, the Authority's bank balances were exposed to custodial credit risk as follows:

	2014	2013
Insured by FDIC	$ 250,000.00	$ 250,000.00
Uninsured and Collateralized with Securities Held by Pledging Financial Institutions	892,687.29	837,615.88
	$ 1,142,687.29	$ 1,087,615.88

Service Fees

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

Fiscal Year	Beginning Balance	Billings	Total Collections	Percentage of Collections
2014	$ 527,154.16	$ 1,197,612.36	$ 1,182,059.70	68.53%
2013	354,406.15	1,195,109.04	1,021,639.28	65.93%
2012	352,960.97	1,203,924.19	1,199,769.01	77.06%

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

Capital Assets

During the fiscal year ended May 31, 2014 and 2013, the following changes in Capital Assets occurred:

	Balance June 1, 2013	Additions	Deletions	Balance May 31, 2014
Land	$ 9,000.00			$ 9,000.00
Building/Infrasture	4,880,100.87			4,880,100.87
Fixed Equipment	1,277,870.02	$ 15,246.00		1,293,116.02
Movable Equipment	49,950.24			49,950.24
Vehicles	252,288.14			252,288.14
Construction in Progress	-	55,760.46		55,760.46
	6,469,209.27	71,006.46	-	6,540,215.73
Depreciation	3,617,560.59	198,242.04		3,815,802.63
	$ 2,851,648.68	$ (127,235.58)	$ -	$ 2,724,413.10

	Balance June 1, 2012	Additions	Deletions	Balance May 31, 2013
Land	$ 9,000.00			$ 9,000.00
Building/Infrasture	4,063,364.30	$ 816,736.57		4,880,100.87
Fixed Equipment	1,264,911.02	12,959.00		1,277,870.02
Movable Equipment	49,950.24			49,950.24
Vehicles	252,288.14			252,288.14
Construction in Progress	816,736.57		$ 816,736.57	-
	6,456,250.27	829,695.57	816,736.57	6,469,209.27
Depreciation	3,443,166.52	174,394.07		3,617,560.59
	$ 3,013,083.75	$ 655,301.50	$ 816,736.57	$ 2,851,648.68

Note 4: DETAIL NOTES - LIABILITIES

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, 2014 and 2013 is estimated at $37,498.49 and $35,988.59.

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

Retirement Systems

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System (PERS), which is administered by the New Jersey Division of Pensions and Benefits. In addition, the Authority has authorized employee participation in the Defined Contribution Retirement Program, which is a defined contribution pension plan and is also administered by the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

Public Employees' Retirement System - The PERS was established as of January 1, 1955. The PERS provides retirement, death, and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System were required to contribute 5% of their annual covered salary. Effective July 1, 2008, however, 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. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.0% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012 and increases each subsequent July 1. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The Authority is billed annually for its normal contribution plus any accrued liability. These contributions, equal to the required contributions for each year, were as follows:

Fiscal Year	Normal Contribution	Accrued Liability	Non-Contributory Group Life	Total Liability	Funded by Authority
2014	$ 8,873.00	$ 20,629.00	$ 502.00	$ 30,004.00	$ 30,004.00
2013	8,458.00	20,224.00	1,707.00	30,389.00	30,389.00
2012	9,260.00	18,519.00	1,770.00	29,549.00	29,549.00

Related Party Investments - The Division of Pensions and Benefits does not invest in securities issued by the Authority.

Post-employment Benefits

Plan Description
The Authority provides medical benefits to employees that have retired from the Authority in addition to benefits provided through the State Pension Fund. The Authority provides family prescription, vision, and medical insurance.

As of May 31, 2014, May 31, 2013 and May 31, 2012, there were 2 retired employees, respectively. One hundred percent of all future eligible retirees with 25 years of service with the Authority will be covered by the medical insurance plan. The benefits are determined by negotiated contract of each collective bargaining unit.

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

Post-employment Benefits (Cont'd)

Funding Policy
The contribution requirement of the Authority is established by the policy of the Authority and certain employment contracts and may be amended by same. The required contribution is based on projected pay-as-you-go financing requirements. For the years 2014, 2013 and 2012, the Authority contributed $11,576.00, $4,937.00 and $11,576.00, respectively, to the plan for current premiums. Plan members are not required to make any contributions to the plan.

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

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

	Fiscal 2014	Fiscal 2013	Fiscal 2012
Normal cost	$ 60,482.00	$ 54,488.00	$ 49,153.00
Amortization Payment	85,575.00	78,120.00	63,738.00
Annual required contribution (expense)	146,057.00	132,608.00	112,891.00
Contributions Made	11,576.00	4,937.00	11,576.00
Net OPEB obligation - beginning of year	404,095.00	276,424.00	175,109.00
Net OPEB obligation - end of year	$ 538,576.00	$ 404,095.00	$ 276,424.00

Funded Status and Funding Progress
As of May 31, 2013, the most recent actuarial valuation date, the Authority Plan was 0% funded. The actuarial accrued liability for benefits was $1,381,276.00, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,381,276.00. The covered payroll (annual payroll of active employees covered by the plan) was $279,493.62 and the ratio of the UAAL to the covered payroll was 4.5. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, compares the assets used for funding purposes to the comparable liabilities to determine how well the Authority Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The Actuarial Accrued Liability under GASB is determined assuming that the Authority Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

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

Post-employment Benefits (Cont'd)

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

In the May 31, 2014, actuarial valuation, the "unit credit" actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.0% for pre-Medicare medical benefits and 5.0% for post-Medicare medical benefits. The actuarial value of the Authority Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three year period. The Authority's unfunded actuarial accrued liability is being amortized using the level dollar method on a closed basis. The remaining amortization period at May 31, 2014, was twenty-five years.

Sewer Revenue Bonds

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).

The following schedule reflects the Debt Requirements until 2052.

Fiscal Year	Principal	Interest	Total
2015	$ 90,343.82	$ 93,352.18	$ 183,696.00
2016	94,802.90	88,893.10	183,696.00
2017	99,485.14	84,210.86	183,696.00
2018	104,401.76	79,294.24	183,696.00
2019	109,564.57	74,131.43	183,696.00
2020-2024	634,786.01	283,693.99	918,480.00
2025-2029	718,597.78	109,845.52	828,443.30
2030-2034	29,943.95	17,636.05	47,580.00
2035-2039	33,488.40	14,091.60	47,580.00
2040-2044	37,452.41	10,127.59	47,580.00
2045-2049	41,885.64	5,694.36	47,580.00
2050-2052	27,193.01	1,354.99	28,548.00
	$ 2,021,945.39	$ 862,325.91	$ 2,884,271.30

Note 5: DETAIL NOTES – NET POSITION

Net Position Appropriated

Of the $1,149,773.31 Unrestricted Net Position at May 31, 2014, $47,500.00 was appropriated as anticipated revenue in the budget for the fiscal year ending May 31, 2015.

Of the $1,134,996.66 Unrestricted Net Position at May 31, 2013, $48,350.00 was appropriated as anticipated revenue in the budget for the fiscal year ending May 31, 2014.

Net Position Designated

Of the $2,594.11 Restricted Net Position – Renewals and Replacements at May 31, 2014 and May 31, 2013, nothing was designated for projects at year end.

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, 2014 and May 31, 2013 is $115,000.00 and $145,000.00, 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 principal payments against the loan as follows:

Fiscal Year	Principal
2015	$ 30,000.00
2016	30,000.00
2017	30,000.00
2018	25,000.00
	$ 115,000.00

Note 7: COMMITMENTS AND 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.

Note 8: 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 predetermined amounts for each insured event.

The Fund publishes its own financial report for the year ended June 30, 2014, which can be obtained from:

New Jersey Utility Authority Joint Insurance Fund
Park 80 West, Plaza One
Saddlebrook, New Jersey, 07763

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)
05/31/13	-	$	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**
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%

PENNS GROVE SEWERAGE AUTHORITY
Note to Required Supplementary Information
For the Year Ended May 31, 2014

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, 2013
Actuarial Cost Method	Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	25 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.0%
Rate of Medical Inflation	7% pre-Medicare and 5% post-Medicare
Administration Expenses	2% (included in annual health care costs)

For determining the GASB ARC, the rate of employer contributions to the 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.

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, 2014

	Adopted / Amended Budget	2013-2014 Actual	Variance Favorable (Unfavorable)	2012-2013 Actual
Budget Revenues:				
Operating Revenues:				
User Charges	$ 1,196,500.00	$ 1,197,612.36	$ 1,112.36	$ 1,195,109.04
Connection Fees		750.00	750.00	1,500.00
Delinquent Charges	25,000.00	77,222.21	52,222.21	63,697.76
Miscellaneous		28,148.00	28,148.00	7,437.99
Total Operating Revenues	1,221,500.00	1,303,732.57	82,232.57	1,267,744.79
Non-Operating Revenues:				
Interest on Investments		1,853.65	1,853.65	2,294.25
Total Budget Revenues	1,221,500.00	1,305,586.22	84,086.22	1,270,039.04
Operating Appropriations:				
Administration:				
Salaries and Wages:				
Authority Members	5,000.00	5,000.00	-	5,000.00
Office Staff	46,500.00	44,934.61	1,565.39	40,869.37
Extra Help	12,000.00	9,326.64	2,673.36	10,359.29
Overtime	1,000.00	-	1,000.00	-
Total Salaries and Wages	64,500.00	59,261.25	5,238.75	56,228.66
Fringe Benefits:				
PERS	35,000.00	30,004.00	4,996.00	30,389.00
Payroll Tax Expense	5,000.00	4,463.55	536.45	3,933.29
Health Insurance	34,200.00	32,083.98	2,116.02	27,364.01
Total Fringe Benefits	74,200.00	66,551.53	7,648.47	61,686.30
Other Expenses:				
Engineering	10,000.00	-	10,000.00	9,948.00
Audit	24,000.00	22,955.00	1,045.00	24,000.00
Accounting Services	4,500.00	3,760.00	740.00	3,000.00
Solicitor	2,400.00	2,400.00	-	2,400.00
Insurance	37,000.00	36,021.29	978.71	34,730.71
Office Supplies	5,500.00	3,915.71	1,584.29	5,452.99
Telephone	8,000.00	6,505.80	1,494.20	7,249.68
Office Equipment	5,000.00	3,603.00	1,397.00	-
State Permit Tax	10,000.00	913.00	9,087.00	7,524.31
Miscellaneous	15,000.00	14,971.57	28.43	12,945.31

(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, 2014

	Adopted / Amended Budget	2013-2014 Actual	Variance Favorable (Unfavorable)	2012-2013 Actual
Operating Appropriations (Continued)				
Administration (Continued):				
Other Expenses (Continued):				
Dues and Subscriptions	$ 600.00	-	$ 600.00	-
Delinquent Customer Advertising	500.00	-	500.00	$ 437.76
Total Other Expenses	122,500.00	$ 95,045.37	27,454.63	107,688.76
Total Administration	261,200.00	220,858.15	40,341.85	225,603.72
Cost of Providing Services:				
Salaries and Wages:				
Labor	260,000.00	273,213.93	(13,213.93)	294,413.04
Part Time	12,000.00	10,651.12	1,348.88	-
Longevity	7,300.00	8,992.72	(1,692.72)	-
Licenses	3,000.00	3,000.00	-	-
Overtime	40,000.00	11,725.47	28,274.53	-
Total Salaries and Wages	322,300.00	307,583.24	14,716.76	294,413.04
Fringe Benefits:				
Payroll Tax Expense	24,700.00	21,561.34	3,138.66	20,923.56
Health Insurance	110,000.00	96,008.07	13,991.93	87,864.33
Total Fringe Benefits	134,700.00	117,569.41	17,130.59	108,787.89
Other Expenses:				
Utilities	150,000.00	138,341.41	11,658.59	129,553.16
Water Rents	700.00	504.23	195.77	752.82
Operating Training	1,500.00	1,138.00	362.00	1,025.65
Treatment Materials	25,000.00	16,312.08	8,687.92	19,506.91
Vehicle Expense	7,000.00	5,789.52	1,210.48	3,544.53
Repairs, Maintenance	60,000.00	57,931.40	2,068.60	55,668.54
Equipment	12,000.00	20,327.24	(8,327.24)	11,204.25
Sludge Disposal	40,000.00	34,679.63	5,320.37	31,724.39
Laboratory Analysis	30,000.00	19,299.32	10,700.68	18,518.05
Travel Expense	260.00	12.00	248.00	8.00
Miscellaneous	10,000.00	9,952.30	47.70	10,033.32
Total Other Expenses	336,460.00	304,287.13	32,172.87	281,539.62
Total Cost of Providing Services	793,460.00	729,439.78	64,020.22	684,740.55

(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, 2014

	Adopted / Amended Budget	2013-2014 Actual	Variance Favorable (Unfavorable)	2012-2013 Actual
Principal Payments on Debt Service in Lieu of Depreciation	$ 116,100.00	$ 116,097.17	$ 2.83	$ 112,052.82
Non-Operating Appropriations:				
Debt Service - Interest	99,090.00	99,088.83	1.17	103,483.18
Total Non-Operating Appropriations	99,090.00	99,088.83	1.17	103,483.18
Total Budget Appropriations	1,269,850.00	1,165,483.93	104,366.07	1,125,880.27
Unrestricted Net Position to Balance Budget	48,350.00	-	48,350.00	-
Total Appropriations and Unrestricted Net Position	1,221,500.00	1,165,483.93	56,016.07	1,125,880.27
Excess Budget Revenues Over Budget Appropriations	$ -	$ 140,102.29	$ 140,102.29	$ 144,158.77

Reconciliation to Operating Income

Excess Budget Revenues Over Budget Appropriations		$ 140,102.29
Add:		
Principal Payments	$ 116,097.17	
Interest on Debt	99,088.83	
Major Repairs and Replacements	15,246.00	
		230,432.00
		370,534.29
Less:		
Investment Income	1,853.65	
Net OPEB Obligation (GASB 45) Accrual	134,481.00	
Depreciation	198,242.04	
		334,576.69
Operating Income (Exhibit B)		$ 35,957.60

PENNS GROVE SEWERAGE AUTHORITY
Schedule of Revenue Bonds Payable
For the Fiscal Year Ended May 31, 2014

Purpose	Date of Issue	Original Issue	Maturities of Bonds Outstanding May 31, 2014 Dates	Amounts	Interest Rate	Balance June 1, 2013	Paid	Balance May 31, 2014
1988 Series A Bonds	11/01/88	$ 2,500,000.00	2015	$ 71,876.55				
			2016	75,515.29				
			2017	79,338.26				
			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%	$ 1,551,629.51	$ 68,413.13	$ 1,483,216.38
1988 Series B Bonds	11/01/88	500,000.00	2015	14,375.31				
			2016	15,103.06				
			2017	15,867.65				
			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%	310,325.94	13,682.62	296,643.32

(Continued)

PENNS GROVE SEWERAGE AUTHORITY
Schedule of Revenue Bonds Payable
For the Fiscal Year Ended May 31, 2014

Purpose	Date of Issue	Original Issue	Maturities of Bonds Outstanding May 31, 2014 Dates	Maturities of Bonds Outstanding May 31, 2014 Amounts	Interest Rate	Balance June 1, 2013	Paid	Balance May 31, 2014
USDA Series 2011 Bonds	12/06/11	$ 250,000.00	2015	$ 4,091.96				
			2016	4,184.55				
			2017	4,279.23				
			2018	4,376.06				
			2019	4,475.07				
			2020	4,576.32				
			2021	4,679.87				
			2022	4,785.76				
			2023	4,894.05				
			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				

(Continued)

PENNS GROVE SEWERAGE AUTHORITY
Schedule of Revenue Bonds Payable
For the Fiscal Year Ended May 31, 2014

Purpose	Date of Issue		Original Issue	Maturities of Bonds Outstanding May 31, 2014 Dates		Amounts	Interest Rate		Balance June 1, 2013		Paid		Balance May 31, 2014
USDA Series 2011 Bonds	12/06/11	$	250,000.00	2048	$	8,562.39							
				2049		8,756.12							
				2050		8,954.24							
				2051		9,156.84							
				2052		9,081.93							
							2.25%	$	246,087.11	$	4,001.42	$	242,085.69
								$	2,108,042.56	$	86,097.17	$	2,021,945.39

PENNS GROVE SEWERAGE AUTHORITY

PART 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED MAY 31, 2014

PENNS GROVE SEWERAGE AUTHORITY
Schedule of Findings and Recommendations
For the Fiscal Year Ended May 31, 2014

Section 2- 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 Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Finding No. 2014-001

Criteria or Specific Requirement
Pursuant to N.J.A.C. 5:30-5.7, the general ledger, together with the books of original entry and supporting subsidiary ledgers shall constitute a complete accounting system which all local units shall have and maintain. Proper internal control practices dictate that a complete and accurate general ledger should be maintained for each fund to ensure adequate control over the preparation of financial statements including the related footnotes.

Condition
The computerized general ledger consumer accounts receivable balance as of May 31, 2014 does not agree to the receivable balance per the subsidiary ledger.

Context
Adjustments were required to bring the general ledger receivable balance into agreement with the subsidiary accounts receivable ledger to properly reflect the financial activity of the Authority.

Effect
Without a properly maintained general ledger system, the immediate and current identification of assets, liabilities, revenues, expenditures and net position cannot be achieved.

Cause
Proper internal control policies and procedures over financial transactions are not in place to properly reconcile the general ledger with the corresponding subsidiary records.

Recommendation
That the computerized general ledger consumer accounts receivable balance be reconciled to the subsidiary accounts receivable ledger on a timely basis.

View of Responsible Officials and Planned Corrective Action
The responsible officials agree with the finding and will address the matter as part of their corrective action plan.

PENNS GROVE SEWERAGE AUTHORITY
Schedule of Findings and Recommendations
For the Fiscal Year Ended May 31, 2014

Schedule of Financial Statement Findings (Cont'd)

Finding No. 2014-002

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 asset(s), 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. 2013-001

Condition
The computerized general ledger and subsidiary revenue and expenditure ledgers were not properly maintained during fiscal year 2013.

Current Status
The condition remains unresolved with respect to the consumer accounts receivable.

Planned Corrective Action
The responsible officials agree with the finding and will address the matter as part of their corrective action plan.

Finding No. 2013-002

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

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

Respectfully submitted,

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Michael J. Welding
Certified Public Accountant
Registered Municipal Accountant