

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

REPORT OF AUDIT

FOR THE FISCAL YEARS ENDED

NOVEMBER 30, 2017 AND 2016



THE CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Table of Contents

<u>Exhibit No.</u>		<u>Page No.</u>
	Roster of Officials	1
	<u>PART 1 – FINANCIAL SECTION</u>	
	Independent Auditor's Report	3
	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	5
	Management's Discussion and Analysis	7
	<u>Basic Financial Statements</u>	
A	Statements of Net Position	11
B	Statements of Revenue, Expenses and Changes in Net Position	13
C	Statements of Cash Flows	14
	Notes to Financial Statements	15
	<u>Required Supplementary Information</u>	
RSI-1	Schedule of Funding Progress for the OPEB Plan	45
RSI-2	Schedule of Employer Contributions	45
RSI-3	Schedule of the Authority's Proportionate Share of the Net Pension Liability (PERS)	46
RSI-4	Schedule of the Authority's Contributions (PERS)	47
	Notes to Required Supplementary Information	48
	<u>Schedule No.</u>	
	<u>Supplementary Schedules</u>	
1	Schedule of Anticipated Revenues, Operating Appropriations, Principal Payments and Non-Operating Appropriations Compared to Budget-- Non-GAAP (Budgetary) Basis	50
2	Schedule of Revenue Bonds Payable	52
3	Schedule of Project Notes Payable	53
	<u>PART 2 – SCHEDULE OF FINDINGS AND RECOMMENDATIONS</u>	
	Schedule of Findings and Recommendations	55
	Summary Schedule of Prior Year Findings and Recommendations as Prepared by Management	56
	APPRECIATION	57

ROSTER OF OFFICIALS
November 30, 2017

MEMBERS

Anthony Rullo
Richard Gatanis
Charles Newton
Joseph F. Racite
Wayne Pelura

POSITION

Chairman
Vice-Chairman
Treasurer
Secretary
Alt. Secretary/Treasurer

OTHER OFFICIALS

Adam Telsey - Puma & Telsey & Rhea, P.A.
Erik Biermann - Sickels & Associates
Bank of New York Mellon

Solicitor
Engineer
Trustee

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
PART 1
FINANCIAL SECTION
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2017 AND 2016

INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of
The Carneys Point Township Sewerage Authority
Carneys Point, New Jersey 08069

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Carneys Point Township Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Township of Carneys Point (Authority), as of and for the fiscal years ended November 30, 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 Carneys Point Township Sewerage Authority, in the County of Salem, State of New Jersey as of November 30, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 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
November 13, 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 Carneys Point Township Sewerage Authority
Carneys Point, New Jersey 08069

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 Carneys Point Township Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Township of Carneys Point (Authority), as of and for the fiscal year ended November 30, 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 November 13, 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 the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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
November 13, 2018

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Management's Discussion and Analysis
For the Fiscal Years Ended November 30, 2017 and 2016
(Unaudited)

The Carneys Point Township Sewerage Authority (the Authority) is a public agency providing sewerage collection and treatment services to Carneys Point Township. This section of the Authority's annual financial report provides a discussion and analysis of the financial performance for the fiscal year ending on November 30, 2017. The entire annual financial report consists of five parts; Independent Auditor's Report, the management's discussion and analysis (this section), the basic financial statements, the required supplemental information and the supplemental schedules.

FINANCIAL HIGHLIGHTS

The management of the Authority believes their financial position is very stable. Key financial highlights for the Authority's fiscal year 2017 are as follows:

- Fiscal year 2017 operating revenues totaled \$1,992,802.02, a decrease of \$47,550.82 from the prior fiscal year's amount of \$2,040,352.84.
- Fiscal year 2017 operating expenses totaled \$2,273,675.14, an increase of \$350,881.21 from the prior fiscal year's amount of \$1,992,793.93.
- At the end of fiscal year 2017, total assets were \$15,334,400.35 and total deferred outflows were \$492,399.00. After deducting liabilities of \$3,385,693.86 and adjusting for deferred inflows of resources of \$677,544.50, the resulting net position is \$11,763,460.99.
- Change in Net Position for fiscal year 2017 was a decrease of \$373,766.02 in comparison to a decrease of \$258,456.79 for fiscal year 2016.
- During fiscal year 2017, the Authority paid down \$110,000.00 on the Authority's project note and renewed the remaining \$770,000.00 for another year. Also during the fiscal year, the Authority paid down \$110,000.00 in Revenue Bonds leaving a balance of \$880,000.00 payable in equal installments over the next 8 years.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 include all of the Authority's assets, liabilities, and deferred outflows and 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 revenue, expenses and changes in net position regardless of when cash is received or paid. Net position, the difference between the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources are a measure of the Authority's financial health or position.

The statements of revenue, expenses and changes in net position provide a breakdown of the various areas of revenues and expenses encountered during the current year. The statements of cash flows provide a breakdown of the various sources of cash, categorized into four areas: cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Management's Discussion and Analysis (Cont'd)
For the Fiscal Years Ended November 30, 2017 and 2016
(Unaudited)

FINANCIAL ANALYSIS OF THE AUTHORITY

The Authority's total net position as of November 30, 2017 is \$11,763,460.99. Total assets, deferred outflows and inflows of resources, total liabilities and total net position are detailed below:

Statements of Net Position
As of November 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Unrestricted assets	\$ 3,271,384.85	\$ 3,328,480.05	\$ 3,242,205.08
Restricted Assets	139,902.15	156,069.05	1,082,448.00
Capital Assets	<u>11,923,013.35</u>	<u>11,899,448.51</u>	<u>11,367,046.66</u>
Total Assets	<u>15,334,300.35</u>	<u>15,383,997.61</u>	<u>15,691,699.74</u>
Deferred Outflows of Resources:			
Related to Pensions	<u>492,399.00</u>	<u>657,162.00</u>	<u>239,547.00</u>
Total Deferred Outflows of Resources	<u>492,399.00</u>	<u>657,162.00</u>	<u>239,547.00</u>
Liabilities:			
Current Liabilities	1,073,253.26	1,137,608.63	1,215,624.35
Noncurrent Liabilities	<u>2,312,440.60</u>	<u>2,403,057.47</u>	<u>1,918,583.09</u>
Total Liabilities	<u>3,385,693.86</u>	<u>3,540,666.10</u>	<u>3,134,207.44</u>
Deferred Inflows of Resources:			
Related to Pensions	295,972.00	90,709.00	128,798.00
Deferred Revenue - Connection Fees	<u>381,572.50</u>	<u>272,557.50</u>	<u>272,557.50</u>
Total Deferred Inflows of Resources	<u>677,544.50</u>	<u>363,266.50</u>	<u>401,355.50</u>
Net Position:			
Net Investment in Capital Assets	9,922,013.25	10,168,526.47	10,194,051.50
Restricted	-	-	3,369.16
Unrestricted	<u>1,841,447.74</u>	<u>1,968,700.54</u>	<u>2,198,263.14</u>
Total Net Position	<u>\$ 11,763,460.99</u>	<u>\$ 12,137,227.01</u>	<u>\$ 12,395,683.80</u>

The Authority realized an operating loss of \$280,873.12 for the current year, combined with net non-operating expenses of \$92,892.90, net position decreased by \$373,766.02. Major components of this change along with a comparison of last two years activity are shown on the following page.

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Management's Discussion and Analysis (Cont'd)
For the Fiscal Years Ended November 30, 2017 and 2016
(Unaudited)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONT'D)

Statements of Revenue, Expenses and Changes in Net Position
For the Fiscal Years Ended November 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Utility Service Charges	\$ 1,938,418.50	\$ 1,973,789.22	\$ 1,978,529.26
Penalties	48,453.80	45,057.37	53,133.73
Other Revenues	5,929.72	21,506.25	3,081.71
	<u>1,992,802.02</u>	<u>2,040,352.84</u>	<u>2,034,744.70</u>
Operating Expenses:			
Salaries and Wages	511,976.52	476,873.03	469,868.70
Employee Benefits	314,693.75	376,554.21	235,304.96
Other Expenses and Major Repairs	797,771.69	483,945.68	707,981.66
Depreciation	649,233.18	585,421.01	593,546.81
	<u>2,273,675.14</u>	<u>1,922,793.93</u>	<u>2,006,702.13</u>
Operating Income (Loss)	(280,873.12)	117,558.91	28,042.57
Non-Operating Revenue (Expenses)	<u>(92,892.90)</u>	<u>(376,015.70)</u>	<u>(305,013.99)</u>
Change in Net Position	<u>(373,766.02)</u>	<u>(258,456.79)</u>	<u>(276,971.42)</u>
Net Position at Beginning of Fiscal Year	<u>12,137,227.01</u>	<u>12,395,683.80</u>	<u>12,672,655.22</u>
Net Position at End of Fiscal Year	<u>\$ 11,763,460.99</u>	<u>\$ 12,137,227.01</u>	<u>\$ 12,395,683.80</u>

OVERALL ANALYSIS

The Authority's overall financial position is positive. The Authority has not experienced any material change in the overall mix of its residential, commercial, public and industrial customer-billing base. The rate structure remains stable. The Authority's rate structure is such that residential customers pay a flat rate and commercial users pay based on water consumption.

Any new customers added to the Authority's wastewater treatment system during fiscal 2017 were overall insignificant.

The Authority has a collection program for delinquent accounts. The collection rate for the fiscal year 2017 was 83.48% with an average of 83.60% for the three year period ended November 30, 2017. In fiscal year 2017, the Authority sold liens on accounts that were deemed uncollectible. This had a positive effect on the service charge collections for fiscal year ended November 30, 2017.

The future is stable for the Authority, as income from residential housing units comprises the most significant portion of Authority revenue. There is no particular emphasis or imbalance in the type of business enterprises within the commercial sector. Commercial users exist, but are comprised of diverse, decentralized business enterprises that include government agencies, warehousing,

office buildings, hotels and highway/truck service centers. The Authority does not rely on one single business segment or enterprise as a major source of revenue.

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Management's Discussion and Analysis (Cont'd)
For the Fiscal Years Ended November 30, 2017 and 2016
(Unaudited)

BUDGET VARIANCES

The fiscal year 2017 budget was adopted within state guidelines. Operating and non-operating revenue exceeded the anticipated amount by \$113,893.58. Operating, principal payments and non-operating expenditures had an unfavorable budget variance in the amount of \$126,494.97. The resulting deficit of budgetary revenues over budgetary appropriations was \$59,136.45. See Schedule 1 for a detailed budgetary comparison of fiscal year 2017 revenue and expenditure line items.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Authority is proactive in its maintenance philosophy for its capital facilities. The Authority has been aggressively budgeting funds for its Renewal and Replacement program. Over the past four fiscal years, the Authority has appropriated a total of \$1,090,000.00, to meet the needs of continued improvements to the wastewater treatment system. The Authority is currently working on the Capital Budget and Improvement Plan for fiscal years 2019 through 2023. The 2018 Capital Budget was adopted with the annual budget on November 21, 2017.

As discussed above, in 2017 the Authority continued collection system improvement projects designed to reduce the impact of extraneous flows on the collection system. These projects will extend the useful life of the wastewater collection system and reduce the number of emergency pipeline failures. The projects are as follows:

- I-295 Force Main Rehabilitation Project
- Phase 2 Sewer Main Replacement Project
- E Street Sewer Main Replacement Project

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 from the Carneys Point Township Committee and the Local Finance Board, Department of Community Affairs, State of New Jersey prior to issuing any new debt.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Carneys Point Township residents and our customers, clients, investors, and creditors, with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the Office Manager, Carneys Point Township Sewerage Authority, 303 Harding Highway, Carneys Point, NJ 08069.

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Statements of Net Position
As of November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current Assets:		
Unrestricted Assets:		
Revenue and Operating Accounts:		
Cash and Cash Equivalents	\$ 2,913,652.06	\$ 2,990,432.48
Consumer Accounts Receivable, Net of Allowance for Doubtful		
Accounts of \$47,000.00 in 2017 and \$42,000.00 in 2016	334,003.81	314,316.82
Accounts Receivable - Other	12,696.30	12,696.30
Prepaid Expenses	11,032.68	11,034.45
	<u>3,271,384.85</u>	<u>3,328,480.05</u>
Total Unrestricted Assets		
Restricted Assets:		
Cash and Cash Equivalents	139,902.15	156,069.05
	<u>139,902.15</u>	<u>156,069.05</u>
Total Restricted Assets		
Total Current Assets	<u>3,411,287.00</u>	<u>3,484,549.10</u>
Non-Current Assets:		
Capital Assets:		
Capital Assets - Completed, net of Accumulated Depreciation	10,754,827.61	10,938,406.79
Construction in Progress	1,168,185.74	961,041.72
	<u>11,923,013.35</u>	<u>11,899,448.51</u>
Total Non-Current Assets		
Total Assets	<u>15,334,300.35</u>	<u>15,383,997.61</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to Pensions	492,399.00	657,162.00
	<u>492,399.00</u>	<u>657,162.00</u>
Total Deferred Outflows of Resources		

(Continued)

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Statements of Net Position
As of November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$ 2,631.14	\$ 33,647.72
Accounts Payable - Renewal and Replacement	5,188.50	259.00
Accounts Payable - Related to Pensions	45,530.00	43,095.00
Accrued Wages	22,424.41	21,088.20
Accrued Health Benefits Payable	18,500.41	24,356.26
Prepaid Sewer Rents	10,110.41	8,284.81
Total Current Liabilities Payable from Unrestricted Assets	<u>104,384.87</u>	<u>130,730.99</u>
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable - Current Portion	110,000.00	110,000.00
Township Reimbursement Agreement - Current Portion	42,000.00	-
Project Note Payable	770,000.00	880,000.00
Developer's Escrow Deposits	46,868.39	16,877.64
Total Current Liabilities Payable from Restricted Assets	<u>968,868.39</u>	<u>1,006,877.64</u>
Total Current Liabilities	<u>1,073,253.26</u>	<u>1,137,608.63</u>
Long-term Liabilities:		
Revenue Bonds Payable	770,000.00	880,000.00
Township Reimbursement Agreement	309,000.00	-
Net OPEB Obligation	40,108.52	39,088.00
Net Pension Liability	1,144,078.00	1,436,707.00
Accrued Liabilities - Related to Pensions	18,971.00	17,956.00
Compensated Absences	30,283.08	29,306.47
Total Long-term Liabilities:	<u>2,312,440.60</u>	<u>2,403,057.47</u>
Total Liabilities	<u>3,385,693.86</u>	<u>3,540,666.10</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to Pensions	295,972.00	90,709.00
Deferred Revenue - Connection Fees	381,572.50	272,557.50
Total Deferred Inflows of Resources	<u>677,544.50</u>	<u>363,266.50</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	9,922,013.25	10,168,526.47
Unrestricted Net Position	<u>1,841,447.74</u>	<u>1,968,700.54</u>
Total Net Position	<u>\$ 11,763,460.99</u>	<u>\$ 12,137,227.01</u>

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

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
 Statements of Revenue, Expenses and Changes in Net Position
 For the Fiscal Years Ended November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Utility Service Charges	\$ 1,938,418.50	\$ 1,973,789.22
Penalties	48,453.80	45,057.37
Other Revenues	5,929.72	21,506.25
	<u>1,992,802.02</u>	<u>2,040,352.84</u>
Total Operating Revenues		
Operating Expenses:		
Administrative:		
Salaries and Wages	68,233.47	65,568.99
Employee Benefits	54,771.70	59,333.10
Other Expenses	378,722.05	107,634.45
Cost of Providing Services:		
Salaries and Wages	443,743.05	411,304.04
Employee Benefits	259,922.05	317,221.11
Other Expenses and Major Repairs	419,049.64	376,311.23
Depreciation	649,233.18	585,421.01
	<u>2,273,675.14</u>	<u>1,922,793.93</u>
Total Operating Expenses		
Operating Income (Loss)	<u>(280,873.12)</u>	<u>117,558.91</u>
Non-operating Revenue (Expenses):		
Investment Income	11,091.56	13,007.40
Interest Expense	(19,945.59)	(14,127.63)
Renewal and Replacement Expenditures	(21,263.87)	(321,565.47)
Connection Fees	22,225.00	26,670.00
Increase in Allowance for Doubtful Accounts	(5,000.00)	-
Contribution to Township of Carneys Point	(80,000.00)	(80,000.00)
	<u>(92,892.90)</u>	<u>(376,015.70)</u>
Total Non-Operating Revenue (Expenses)		
Change in Net Position	(373,766.02)	(258,456.79)
Net Position at Beginning of Fiscal Year	<u>12,137,227.01</u>	<u>12,395,683.80</u>
Net Position at End of Fiscal Year	<u>\$ 11,763,460.99</u>	<u>\$ 12,137,227.01</u>

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

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY
Statements of Cash Flows
For the Fiscal Years Ended November 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 1,969,010.91	\$ 2,075,810.75
Payments to Suppliers	(833,786.50)	(598,914.13)
Payments to Employees	(748,345.78)	(547,193.14)
Other Operating Receipts	5,929.72	21,506.25
Net Cash Provided by Operating Activities	<u>392,808.35</u>	<u>951,209.73</u>
Cash Flows from Noncapital Financing Activities:		
Receipts from Connection Fees	22,225.00	4,445.00
Receipts from Connection Fees - Deferred Revenue	109,015.00	22,225.00
Contribution to Township of Carneys Point	(80,000.00)	(80,000.00)
Developers Escrow Deposits (Net)	29,990.75	(12,272.55)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>81,230.75</u>	<u>(65,602.55)</u>
Cash Flows from Capital and Related Financing Activities:		
Renewal and Replacement Expenditures	(80,478.37)	(329,364.04)
Capital Project Expenditures	(207,144.02)	(1,118,322.86)
Non-Operating Capital Expense	(8,510.00)	-
Principal Paid on Debt	(262,000.00)	(220,000.00)
Interest Paid on Debt	(19,945.59)	(14,127.63)
Net Cash Used in Capital and Related Financing Activities	<u>(578,077.98)</u>	<u>(1,681,814.53)</u>
Cash Flows from Investing Activities:		
Investment Income	11,091.56	13,007.40
Net Cash Provided by Investing Activities	<u>11,091.56</u>	<u>13,007.40</u>
Net Decrease in Cash	<u>(92,947.32)</u>	<u>(783,199.95)</u>
Cash and Cash Equivalents at Beginning of Fiscal Year	<u>3,146,501.53</u>	<u>3,929,701.48</u>
Cash and Cash Equivalents at End of Fiscal Year	<u>\$ 3,053,554.21</u>	<u>\$ 3,146,501.53</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	<u>\$ (280,873.12)</u>	<u>\$ 117,558.91</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	649,233.18	585,421.01
Pension Liability Expense - GASB 68	80,847.00	143,403.00
Changes in Assets and Liabilities:		
(Increase) Decrease in Consumer Accounts Receivable	(19,686.99)	57,675.17
(Increase) Decrease in Allowance for Doubtful Accounts	(5,000.00)	-
(Increase) Decrease in Prepaid Expenses	1.77	(771.14)
Increase (Decrease) in Prepaid Sewer Fees	1,825.60	(711.01)
Increase (Decrease) in Operating Accounts Payable	(31,016.58)	30,556.46
Increase (Decrease) in Accrued Wages	1,336.21	(195.31)
Increase (Decrease) in Accrued Health Benefits Payable	(5,855.85)	12,775.46
Increase (Decrease) in Payroll Deductions Payable	-	(319.20)
Increase (Decrease) in OPEB Obligation	1,020.52	4,579.00
Increase (Decrease) in Compensated Absences Payable	976.61	1,237.38
Total Adjustments	<u>673,681.47</u>	<u>833,650.82</u>
Net Cash Provided by Operating Activities	<u>\$ 392,808.35</u>	<u>\$ 951,209.73</u>

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

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Notes to Financial Statements

For the Fiscal Years Ended November 30, 2017 and 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Carneys Point Township 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 Upper Penns Neck Township Sewerage Authority was created by an ordinance adopted March 4, 1959 by the Township Committee of the Township of Upper Penns Neck in the County of Salem, New Jersey under the Sewerage Authority Law, R.S. 4:14B-1 et seq., of the State of New Jersey. Once the Township changed their name to the Township of Carneys Point (the "Township"), the name of the Authority was formally changed to the Carneys Point Township Sewerage Authority on February 28, 1977.

The Authority was created for the purpose of constructing, maintaining and operating sewerage collection and treatment facilities within the territorial boundaries of the Township from pollution or threatened pollution and for the improvement of conditions affecting the public health. The Authority provides sewerage collection services to substantially all of the area constituting the Township.

The Authority consists of five board members who are appointed by resolution of the Township Committee for five-year terms. The Senior Plant Operator manages 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 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 Township of Carneys Point.

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 collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that sewage collection services are being provided to the properties.

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 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 Revenue, 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 an amending budget resolution 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.

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.

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

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased 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 fiscal year that the project is completed, these costs are transferred to Capital Assets - Completed.

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>
Sewer Mains and Interception	20-40
Vehicles	5
Buildings and Improvements	40
Pump Stations	40
Other Equipment	15 or 20

Bond Discounts / Bond Premiums

Bond discounts / bond premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in a systematic and rational method, from the issue date to maturity as a component of interest expense. Bond discounts / bond premiums are presented as an adjustment of the face amount on the bonds.

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 outflows 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 a future period(s). Deferred inflows of resources are reported in the Authority's statements of net position for a deferred amount arising from connection fee funds received prior to providing sewer services and 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.

Income Taxes

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**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 and on investments in debt securities.

Operating expenses include expenses associated with the operation, maintenance and repair of the sewer collection and treatment facilities and general administrative expenses. Non-operating expenses include expenses attributable to the Authority's interest on funded debt, major non-recurring system repairs, bad debt allowance, loss on disposal of capital assets and contributions to Carneys Point Township.

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 November 30, 2017, 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 this Statement had no impact on the Authority's financial statements.

Also, 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 this Statement had no impact on the Authority's financial statements.

Also, 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 this Statement had no impact on the Authority's financial statements.

Also, 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 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)**

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 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 November 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

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 November 30, 2018. 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 November 30, 2019. 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 November 30, 2020. 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 November 30, 2018. Management does not expect this Statement will have an impact on the financial statements.

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

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 November 30, 2018. 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 November 30, 2021. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement will become effective for the Authority in the fiscal year ending November 30, 2019. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. The Statement will become effective for the Authority in the fiscal year ending November 30, 2021. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 90, *Major Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement will become effective for the Authority in the fiscal year ending November 30, 2020. 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.

Capital Project Note Resolutions

The Authority is subject to the provisions and the terms of the Note Resolution Series 2013, dated August 20, 2013 and supplemented by Note Resolution Series 2014, dated August 19, 2014, Note Resolution Series 2015, dated August 18, 2015, Note Resolution Series 2016, dated June 19, 2016, and Note Resolution Series 2017, dated June 20, 2017. As required by the Resolutions, certain cash accounts and investments of the Authority are maintained by an independent trustee, accounted for in various accounts and segregated for specific use and for the security of the note holders. The purpose of the trust accounts are summarized as follows:

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**Capital Project Note Resolutions (Cont'd)**

Construction Fund - There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this 2013 Note Resolution and the Authority's Receipt for the Purchase Price of the Notes and Application of Proceeds executed upon closing of the Notes by the Business Manager of the Authority pursuant to Section 2.06 of the Resolution. In addition, there shall be deposited into the Construction Fund any other amounts received by the Authority to pay the Cost of Construction of the Project. Amounts in the Construction Fund, including the investment earnings thereon, shall be applied to the Cost of Construction of the Project, in the manner provided in Section 3.03 of the Resolution. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on the Notes when due.

Debt Service Fund - There shall be paid into the Debt Service Fund: (i) the amounts required to be so paid by the provisions of this 2015, 2016 and 2017 Note Resolution(s) and the Authority's Receipt for the Purchase Price of the Notes and Application of Proceeds executed upon closing of the Notes by the Business Manager of the Authority pursuant to Section 2.06 of the Resolution; and (ii) sufficient moneys in the amounts and in the manner necessary to satisfy the requirements of Section 4.02 of the Resolution.

The Trustee shall pay out of the Debt Service Fund to the Noteholders the amount required for the principal of and interest payable on the Notes on the due date.

Cost of Issuance Fund - There shall be paid into the Cost of Issuance Fund the amounts required to be so paid by the provisions of the Note Resolution(s) and the Authority's Receipt for the Purchase Price of the Notes and Application of Proceeds executed upon closing of the Notes by the Business Manager of the Authority pursuant to Section 2.05 of the Resolution(s). Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Cost of Issuance Fund shall be applied to the payment of principal of and interest on the Notes when due.

2015 Bond Resolution

The Authority is subject to the provisions and the terms of the 2015 Bond Resolution, dated January 28, 2015 as amended and supplemented on March 17, 2015. As required by the Resolution, certain cash accounts and investments of the Authority are maintained by an independent trustee, accounted for in various accounts and segregated for specific use and for the security of the Salem County Pollution Control Financing Authority (SCPCFA). The purpose of the trust accounts are summarized as follows:

Construction Fund - There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of this 2015 Bond Resolution and the Authority's Receipt for the Purchase Price of the Bonds and Application of Proceeds executed upon closing of the Bonds by the Business Manager of the Authority pursuant to Section 2.06 of the Resolution. In addition, there shall be deposited into the Construction Fund any other amounts received by the Authority to pay the Cost of Construction of the Project. Amounts in the Construction Fund, including the investment earnings thereon, shall be applied to the Cost of Construction of the Project, in the manner provided in Section 3.03 of the Resolution. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on the Bonds when due.

Debt Service Fund - There shall be paid into the Debt Service Fund: (i) the amounts required to be so paid by the provisions of this 2015 Bond Resolution and the Authority's Receipt for the Purchase Price of the Bonds and Application of Proceeds executed upon closing of the Bonds by the Business Manager of the Authority pursuant to Section 2.06 of the Resolution; and (ii) sufficient moneys in the amounts and in the manner necessary to satisfy the requirements of Section 4.02 of the Resolution. The Trustee shall pay out of the Debt Service Fund to the SCPCFA the amount required for the principal of and interest payable on the Bonds on the due date.

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 November 30, 2017 and 2016, the Authority's bank balances were exposed to custodial credit risk as follows:

	November 30,	
	<u>2017</u>	<u>2016</u>
Insured by FDIC	\$ 601,378.28	\$ 600,603.19
Insured by GUDPA	2,454,245.09	2,647,272.86
	<u>\$ 3,055,623.37</u>	<u>\$ 3,247,876.05</u>

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	\$ 356,316.82	\$ 1,949,449.86	\$ 1,924,762.87	83.48%
2016	413,991.99	1,973,789.22	2,031,464.39	85.08%
2015	354,150.10	1,978,529.26	1,918,687.37	82.25%

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

During the fiscal year ended November 30, 2017, the following changes in Capital Assets occurred:

	Balance Dec. 1, 2016	Additions	Transfers	Deletions	Balance Nov. 30, 2017
Capital Assets not being Depreciated:					
Land and Easements	\$ 21,053.00				\$ 21,053.00
Construction in Progress	961,041.72	\$ 292,810.89	\$ (64,144.00)	\$ 21,522.87	1,168,185.74
Total Capital Assets not being Depreciated	982,094.72	292,810.89	(64,144.00)	21,522.87	1,189,238.74
Capital Assets being Depreciated:					
Utility Plant and Equipment	22,785,358.02	401,510.00	64,144.00		23,251,012.02
Total Capital Assets being Depreciated	22,785,358.02	401,510.00	64,144.00	-	23,251,012.02
Total Capital Assets	23,767,452.74	694,320.89	-	21,522.87	24,440,250.76
Less Accumulated Depreciation					
Utility Plant and Equipment	(11,868,004.23)	(649,233.18)			(12,517,237.41)
Total Accumulated Depreciation	(11,868,004.23)	(649,233.18)	-	-	(12,517,237.41)
Capital Assets, Net	\$ 11,899,448.51	\$ 45,087.71	\$ -	\$ 21,522.87	\$ 11,923,013.35

Note 3: DETAIL NOTES – ASSETS (CONT'D)**Capital Assets (Cont'd)**

During the fiscal year ended November 30, 2016, the following changes in Capital Assets occurred:

	Balance Dec. 1, 2015	Additions	Transfers	Deletions	Balance Nov. 30, 2016
Capital Assets not being Depreciated					
Land and Easements	\$ 21,053.00				\$ 21,053.00
Construction in Progress	1,091,868.41	\$ 884,117.06	\$ (1,014,943.75)		961,041.72
Total Capital Assets not being Depreciated	1,112,921.41	884,117.06	(1,014,943.75)	-	982,094.72
Capital Assets being Depreciated					
Utility Plant and Equipment	21,536,708.47	233,705.80	1,014,943.75		22,785,358.02
Total Capital Assets being Depreciated	21,536,708.47	233,705.80	1,014,943.75	-	22,785,358.02
Total Capital Assets	22,649,629.88	1,117,822.86	-	-	23,767,452.74
Less Accumulated Depreciation					
Utility Plant and Equipment	(11,282,583.22)	(585,421.01)			(11,868,004.23)
Total Accumulated Depreciation	(11,282,583.22)	(585,421.01)	-	-	(11,868,004.23)
Capital Assets, Net	\$ 11,367,046.66	\$ 532,401.85	\$ -	\$ -	\$ 11,899,448.51

Depreciation expense by major class of capital assets is:

	2017	Fiscal Year 2016
Utility Plant and Equipment	\$649,233.18	\$585,421.01

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

During the fiscal year ended November 30, 2017, the following changes occurred in long-term obligations:

	Balance Dec. 1, 2016	Additions	Reductions	Balance Nov. 30, 2017	Due Within One Year
Bonds and Agreements Payable:					
Bonds Payable	\$ 990,000.00		\$ (110,000.00)	\$ 880,000.00	\$ 110,000.00
Township Reimbursement Agreement		\$ 393,000.00	(42,000.00)	351,000.00	42,000.00
Total Bonds and Loans Payable	990,000.00	393,000.00	(152,000.00)	1,231,000.00	152,000.00
Other Liabilities:					
Net Pension Liability	1,436,707.00	688,079.00	(980,708.00)	1,144,078.00	
Net OPEB Obligation	39,088.00	28,236.70	(27,216.18)	40,108.52	
Other Liabilities -					
Related to Pension	17,956.00	18,971.00	(17,956.00)	18,971.00	
Compensated Absences	29,306.47	1,042.25	(65.64)	30,283.08	
Total Other Liabilities	1,523,057.47	736,328.95	(1,025,945.82)	1,233,440.60	-
Total Long Term Liabilities	\$ 2,513,057.47	\$ 1,129,328.95	\$ (1,177,945.82)	\$ 2,464,440.60	\$ 152,000.00

During the fiscal year ended November 30, 2016, the following changes occurred in long-term obligations:

	Dec. 1, 2015	Additions	Reductions	Nov. 30, 2016	One Year
Bonds Payable:					
Bonds Payable	\$ 1,100,000.00		\$ (110,000.00)	\$ 990,000.00	\$ 110,000.00
Total Bonds Payable	1,100,000.00	-	(110,000.00)	990,000.00	110,000.00
Other Liabilities:					
Net Pension Liability	852,402.00	\$ 944,053.00	(359,748.00)	1,436,707.00	
Net OPEB Obligation	34,509.00	32,495.00	(27,916.00)	39,088.00	
Other Liabilities -					
Related to Pension	13,603.00	17,956.00	(13,603.00)	17,956.00	
Compensated Absences	28,069.09	1,237.38		29,306.47	
Total Other Liabilities	928,583.09	995,741.38	(401,267.00)	1,523,057.47	-
Total Long Term Liabilities	\$ 2,028,583.09	\$ 995,741.38	\$ (511,267.00)	\$ 2,513,057.47	\$ 110,000.00

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

The Project Note is a direct obligation of the Authority. The Note is secured by a pledge on the revenues derived by the Authority from the operation of its sewerage treatment facilities. The Note is further secured by the limited service agreement between the Authority and the Township (See Note 6).

The original project note was issued to fund various reconstruction and repair projects to the system. The subsequent notes were issued to pay the previous notes. On September 26, 2013, the Authority issued a project notes in the amount of \$1,100,000.00, with an annual interest rate of 1.25% and maturing on September 25, 2014. This note was renewed on September 24, 2014 in the amount of \$1,100,000.00 with an annual interest rate of 1.00% and maturing on September 23, 2015. The note was again renewed on September 22, 2015 in the amount of \$990,000.00 with an annual interest rate of 0.97% and maturing on September 21, 2016. The note was again renewed on September 20, 2016 in the amount of \$880,000.00 with an annual interest rate of 1.019% and maturing on September 19, 2017. The note was again renewed on September 18, 2017 in the amount of \$770,000.00 with an annual interest rate of 1.740% and maturing on September 17, 2018. Final payment on the note is expected in fiscal year 2023.

Revenue Bonds Payable

The Revenue Bonds are a direct obligation of the Authority. The Bonds are secured by a pledge on the revenues derived by the Authority from the operation of its sewerage treatment facilities. The Bonds are further secured by the limited service agreement between the Authority and the Township (See Note 6).

The 2015 Series Bonds were issued to fund various capital improvements to the Authority's system and pay certain costs related to the issuance of the 2015 Bonds. The Bonds were issued originally for \$1,100,000.00 and carried interest rate of 0.45%. The final maturity of the bonds is September 1, 2025.

The following schedule reflects debt requirements until 2025:

<u>Fiscal Year Ended November 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 110,000.00	\$ 3,960.00	\$ 113,960.00
2019	110,000.00	3,465.00	113,465.00
2020	110,000.00	2,970.00	112,970.00
2021	110,000.00	2,475.00	112,475.00
2022	110,000.00	1,980.00	111,980.00
2023 to 2025	330,000.00	2,970.00	332,970.00
	880,000.00	<u>\$ 17,820.00</u>	<u>\$ 897,820.00</u>
Less: Current Maturities	<u>110,000.00</u>		
Long-term Portion	<u>\$ 770,000.00</u>		

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Township Reimbursement Agreement**

The Authority authorized an agreement to reimburse the Township of Carneys Point for the cost of the E Street sanitary sewer replacement project. The Authority has agreed to pay \$393,000.00 for expenses related to the project at an interest rate of 2.84% with the final payment due in 2026.

The following schedule reflects debt requirements until 2026:

<u>Fiscal Year Ended November 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 42,000.00	\$ 9,968.40	\$ 51,968.40
2019	38,625.00	8,775.60	47,400.60
2020	38,625.00	7,678.65	46,303.65
2021	38,625.00	6,581.70	45,206.70
2022	38,625.00	5,484.75	44,109.75
2023 to 2025	154,500.00	10,969.50	165,469.50
	351,000.00	<u>\$ 49,458.60</u>	<u>\$ 400,458.60</u>
Less: Current Maturities	<u>42,000.00</u>		
Long-term Portion	<u>\$ 309,000.00</u>		

Compensated Absences

Authority employees may accumulate unused sick days to a maximum of 120 days. Union employees are compensated for accumulated sick leave upon retirement or resignation at one-half of their then current hourly rate of pay times the number of days accumulated, up to a maximum of \$5,000. For non-union employees, accrued sick leave can accumulate indefinitely, but has no cash value upon termination. Vacation days and holidays not used during the year may be accumulated (banked) and carried forward to the next succeeding year but may not exceed two weeks. Union employees are compensated for accumulated vacation and unused holidays upon retirement or resignation at one-half of their number of days accumulated times their current hourly rate of pay. Non-union employee vacation days carried forward must be utilized in the next succeeding year or be forfeited. In addition, employees retiring pursuant to the Public Employees Retirement System with at least 15 years of service shall receive \$40 for each year of service. The accrued liability for accumulated sick leave and vacation time at November 30, 2017 and 2016 is estimated at \$30,283.08 and \$29,306.47, respectively.

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.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**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 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
<http://www.state.nj.us/treasury/pensions/financial-reports.shtml>

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 PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in PERS after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in 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 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 10 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:

<u>Tier</u>	<u>Definition</u>
-------------	-------------------

- | | |
|---|--|
| 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)**

Public Employees' Retirement System (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 7 years beginning in July 2012. The member contribution rate was 7.20% in State fiscal year 2017 and 7.06% in State fiscal year 2016. 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) was 10% in State fiscal year 2017. Employers' contribution are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

The Authority's contractually required contribution rate for the fiscal years ended November 30, 2017 and 2016 was 13.28% and 12.52% of the Authority's covered payroll. These amounts were actuarially determined as an 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, 2017, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2017 was \$45,530.00, and is payable by April 1, 2018. Based on the PERS measurement date of June 30, 2016, the Authority's contractually required contribution to the pension plan for the fiscal year ended November 30, 2016 was \$43,095.00, which was paid on April 1, 2017. Employee contributions to the Plan during the fiscal years ended November 30, 2017 and 2016 were \$26,187.56 and \$24,415.36, 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 November 30, 2017 and 2016, employee contributions totaled \$941.83 and \$980.38, respectively. The Authority's contributions for the fiscal years ended November 30, 2017 and 2016 were \$513.73 and \$534.75, respectively. There were no forfeitures during the fiscal year.

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

At November 30, 2017, the Authority's proportionate share of the net pension liability was \$1,144,078.00. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2017. 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, 2017 measurement date, the Authority's proportion was .0049147597%, which was an increase of .0000638262% from its proportion measured as of June 30, 2016.

At November 30, 2016, the Authority's proportionate share of the net pension liability was \$1,436,707.00. 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 .0048509335%, which was an increase of .0010537035% from its proportion measured as of June 30, 2015.

For the fiscal years ended November 30, 2017 and 2016, the Authority recognized pension expense of \$124,822.00 and \$176,047.00, respectively. These amounts were based on the plan's June 30, 2017 and 2016 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 – PERS (Cont'd)**

Deferred Outflows of Resources and Deferred Inflows of Resources - At November 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>November 30, 2017</u>		<u>November 30, 2016</u>	
	<u>Measurement Date June 30, 2017</u>		<u>Measurement Date June 30, 2016</u>	
	<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	\$ 26,939.00	\$ -	\$ 26,718.00	\$ -
Changes of Assumptions	230,492.00	229,647.00	297,609.00	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	7,790.00	-	54,783.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	208,207.00	66,325.00	260,096.00	90,709.00
Authority Contributions Subsequent to the Measurement Date	18,971.00	-	17,956.00	-
	<u>\$ 492,399.00</u>	<u>\$ 295,972.00</u>	<u>\$ 657,162.00</u>	<u>\$ 90,709.00</u>

The deferred outflows of resources related to pensions totaling \$18,971.00 and \$17,956.00 will be included as a reduction of the net pension liability in the fiscal years ended November 30, 2018 and 2017, respectively. This amount is based on an estimated April 1, 2019 and April 1, 2018 contractually required contribution, prorated from the pension plans measurement date of June 30, 2017 and June 30, 2016 to the Authority's year end of November 30, 2017 and 2016.

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 – PERS (Cont'd)**

Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd) - The Authority will amortize the other deferred outflows of resources and deferred inflows of resources related to PERS over the following number of years:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
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
June 30, 2017	5.48	5.48

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:

Fiscal Year Ending <u>November 30,</u>		
2018	\$	68,355.00
2019		82,064.00
2020		58,489.00
2021		(8,795.00)
2022		(22,657.00)
		<u>\$ 177,456.00</u>

Actuarial Assumptions – PERS

The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 and 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, 2017 and 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>
Inflation Rate	2.25%	3.08%
Salary Increases:		
Through 2026	1.65% - 4.15% Based on Age	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%	7.65%
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, 2011 - June 30, 2014

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

For the June 30, 2017 measurement date, preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, 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, 2016 measurement date, preretirement 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).

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017 and 7.65% at June 30, 2016) 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, 2017 and 2016 are summarized in the table on the following page.

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

<u>Asset Class</u>	<u>Measurement Date</u> <u>June 30, 2017</u>		<u>Measurement Date</u> <u>June 30, 2016</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>
Absolute Return/Risk Mitigation	5.00%	5.51%	5.00%	0.87%
Cash Equivalents	5.50%	1.00%	1.50%	1.74%
U.S. Treasuries	3.00%	1.87%	8.00%	1.79%
Investment Grade Credit	10.00%	3.78%	2.00%	1.67%
Public High Yield	2.50%	6.82%	2.00%	4.56%
Global Diversified Credit	5.00%	7.10%	1.50%	3.44%
Credit Oriented Hedge Funds	1.00%	6.60%	26.00%	8.53%
Debt Related Private Equity	2.00%	10.63%	13.25%	6.83%
Debt Related Real Estate	1.00%	6.61%	6.50%	9.95%
Private Real Estate	2.50%	11.83%	9.00%	12.40%
Equity Related Real Estate	6.25%	9.23%	12.50%	4.68%
U.S. Equity	30.00%	8.19%	2.00%	6.91%
Non-U.S. Developed Markets Equity	11.50%	9.00%	0.50%	5.45%
Emerging Markets Equity	6.50%	11.64%	5.00%	-0.25%
Buyouts/Venture Capital	8.25%	13.08%	5.25%	5.63%
	<u>100.00%</u>		<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability at June 30, 2017 was 5.00%. The respective single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, 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. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

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

Discount Rate (Cont'd) - The discount rate used to measure the total pension liability at June 30, 2016 was 3.98%. The respective single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, 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. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liabilities.

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

The following presents the Authority's proportionate share of the net pension liability at June 30, 2017, the plans measurement date, calculated using a discount rate of 5.00%, 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 (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Proportionate Share of the Net Pension Liability	<u>\$ 1,419,306.00</u>	<u>\$ 1,144,078.00</u>	<u>\$ 914,778.00</u>

The following presents the Authority's proportionate share of the net pension liability at June 30, 2016, 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%)
Proportionate Share of the Net Pension Liability	<u>\$ 1,760,517.00</u>	<u>\$ 1,436,707.00</u>	<u>\$ 1,169,374.00</u>

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' 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 <http://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

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

Plan Description - The plan is funded on a pay-as-you-go basis and includes medical and prescription drug benefits for retirees. Union employees are eligible for benefits upon retirement provided they are at least age fifty-five (55) and have completed at least thirty (30) years of service with the Carney's Point Township Sewerage Authority. For union retirees hired after January 1, 1975, benefits cease once Medicare age is obtained. The Authority pays seventy-five (75) percent of the premiums and the union retiree is responsible for twenty-five (25) percent of the premiums. Non-union employees are eligible for benefits upon retirement provided they are at least age fifty-five (55), have completed at least twenty (20) years of service with the Carney's Point Township Sewerage Authority and have been enrolled in the PERS pension system for at least twenty-five (25) years. When a non-union retiree becomes eligible for Medicare, he/she shall promptly notify the Authority, and at that time the Authority health insurance shall become secondary. The Authority pays the entire premium for non-union retirees. Dental and vision benefits are not provided to retired employees. Benefits provided to retired employees cannot be granted to family members or dependents other than those in force at time of retirement. The benefit provisions of the plan may be established or amended by the Board of the Authority.

Funding Policy - The contribution requirements of plan members and the Authority are established and may be amended by the Authority's Board. Union plan members receiving benefits are required to make contributions to the plan. Non-union plan members receiving benefits are not required to make any contributions to the plan.

Retirees - The Authority receives monthly contributions from retirees to offset a portion of the cost. The Authority's contributions to the plan for the fiscal years ended November 30, 2017, 2016 and 2015 were \$27,216.18, \$27,916.00, and \$26,687.00, 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 \$28,825.00 at an unfunded discount rate of 5.0%. As stated above, the Authority has funded the cost of existing retirees in the amount of \$27,216.18, and has accrued the benefit costs for future eligible employees, but has not yet begun funding this outstanding liability.

Annual OPEB Cost - For fiscal year 2017, the Authority's annual OPEB cost (expense) of \$28,236.70 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 on the table on the following page.

Note 4: DETAIL NOTES – LIABILITIES (CONT'D)**Post-Employment Benefits (Cont'd)****Private Plan (Cont'd)****Annual OPEB Cost (Cont'd)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 28,825.00	\$ 30,769.00	\$ 30,769.00
Interest on the Net OPEB Obligation	1,954.40	1,726.00	-
Adjustment to the ARC	<u>(2,542.70)</u>	<u>-</u>	<u>-</u>
Annual OPEB Cost	28,236.70	32,495.00	30,769.00
Contributions (Existing Retirees)	<u>(27,216.18)</u>	<u>(27,916.00)</u>	<u>(26,687.00)</u>
Increase in the Net OPEB Obligation	1,020.52	4,579.00	4,082.00
Net OPEB Obligation, December 1	<u>39,088.00</u>	<u>34,509.00</u>	<u>30,427.00</u>
Net OPEB Obligation, November 30	<u><u>\$ 40,108.52</u></u>	<u><u>\$ 39,088.00</u></u>	<u><u>\$ 34,509.00</u></u>
Percentage of Annual OPEB Cost Contributed	94.42%	90.73%	86.73%

Funded Status and Funding Progress - The funded status of the plan as of the three past actuarial valuation dates is as follows:

	<u>2017</u>	<u>2014</u>	<u>2011</u>
Actuarial Accrued Liability (AAL)	\$ 348,836.00	\$ 374,812.00	\$ 374,040.00
Actuarial Value of Plan Assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 348,836.00</u></u>	<u><u>\$ 374,812.00</u></u>	<u><u>\$ 374,040.00</u></u>
Funded Ratio (Actuarial Value of Plan Assets / AAL)	-	-	-
Covered Payroll (Active Plan Members)	N/A	N/A	N/A
UAAL as a Percentage of Covered Payroll	N/A	N/A	N/A

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 (Cont'd)****Private Plan (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 November 30, 2017 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.* 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 but not earlier than age 55
- *Annual Discount Rate.* Future costs have been discounted at the rate of 5.0% compounded annually for GASB 45 purposes.
- *Rates of Retirement, Rates of Withdrawal, and Rates of Disability.* Assumed no terminations of employment due to disability. Retirees resulting from disability are factored into determination of age at retirement.
- *Spousal Coverage.* It is assumed that married employees remain married.
- *Health Care Cost Inflation.* Health care gross costs will increase an annual rate of 7% for Pre-Medicare medical benefits and 5% for Post-Medicare medical benefits.
- *Administration Expenses.* Annual cost to administer the retiree claims, approximately 2% is included in the annual health care costs.

Note 5: DETAIL NOTES – DEFERRED INFLOWS OF RESOURCES**Connection Fees**

The Authority receives payments for connection fees when new users connect to the sewer system. The Authority does not supply the user with supplies or services to make the physical connection and is therefore considered a non-exchange transaction. The Authority recognizes the revenue in the period that the user exercises their right to connect to the system.

Note 6: INTERGOVERNMENTAL AGREEMENTS**Township of Carneys Point Service Agreement**

A Service Agreement was entered into on May 31, 1961 between the Authority and the Township. Under the Service Agreement, the Township agrees to pay any shortfall the Authority may encounter in making payments for either Operating Expenses and/or Debt Service (Annual Charges). The purpose of this agreement is to grant temporary relief to the Authority should it experience difficulty in meeting its obligations. The agreement calls for the Township to be reimbursed for any Annual Charges paid by the Township when the Authority's operations permit. Ultimately, all Operating Expenses and Debt Service of the Authority are borne by revenues of the system.

Note 7: COMMITMENTS

The Authority had several outstanding or planned construction projects as of November 30, 2017. These projects are evidenced by contractual commitments with contractors and include:

<u>Project</u>	<u>Awarded</u>	<u>Commitment Remaining</u>
Renewal and Replacement:		
UV Disinfection System Study	\$ 19,765.00	\$ 168.02
Emergency Sewer Repairs - Oakwood / Fairway	35,860.00	35,860.00
Construction:		
Route 295 Pump Station Gravity Main	97,600.00	97,600.00
Phase 2 Sanitary Sewer Improvements	521,007.00	10,055.67
	<u>\$ 674,232.00</u>	<u>\$ 143,683.69</u>

Note 8: DEFERRED COMPENSATION

The Authority offers its employees a Deferred Compensation Plan in accordance with Internal Revenue Code Section 457 which has been approved by the Director of the Division of Local Government Services. The Plan, available to all full time employees at their option, permits employees to defer a portion of their salary to future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Authority or its creditors. Since the Authority does not have a fiduciary relationship with the Plan, the balances and activities of the Plan are not reported in the Authority's financial statements.

Note 9: RISK MANAGEMENT

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

Workers' Compensation and Employer's Liability
Liability other than Motor Vehicles
Property Damage other than Motor Vehicles
Motor Vehicles

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 December 31, 2017, which can be obtained from:

New Jersey Utilities Authorities Joint Insurance Fund
9 Campus Drive, Suite 16
Parsippany, New Jersey 07054-4412

Note 10: 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

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Required Supplementary Information
Schedule of Funding Progress for the OPEB Plan

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Liability - Entry Age (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b - a)</u>	Funded Ratio <u>(a</u> <u>/ b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b - a) / c)</u>
11/30/17	-	\$ 348,836	\$ 348,836	0%	\$ 342,800	102%
11/30/14	-	374,812	374,812	0%	278,055	135%
11/30/11	-	374,040	374,040	0%	N/A	N/A

SCHEDULE RSI-2

Required Supplementary Information
Schedule of Employer Contributions

<u>Fiscal Year Ended</u> <u>January 31,</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>Percentage of</u> <u>ARC Contributed</u>
2017	\$28,825.00	94.4%
2016	30,769.00	90.7%
2015	30,769.00	86.7%
2014	30,769.00	79.2%
2013	30,235.00	77.3%
2012	30,235.00	76.9%
2011	30,235.00	66.6%

CARNEYS POINT SEWERAGE AUTHORITY
 Required Supplementary Information
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System (PERS)
 Last Five Plan Years

	Measurement Date Ending June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.4914759700%	0.0048509335%	0.0037972300%	0.0045217919%	0.0036561044%
Authority's Proportionate Share of the Net Pension Liability	\$ 1,144,078.00	\$ 1,436,707.00	\$ 852,402.00	\$ 846,603.00	\$ 698,754.00
Authority's Covered Payroll (Plan Measurement Period)	\$ 342,736.00	\$ 296,204.00	\$ 261,936.00	\$ 254,204.00	\$ 254,004.00
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	333.81%	485.04%	325.42%	333.04%	275.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.10%	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.

CARNEYS POINT SEWERAGE AUTHORITY
Required Supplementary Information
Schedule of Authority Contributions
Public Employees' Retirement System (PERS)
Last Five Fiscal Years

	Fiscal Year Ended November 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Contractually Required Contribution	\$ 45,530.00	\$ 43,095.00	\$ 32,646.00	\$ 37,277.00	\$ 27,548.00
Authority's Contribution in Relation to the Contractually Required Contribution	<u>(45,530.00)</u>	<u>(43,095.00)</u>	<u>(32,646.00)</u>	<u>(37,277.00)</u>	<u>(27,548.00)</u>
Authority's Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll (Fiscal Year)	\$ 342,800.00	\$ 344,093.00	\$ 317,441.00	\$ 278,055.00	\$ 253,984.00
Authority's Contributions as a Percentage of its Covered Payroll	13.28%	12.52%	10.28%	13.41%	10.85%

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.

CARNEYS POINT SEWERAGE AUTHORITY

Notes to Required Supplementary Information

For the Fiscal Year Ended November 30, 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	November 30, 2017
Actuarial Cost Method	Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Periods	29 Years
Asset Valuation Method	Market Value
Actuarial Assumptions	
Investment Rate of Return	5.0%
Rate of Medical Inflation (Pre-Medicare)	7.0%
Rate of Medical Inflation (Post-Medicare)	5.0%
Administration Expenses (included in annual health care costs)	2.0%

For determining the GASB ARC, the rate of employer contributions to the Carneys Point Township 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 - PENSIONPublic Employees' Retirement System (PERS)*Changes in Benefit Terms:*

None

Changes in Assumptions:

For 2017, the discount rate changed to 5.00% and the long-term rate of return changed to 7.00%. For 2016, the discount rate changed to 3.98%, the long-term expected rate of return changed to 7.65% from 7.90%, 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 \$118,500.00 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at \$265,000.00 for 2015, increasing 3.00% per annum, compounded annually. For 2014, the discount rate was 5.39%.

SUPPLEMENTARY SCHEDULES

CARNEYS POINT TOWNSHIP 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 November 30, 2017

	<u>Original Budget</u>	<u>Transfers and Modifications</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Anticipated Revenues:					
Operating Revenues:					
Service Charges	\$ 1,850,000.00		\$ 1,850,000.00	\$ 1,938,418.50	\$ 88,418.50
Other	40,000.00		40,000.00	54,383.52	14,383.52
Total Operating Revenues	1,890,000.00	-	1,890,000.00	1,992,802.02	102,802.02
Non Operating Revenues:					
Investment Income				11,091.56	11,091.56
Total Anticipated Revenues	1,890,000.00	-	1,890,000.00	2,003,893.58	113,893.58
Operating Appropriations:					
Administrative and General:					
Salaries and Wages:					
Administrative and General	53,000.00		53,000.00	54,280.55	(1,280.55)
Commercial - Billing and Collection	20,000.00		20,000.00	13,952.92	6,047.08
Fringe Benefits:					
Hospitalization	33,000.00		33,000.00	31,538.18	1,461.82
Other Expenses:					
Office Supplies	4,600.00		4,600.00	2,358.37	2,241.63
Telephone	4,200.00		4,200.00	5,626.80	(1,426.80)
Dues	3,500.00		3,500.00	3,365.00	135.00
Rent	2,500.00		2,500.00	2,200.00	300.00
IT Services	11,000.00		11,000.00	10,059.18	940.82
Miscellaneous Supplies and Services	1,000.00		1,000.00	159.13	840.87
Advertising Expenses	2,000.00		2,000.00	1,866.42	133.58
Insurance	47,000.00		47,000.00	44,936.36	2,063.64
Postage and Shipping	5,000.00		5,000.00	1,800.52	3,199.48
Public Education	3,000.00		3,000.00		3,000.00
Billing Forms and Expenses	2,000.00		2,000.00	1,408.50	591.50
Professional Services:					
Engineering	144,000.00		144,000.00	94,541.77	49,458.23
Operations & Management	144,000.00		144,000.00	157,920.00	(13,920.00)
Legal	9,000.00		9,000.00	8,300.00	700.00
Accounting/Auditing	40,000.00		40,000.00	41,190.00	(1,190.00)
Other				9,000.00	(9,000.00)
Trustee Fee	11,000.00		11,000.00	2,500.00	8,500.00
Pension and Payroll Taxes	77,700.00		77,700.00	92,459.63	(14,759.63)
Total Administrative and General Appropriations	617,500.00	-	617,500.00	579,463.33	38,036.67
Cost of Providing Service:					
Salaries and Wages:					
Collection System Operation Labor	225,000.00		225,000.00	229,248.08	(4,248.08)
Treatment and Disposal Operation Labor	204,000.00		204,000.00	214,494.97	(10,494.97)
Fringe Benefits:					
Hospitalization	120,000.00		120,000.00	108,828.42	11,171.58
Other Expenses:					
Collection System:					
Chemical Treatment	10,000.00		10,000.00	11,488.93	(1,488.93)
Sludge and Hauling Liquid	16,000.00		16,000.00	15,175.00	825.00
Miscellaneous Supplies and Expenses	2,000.00		2,000.00	1,548.59	451.41
Utility Underground Markouts	1,200.00		1,200.00	1,818.75	(618.75)
Uniforms	6,500.00		6,500.00	6,158.25	341.75
Wireless Phones	400.00		400.00	572.17	(172.17)
Training	1,000.00		1,000.00	550.25	449.75
Treatment and Disposal:					
Chemical Treatment	45,000.00		45,000.00	47,688.26	(2,688.26)
Sludge and Hauling Liquid	70,000.00		70,000.00	53,927.48	16,072.52
Plant Permit	28,000.00		28,000.00	24,547.39	3,452.61
Power and Fuel	80,000.00		80,000.00	78,445.27	1,554.73
Water Rent	6,000.00		6,000.00	7,380.14	(1,380.14)
Miscellaneous Supplies and Expenses	28,000.00		28,000.00	31,419.48	(3,419.48)
Training	3,000.00		3,000.00	597.00	2,403.00
Trash Disposal	2,700.00		2,700.00	2,709.00	(9.00)
Telephone	3,200.00		3,200.00	1,530.04	1,669.96
Laboratory Expenses Outside	40,000.00		40,000.00	22,030.76	17,969.24

(Continued)

CARNEYS POINT TOWNSHIP 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 November 30, 2017

	<u>Original Budget</u>	<u>Transfers and Modifications</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Appropriations (Cont'd):					
Cost of Providing Service (Cont'd):					
Other Expenses (Cont'd):					
Pumping Expenses:					
Electric	\$ 40,000.00		\$ 40,000.00	\$ 27,492.30	\$ 12,507.70
Natural Gas	2,500.00		2,500.00	1,855.96	644.04
Water Rent	1,600.00		1,600.00	1,688.75	(88.75)
Miscellaneous Supplies and Expenses	4,000.00		4,000.00	69.02	3,930.98
Maintenance Expenses:					
Collecting System	18,000.00		18,000.00	7,499.96	10,500.04
Pumping System	55,000.00		55,000.00	53,138.07	1,861.93
Treatment and Disposal	24,000.00		24,000.00	9,024.42	14,975.58
Transportation Equipment	10,000.00		10,000.00	6,872.97	3,127.03
General Equipment	4,000.00		4,000.00	688.66	3,311.34
Public Grounds	5,000.00		5,000.00	3,132.77	1,867.23
Total Cost of Providing Services Appropriations	1,056,100.00	-	1,056,100.00	971,621.11	84,478.89
Total Operating Appropriations	1,673,600.00	-	1,673,600.00	1,551,084.44	122,515.56
Principal Payments on Debt Service in Lieu of Depreciation	262,000.00	-	262,000.00	262,000.00	-
Non-Operating Appropriations:					
Total Interest Payments on Debt	18,925.00		18,925.00	19,945.59	(1,020.59)
Renewal and Replacement Fund	150,000.00		150,000.00	150,000.00	
Contribution to Township of Carneys Point	80,000.00		80,000.00	80,000.00	
Doubtful Accounts	5,000.00		5,000.00		5,000.00
Total Non-Operating Appropriations	253,925.00	-	253,925.00	249,945.59	3,979.41
Total Operating, Principal Payments and Non-Operating Appropriations	2,189,525.00	-	2,189,525.00	2,063,030.03	126,494.97
Unrestricted Net Position to Balance Budget	299,525.00		299,525.00		299,525.00
Total Appropriations and Unrestricted Net Position	1,890,000.00	-	1,890,000.00	2,063,030.03	(173,030.03)
Deficit Budgetary Revenues Over Budgetary Appropriations	\$ -	\$ -	\$ -	\$ (59,136.45)	\$ (59,136.45)
<u>Reconciliation to Operating Loss</u>					
Deficit Budgetary Revenues Over Budgetary Appropriations					\$ (59,136.45)
Add:					
Renewal and Replacement Reserve				\$ 150,000.00	
Capitalized Assets Purchased in Operating Account				8,510.00	
Contribution to Township of Carneys Point				80,000.00	
Bond and Note Principal				262,000.00	
Interest on Debt				19,945.59	
					520,455.59
Less:					
Depreciation Expense				649,233.18	
Change in OPEB Liability				1,020.52	
Pension Liability Expense - GASB 68				80,847.00	
Non-Operating Revenues					
Investment Income				11,091.56	
					742,192.26
Operating Loss (Exhibit B)					\$ (280,873.12)

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Schedule of Revenue Bonds Payable
For the Fiscal Year Ended November 30, 2017

Purpose	Date of Issue	Amount of Original Issue	Maturities of Bonds Outstanding November 30, 2017		Interest Rate	Balance December 1, 2016	Decreased	Balance November 30, 2017
			Date	Amount				
Loan Revenue Bond, Series 2015	9/30/2015	\$ 1,100,000.00	9/1/2018-25	\$ 110,000.00	0.450%	<u>\$ 990,000.00</u>	<u>\$ 110,000.00</u>	<u>\$ 880,000.00</u>

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Schedule of Project Notes Payable
For the Fiscal Year Ended November 30, 2017

Purpose	Date of Original Issue	Date of Issue	Date of Maturity	Interest Rate	Balance December 1, 2016	Issued	Decreased	Balance November 30, 2017
2013 Reconstruction and Repairs to the System Project	9/26/13	9/20/16 9/18/17	9/19/17 9/17/18	1.019% 1.740%	\$ 880,000.00		\$ 880,000.00	
						\$ 770,000.00		\$ 770,000.00
					<u>\$ 880,000.00</u>	<u>\$ 770,000.00</u>	<u>\$ 880,000.00</u>	<u>\$ 770,000.00</u>

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

PART 2

FINDINGS AND RECOMMENDATIONS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2017

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Schedule of Findings and Recommendations
For the Fiscal Year Ended November 30, 2017

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.

Schedule of Financial Statement Findings**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 Business Manager, and one 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.

CARNEYS POINT TOWNSHIP SEWERAGE AUTHORITY

Summary Schedule of Prior Year 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* and with the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Schedule of Financial Statement Findings

No Prior Year Findings

31800

APPRECIATION

I 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 "Michael J. Welding", written in a cursive style.

Michael J. Welding
Certified Public Accountant
Registered Municipal Accountant